

Sports & Recreation

January 2005

In our efforts to promote a healthier lifestyle among our staff, we kick-started the year by organising a twice weekly aerobic class for our female employees at Safire, Bandar Seri Iskandar.

21 January 2005

In the spirit of Aidil Adha, the Pharmaniaga Sports Club organised a "*korban*", at a mosque in Batu Belah, Klang. The Managing Director along with several other staff came with their family to witness the event. The meat was distributed amongst the residents of Batu Belah.



February-March 2005

The Kelab Sukan dan Rekreasi Pharmaniaga Manufacturing (KSR) organised an interdepartmental sports carnival comprising several games including soccer, netball, bowling, sepak takraw, volleyball and badminton. These games were held at various sporting venues within the Bangi vicinity.

27 March 2005

The Safire Family Day was held at Teluk Senangin, Lumut. Fun activities such as telematches and a fishing competition were held where staff at all levels mingled with one another, enhancing rapport and unity.



6 May 2005

Safire observed Maulidur Rasul with a talk on trust and responsibility conducted by Ustaz Tashmidin Mohd Amin, followed by dinner to the accompaniment of nasyid singing by the Mawardah group.

14 May 2005

During YAB Datuk Seri Abdullah Ahmad Badawi's Day Visit to Perak, the Safire Sports & Social Club, organised a welcome gathering to greet the Prime Minister as he stopped at Parit, before proceeding to Bota. PM's visit was in conjunction with "Program Bersama Rakyat di Perak".

26 May 2005

Pharmaniaga Manufacturing organised a majlis doa selamat to welcome the arrival of Ramadhan. The gathering was led by Tuan Haji Nasir, a representative from Darul Shifa, Bangi.

1 July 2005

A series of religious lectures commenced at Safire in conjunction with Isra' Mikraj.



2 July 2005

Pharmaniaga Sports Club, together with other companies within the UEM Group, contributed to the success of the first UEM Group Family Day, which was held at the Bukit Jalil Stadium.



31 July 2005

The cool Cameron Highlands was the destination for 50 Pharmaniaga Manufacturing employees and their family who went on a recreational trip organised by KSR.

1 September 2005

A talk on the significance of Isra' Mikraj was held at Safire. The talk was presented by Ustaz Halimi Salikin from the Counselling Division of the Religious Office of Bandar Seri Iskandar.

6 September 2005

Pharmaniaga sent a team of five runners to compete in The Edge Rat Race, an annual charity event organised by The Edge.



12 August 2005

A majlis bacaan yasin dan doa selamat was held at Safire. This was in conjunction with the re-opening of the Penicillin Plant which was recently upgraded.

14 August 2005

Time to put work away for the day, an interdepartmental 7-a-side soccer tournament was held at Safire.

31 August 2005

Safire organised Larian Merdeka 2005 in conjunction with the country's National Day. The General Manager (Manufacturing) together with the participants and Safire employees sang Negara Ku, Jalur Gemilang and Keranamu Malaysia before the Run commenced. The participants were divided into four categories: Men (30 years old and below), Men (31 years old and above), Women (30 years old and below) and Women (31 years old and above).

10 September 2005

Five Pharmaniaga teams participated in the UEM-Media Motoring Treasure Hunt. One of the teams won a prize for being the first to be flagged off while another received a third overall placing.



17 September 2005

Two teams from Pharmaniaga represented the company in the UEM Group Bowling Tournament.



14 October 2005

A majlis berbuka puasa together with terawih prayers was held at Safire.

25 November 2005

The Safire Annual Garden Dinner 2005 was held at the Clear Water Sanctuary Golf Resort in Batu Gajah.

18 September 2005

At the UEM Group Futsal Challenge 2005, Pharmaniaga's Ladies' Team beat ten other teams to be placed second in the women's category.

30 September 2005

Pharmaniaga Manufacturing organised a blood donation campaign in cooperation with the First Aid Committee and Pusat Darah Negara. A total of 63 pints was successfully collected from the 63 staff who donated voluntarily.





3 December 2005

KSR organised a Hari Raya celebration for Pharmaniaga Manufacturing employees. Among the guests was En Azhar Hussain, who also presented the prizes for the Environment, Health & Safety Week competition, at the event.



24 December 2005

The Pharmaniaga Sports Club held its third annual Kart Prix.

13 January 2006

Pharmaniaga had its 2005 Annual Dinner and went back into time with the theme “*Zaman Kesultanan Melaka*”. Staff turned up in colourful costumes depicting the various nationalities that were trading in Melaka then.



Group Achievements

STANDARD CERTIFICATIONS

Pharmaniaga Research Centre

Our pledge to attain quality standards received a boost when our laboratory in Bangi was included in the ISO 9000, ISO 14000 and OHSAS 18000 accreditation systems this financial year. Together with the ISO/IEC 17025 certification which was accorded in 2004, Pharmaniaga created history by being the first research organisation in the country to be accredited with these certifications.

Pharmaniaga Solutions

We successfully completed the ISO 9001 certification for software development and IT outsourcing in 2005. This accreditation ensures that we provide a high-class management system that matches global standards for our software design and development as well as IT outsourcing services.

Pharmaniaga Logistics

After undergoing a triple certification audit for ISO 9001, OHSAS 18001 and ISO 14001, we successfully maintain the ISO 9001 and OHSAS 18001 certifications while adding ISO 14001 into the list. ISO 14001 is the standards for environmental management.

Anugerah Pelaburan Negeri Selangor

In recognition for Pharmaniaga Berhad's valued investment in the State of Selangor, we were awarded the "Anugerah Pelaburan Negeri Selangor". We have three operation sites with the state, namely Bukit Raja, Bangi and Puchong. YAB Dato' Seri Dr. Mohamad Khir bin Toyo, Chief Minister of Selangor, presented the award at the event held on 28 November 2005 at Dewan Bankuet, Wisma MBSA, Shah Alam.



Euromoney

On 26 January 2006, Euromoney Magazine named Pharmaniaga the "Asia's Best Managed Company in the Pharmaceutical Sector". This is the 10th Asian Company Ranking Survey organised by the magazine in collaboration with 67 market analysts from leading banks and research institutes in Asia, where, companies in each of the countries or sectors covered in the survey, were judged on their market strength, profitability, growth potential and quality of management and earnings. 368 companies were nominated in this survey.





The Watson's Health and Beauty Awards

The world's largest health and beauty retailer, A.S. Watson, held its fifth Health and Beauty Awards in Malaysia on 13 July 2005. During this gala event, Pharmaniaga was proud to be the recipient of three awards; Best New Vitamin Range (CITREX), Best New Children's Vitamin Range (CITREX Junior) and Best New Herbal Range (INNOHERB).

The Health and Beauty Awards were conceptualised to recognise the sales achievements of the various products which are reflective of the Watson's customer's preference and choice. A total of 236 brands and products from the health and beauty range were listed as award winning products in its Health and Beauty Awards catalogue.



Group Corporate Calendar

4 January 2005

Pharmaniaga National Sales & Marketing Conference at Damai Laut, Lumut, Perak.



26 February 2005

"Fight Against Diabetes (FAD)" Campaign 2005 at Alamanda, Putrajaya, the first of a series of FAD road shows held throughout 2005.

10 March 2005

"mesti ambil tahu!" (MAT), simultaneous soft launch at all of our offices in Malaysia. MAT is Pharmaniaga's call for action to all Malaysians to be more pro-active about their health and to be a more informed consumer.



24 March 2005

MAT was introduced to the public at the Berjaya Times Square, Kuala Lumpur, in conjunction with World Tuberculosis Day.



4 May 2005

Pharmaniaga signed a Programme Agreement with RHB Sakura Merchant Bankers Berhad for a RM100 million Islamic Financial Instruments. A portion of the facility is to part-finance the construction of the Small Volume Injectables (SVI) plant in Puchong.

14 April 2005

MAT campaign was officially launched by YB Dato' Chua Soi Lek at Sri Pentas, TV3.



5 May 2005

The 7th Annual General Meeting was held at the Sheraton Ballroom, Sheraton Subang Hotel & Towers, Subang Jaya, Selangor.



13 July 2005

Our health supplement range, won Watson's Health & Beauty Awards. List awards won - Best New Vitamin Range (CITREX), Best New Children's Vitamin Range (CITREX Junior) and Best New Herbal Range (INNOHERB).



29 July 2005

Pharmaniaga's Book Prize Award was given to the best student at the Faculty of Pharmacy, UiTM.

15 August 2005

The launch of 'Pharmaniaga Integrated Enterprise Resource Solutions' (PIERS) at Bukit Raja. PIERS is the Enterprise Resource Planning (ERP) system to replace our existing Integrated Logistics Systems (ILS/400) which has reached its limit in supporting the information needs of Pharmaniaga Group. PIERS will better equip the group to meet challenges and seize relevant opportunities in the years ahead.

8 September 2005

A Share Transfer and Capital Increase Agreement (STACIA) was signed between Pharmaniaga Pegasus (Seychelles) Co Ltd, Shanghai Worldbest Treeful Pharmaceutical (Group) Co Ltd and Shandong Changfu Jiejing Pharmaceutical Co Ltd This following the first MoU signed between Pharmaniaga Berhad and China Worldbest Group Companies Ltd in 2004.



12 September 2005

Pharmaniaga Marketing and Pharmaniaga Biomedical moved into their new operations site in Petaling Jaya.





17 September 2005

The Pharmaniaga Annual Golf Tournament was held at Impian Golf & Country Resort, Kajang. This annual event enhances rapport with the Ministry of Health.

13 October 2005

Pharmaniaga contributed bags and t-shirts to senior citizens and orphans in conjunction with the recording of TV3's programme, Melodi Raya.



25 October 2005

Pharmaniaga Pegasus (Seychelles) Co Ltd entered into an Equity Joint Venture Contract with Shanghai Worldbest Treeful Pharmaceutical (Group) Co Ltd to form the joint venture company, later named Wuxi Worldbest Treeful Pharma Pharmaceutical Co Ltd.



List of Companies

Address



Pharmaniaga Berhad
Pharmaniaga Logistics Sdn Bhd
Pharmaniaga International Corporation Sdn Bhd
(formerly known as Esteem Interpoint Sdn Bhd)
Amcare Labs Malaysia Sdn Bhd
Pharmaniaga Medisystem Sdn Bhd
Rumpun Lagenda Sdn Bhd
Pharmaniaga Diagnostics Sdn Bhd
Insurgress Sdn Bhd

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

Mailing address
P.O. Box 2030, Pusat Bisnes Bukit Raja
40800 Shah Alam, Selangor Darul Ehsan



Pharmaniaga Manufacturing Berhad
Pharmaniaga Research Centre Sdn Bhd
Pharmaniaga LifeScience Sdn Bhd
Pharmaniaga Trading (M) Sdn Bhd

11A Jalan P/1
Kawasan Perusahaan Bangi
43650 Bandar Baru Bangi
Selangor Darul Ehsan
Tel: 603-8925 7880
Fax: 603-8925 6177



Pharmaniaga Solutions Sdn Bhd

Suite F13, 1st Floor
2320 Century Square
Jalan Usahawan, 63000 Cyberjaya
Selangor Darul Ehsan
Tel: 03-8318 9999 Fax: 03-8318 7777

Pharmaniaga Biomedical Sdn Bhd

Level 2, Infinite Center
Lot 1 Jalan 13/6
46200 Petaling Jaya
Tel: 03-7680 9000
Fax: 03-7620 8709



Pharmaniaga Logistics Sdn Bhd
(Juru Branch)

1, 3 & 5, Lorong IKS Juru 8
Taman Perindustrian Ringan Juru
14100 Simpang Ampat, Seberang Prai
Pulau Pinang
Tel: 04-5083 330/1/2
Fax: 04-5083 111



Pharmaniaga Logistics Sdn Bhd
(Kuching Branch)

Lot 1024, Block 7
Muara Tebas Land District
Demak Laut Industrial Park
93050 Kuching, Sarawak
Tel: 082-432 800 Fax: 082-432 806



Pharmaniaga Logistics Sdn Bhd
(Kota Kinabalu Branch)

Lorong Kurma
Kolombong Industrial Centre
KM 9 Off Jalan Tuaran
88450 Kolombong
Kota Kinabalu, Sabah
Tel: 088-439 188 Fax: 088-437 288

List of Companies	Address
Pharmaniaga Marketing Sdn Bhd Head Office	Level 3, Infinite Center Lot 1 Jalan 13/6 46200 Petaling Jaya Tel: 03-7680 9000 Fax: 03-7620 8777
Ipoh Sales Office	42B, Jalan Hussein Nordin 31400 Ipoh, Perak Darul Ridzuan Tel: 06-545 9792 Fax: 05-545 9785
Johor Sales Office	No.38, Jalan Titiwangsa 3 Tampoi Indah 81200 Johor Bahru Johor Darul Takzim
 ● Safire Pharmaceuticals (M) Sdn Bhd (HQ and Plant)	Lot 120, Taman Farmasiutikal 32600 Bandar Baru Sri Iskandar Perak Darul Ridzuan Tel: 05-371 2020 Fax :05-371 1940/46
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
Pharmaniaga Pegasus (Seychelles) Co Ltd	C/o International Registration Agents (Pty) Ltd The "Creole Spirit", Quincy Street P.O. Box 18, Victoria, Mahe, Seychelles Tel: +248-612 612 Fax: +248-612 300
 ● Wuxi Worldbest Treeful Pharma Pharmaceutical Co Ltd	North Eastern Lot, Huishan Avenue, Weiwu Road, Huishan Economic Development Zone, Wuxi Municipal of Jiangsu Province, China. Tel: + 86-510-8223 7711 Fax: + 86-510-8223 7979

Statement on Corporate Governance

The Board of Directors (“the Board”) of Pharmaniaga Berhad (“the Company”) is supportive of the adoption of principles and best practices as enshrined in the Malaysian Code on Corporate Governance (“Code”) throughout the Group. It is recognised that the adoption of the highest standards of governance is imperative for the protection and enhancement of stakeholders’ value and the performance of the Company.

BOARD OF DIRECTORS

The Board, with its collective responsibility in leading and directing the Company’s strategic affairs, play a key role in charting the vision, strategic direction, development and control of the Group.

The Board is thus pleased to present the following report on the application of principles and compliance with best practices as set out in the Code.

Board Composition and Balance

A total of eight (8) Directors of the Board comprising of a Non-Executive Chairman, a Managing Director, three (3) Non-Independent Non-Executive Directors and three (3) Independent Non-Executive Directors. The Independent Non-Executive Directors represent more than one third of the Board. The Board believes that the current size is appropriate based on the Company’s circumstances and according to the guidelines for Government Linked Companies, where smaller Boards are encouraged. Collectively, the Board has sufficient and diverse background in business, industry, financial, technical, corporate, management, legal and government relations that will provide considerable depth of knowledge, expertise and experience to the Board as a whole. A brief description of the background of each Director is presented on pages 18 to 23 of this Annual Report.

The Board’s principal focus is the overall strategic direction, development and control of the Group. In support of this focus, the Board approves the Group’s strategic plan and its annual budget and throughout the year, reviews the performance of the operating subsidiaries against the budgets and targets.

The Independent Non-Executive Directors are independent of management and free from any business or other relationships, which could materially interfere with the exercise of their independent judgement as defined under paragraph 1.01 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). They provide unbiased and independent views in ensuring that the strategies proposed by the management are fully deliberated and examined, in the interest of shareholders, employees, customers and the many communities in which the Group conduct its business.

The roles of the Non-Executive Chairman, Dato’ Mohamed Azman bin Yahya and the Managing Director, Azhar bin Hussain, are separate with clear distinction of responsibilities between them. The Managing Director is responsible for the day-to-day operations of the Company’s business, which include implementing the policies and strategies adopted by the Board and clarifying matters relating to the Company’s business to the Board.

Datuk Sulaiman bin Daud is the Senior Independent Non-Executive Director of the Board to whom shareholders and the public may convey their concerns pertaining the Group’s activities.

Duties and Responsibilities of the Board

The Board maps out and reviews the Company's medium term and long term strategic plans on an annual basis, so as to align the Company's business directions and goals with the prevailing economic and market conditions.

The Board's other main duties include overseeing the conduct of the Company's businesses, identifying and managing risks affecting the Company and its businesses, reviewing the adequacy and integrity of the Company's internal control systems, implementing succession planning for senior management within the Group and maintaining effective communication with shareholders, investors and other key stakeholders. The Board is also charged with reviewing and approving major investment and acquisition decisions as well as matters affecting company policies including the discretionary authority limits for adoption by companies within the Group.

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

Appointments and Re-election of the Directors

Appointment

The Nomination Committee is responsible for making recommendation for any appointments to the Board. Any new nomination received is forwarded to the Board for assessment and endorsement. The duties and responsibilities of the Nomination Committee are set out on page 90 of this Annual Report.

Re-election

In accordance with the Listing Requirements of Bursa Malaysia and the Company's Articles of Association, all Directors are subject to election by rotation once in at least every three (3) years and re-election of Directors shall take place at each AGM. The Managing Director also ranks for re-election by rotation.

Directors over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with Section 129 (6) of the Companies Act 1965.

Directorships in Other Companies

Each of the Directors of the Company holds not more than ten (10) directorships in any public listed companies and not more than fifteen (15) in non-listed companies. This ensures the Directors' commitment, resources and focus for an effective input to the Board. The directorships of each director are set out in the Profile of Directors on pages 18 to 23 of this Annual Report.

Continual Training of Directors

All the Directors have attended the Mandatory Accreditation Programme prescribed by Bursa Malaysia. They also continually attend education programmes and seminars to keep abreast with developments in the market place, such as seminars accredited under Bursa Malaysia's Continuing Education Programme. As at the date of this statement, all the Directors have accumulated the 72 CEP points as required under the provisions of Practice Note No.15/2003 of the Bursa Malaysia Listing Requirements.

UEM Academy Sdn Bhd (the training arm of UEM Group of companies), a related company to Pharmaniaga had organised in-house training programmes locally and regionally, facilitated by industry experts, for Directors of listed companies in the UEM Group and senior management. These training programmes are accredited under Bursa Malaysia's Continuing Education Programme.

In addition, the Company also organised a briefing to the Board on the new International Financial Reporting Standards and Anti Money Laundering Act, 2001 on 8 September 2005, which was conducted by Messrs. PricewaterhouseCoopers.

MEETINGS OF THE BOARD

Board meetings are scheduled in advance and during the financial year ended 31 December 2005, eleven (11) Board meetings were convened to deliberate and consider a variety of significant matters including review of quarterly financial statements, overall performance of the Company and the subsidiary companies, budget, risk assessment, major investments, acquisitions and other corporate proposals.

Senior Management staff, merchant bankers appointed to act as advisers, accountants or solicitors appointed in relation to corporate proposals to be undertaken by the Company, were invited to attend Board meetings at which such proposals were deliberated, in order that they provide the Board with professional opinion and advice, and clarify issues that may be raised by any Director.

The Board may, if necessary, obtain independent professional advice in furtherance of their duties from external consultants, at the Company's expense (up to a maximum amount of RM100,000 per transaction). No such advice was sought by any director during 2005 as the Board was of the opinion that such independent advice was not required.

Access To Information

The agenda for every Board meeting, together with the board papers, reports and supporting documents, are furnished to all Directors for their perusal well in advance of the Board meeting date, so that the Directors have sufficient time to review matters to be deliberated at the Board meeting.

Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the subsequent Board meeting.

Directors have a direct access to the advice and the services of the Company Secretary who is responsible for ensuring that Board procedures are followed.

Attendance Details of Board Members

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

	Directors	Status	Meetings Attendance
1.	Dato' Mohamed Azman bin Yahya	Non-Executive Chairman	11/11
2.	Datuk Sulaiman bin Daud	Senior Independent Non-Executive Director	11/11
3.	Azhar bin Hussain	Managing Director	11/11
4.	Dato' Ahmad Pardas bin Senin	Non-Executive Director	9/11
5.	Dato' Raja Nong Chik bin Raja Zainal Abidin	Non-Executive Director	9/11
6.	Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Salleh	Independent Non-Executive Director	11/11
7.	Ismael Fariz bin Ali	Independent Non-Executive Director	11/11
8.	Oh Kim Sun (appointed w.e.f. 12 December 2005)	Non-Executive Director	1/1

DIRECTORS' REMUNERATION PROCEDURE

The Nomination and Remuneration Committee recommends to the Board the framework and the remuneration package for the Executive Director and Senior Management. In determining the framework, the Committee has access to professional advice from both internal and external sources.

The determination of the remuneration of the Non-Executive Director is a matter for the Board as a whole and the Directors are paid annual fees and attendance allowances for Board meetings that they attend.

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

Directors' Remuneration

The remuneration package of the Directors is as follows:

(a) Basic Salary

The basic salary (inclusive of statutory employer contributions to the Employee Provident Fund) for an Executive Director is recommended by the 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 Director after considering comparable industry rates and the level of responsibilities undertaken by Non-Executive Director.

(c) Bonus Scheme

The Company operates a bonus scheme for all employees, including the Executive 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 Executive Director is reviewed by the Remuneration Committee and approved by the Board.

(d) Benefits-in-kind

Other benefits include provision of company car or car allowances and driver, medical and dental cover for the director and immediate family, and leave passage.

(e) Retirement Plan

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

(f) Service Contract

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

(g) Director's share options

The Executive Director's share options during the year ended 31 December 2005 is set out on page 89.

Disclosure

The details of the remuneration for the financial year ended 31 December 2005 for each category of directors are as follows:

Directors	Basic, Salaries, Bonus and EPF (RM)	Fees (RM)	Allowance and other emoluments (RM)	Sub-Total (RM)	Benefits-in-kind (RM)	Total (RM)
Executive Director	757,567	–	38,000	795,567	23,129	818,696
Non-Executive Directors	–	258,000	94,650	352,650	7,200	359,850
TOTAL	757,567	258,000	132,650	1,148,217	30,329	1,178,546

The number of Directors whose total remuneration during the year falling within the following bands is as follows:

Range of Total Remuneration	Number of Directors	
	Executive	Non-Executive
Below RM50,000		6
RM50,001 – RM100,000		1
Above RM800,001	1	

Note: There are no directors whose total remuneration falls within the RM100,001 to RM800,000 range

Below are the details of the ESOS and EES granted to the Directors:

Name	Status	Type of Options	No of unexercised options	
			31 December 2005	31 December 2004
Azhar bin Hussain	Managing Director	ESOS EES	– 1,256,100	372,500 1,170,200
Dato' Ahmad Pardas bin Senin	Director	EES	7,702,000	7,162,000

Note: ESOS (Employee Share Options Scheme) offered by Pharmaniaga Berhad.
EES (Employee Equity Scheme) offered by UEM World Berhad.

BOARD COMMITTEES

The Board has delegated specific responsibilities to the respective Committees of the Board which operate within clearly defined terms of reference. The Board Committees are the Audit Committee, Nomination Committee, Remuneration Committee, Risk Management Committee and ESOS Committee.

The Committees of the Board comprise members of the Board and senior management and each Board Committee holds separate meetings throughout the financial year. Meetings of the Board Committees provide an avenue for members of the respective Committees to focus on specific issues and enable full and in-depth discussions of business operations of the Group. Reviews, recommendations, findings and decision reached at these Committee Meetings are reported directly to the Board for its deliberations, approvals and/or endorsements.

The members of the various Committees as at 31 December 2005 are set out on page 15 of this Annual Report.

Audit Committee

The composition and functions of the Audit Committee are laid down on pages 101 to 104 of this Annual Report.

Nomination Committee

The Nomination Committee proposes and recommends appointment of new directors to the Board for approval. The Nomination Committee meets as required but shall hold at least two (2) meetings a year.

Duties and Responsibilities

The Nomination Committee's responsibilities include the following and such other responsibilities as may be determined by the Board from time to time:

- Examine the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness.
- Review annually its required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the board and disclose the same in the Annual Report.
- Assess annually the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual director based on the process implemented by the Board.
- Recommend suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.
- Ensure that the appointment of any Executive Director or Managing Director shall be for a fixed term not exceeding three (3) years at any one time with power to reappoint, remove or dismiss thereafter.
- Recommend to the Board, candidates for all directorships proposed by the Managing Director, any Director or shareholder to fill the seats on the Audit, Nomination, Remuneration or other Committees. A description/specification for the new Directors should be drafted before identifying possible candidates. Candidates shall be evaluated against this specification.

During the financial year, three (3) meetings were held and all members were present. The Nomination Committee also considered the nomination of Mr. Oh Kim Sun as Non-Independent Non-Executive Director of the Company. Following the recommendations of the Nomination Committee, the Board approved the appointment of Mr. Oh Kim Sun on 12 December 2005.

Remuneration Committee

The Remuneration Committee reviews annually the performance of the Executive Director and other selected top management positions and furnishes recommendations to the Board on all elements of the remuneration, terms of employment, reward structure and fringe benefits with the aim to attract, retain and motivate individuals of the highest quality.

Duties and responsibilities

- 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.
- Advise the Board on the performance of the Managing Director and an assessment of his/her entitlement to performance-related pay. The Remuneration Committee also should advise the Managing Director on the remuneration and terms and conditions of senior management.
- Represent the public interest and avoid any inappropriate use of public funds when considering severance payments for senior management.
- Review the history of and proposals for the remuneration package of each the company's committees.

During the financial year, three (3) meetings were held and all members were present. The Committee has reviewed the scheme of conversion to fixed term contract for the Managing Director and the Chief Financial Officer, proposal on the allocation of Bonus and Salary Adjustments for 2005 and the performance of the Managing Director, Chief Financial Officer and Chief Operating Officer.

Risk Management Committee

This committee assists the Board of Directors to oversee the overall management of all risks covering industry risk, country risk, strategic risk, financial risk, customer risk, product risk, internal processes risk, people risk and information technology risks. The Committee also reviews and evaluates the adequacy of overall risk management policies and procedures and ensures that there is adequate risk reporting of core business activities.

During the financial year, two (2) meetings were held and all members were present.

ESOS Committee

The Employees' Share Option Scheme ("the Scheme") was established with the objective to provide an opportunity for eligible employees of the Company and the Group and Executive Director to participate in the equity of the Company. The objectives of the Scheme are to motivate employees of the Company to excel and strive towards better performance for greater achievement, increase level of commitment, dedication and loyalty amongst employees and to reward the employees whose services are vital to the overall business operations and continued growth of the Company.

The Scheme is governed by the Bye-Laws which are administered by ESOS Committee appointed by the Board.

The ESOS Committee's responsibilities are as follows:

- To administer the Scheme in accordance with the Bye-Laws of the ESOS and, in such manner, as it shall in its discretion deem fit and within such powers and duties as are conferred upon it by the Board.
- To review and amend, at any time and from time to time, any provisions of the Scheme and the ESOS Bye-Laws, provided that amendments are not prejudicial to the eligible employees and with the prior approval of the shareholders of the Company. Such modification shall be subject to the approvals of the Board, the shareholders and other relevant authorities.

During the financial year, one (1) meeting was held and all four (4) members were present.

ACCOUNTABILITY AND AUDIT

Financial reporting

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1965 and approved accounting standards. In this Annual Report, an assessment is provided in the Directors' Report of the Audited Financial Statements.

The Audit Committee scrutinizes the audited financial statements, and ensures compliance with all approved accounting standards, relevant statutory requirements and all Company's policies in the preparation of the financial statements prior to full deliberation at the Board level. The Board ensures the integrity of the Company's financial reporting and fully recognises that accountability in financial disclosures forms an integral part of good corporate governance practices.

Statement of Directors' responsibilities in respect of the audited financial statements

The Companies Act, 1965 requires Directors 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 Company and of the results and cash flows of the Company for the financial year.

In preparing those financial statements, the Board has:

- applied appropriate accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- ensured that all applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared financial statements on a going concern basis as the Board has a reasonable expectation, having made enquiries, that the Company has adequate resources to continue in operation for the foreseeable future.

The Board has the responsibility to ensure that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Board has the overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement on going concern

The Board, having reviewed the budgets and long term business plans of the Company and the Group has a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. Accordingly, the financial statements of the Company and the Group have been prepared on a going concern basis.

Statement of Internal Controls

The Code requires the Board to maintain a sound system of internal controls to safeguard shareholders' investment and the company's assets. Pharmaniaga adheres to Bursa Malaysia guidelines on the Statement on Internal Control – Guidance for Directors of Public Listed Companies, as a guidance for compliance with these requirements.

The Group's Statement of Internal Controls, pursuant to paragraph 15.27(b) of the Bursa Malaysia Listing Requirements is set out on page 98.

Relationship with Auditors

The Board through the Audit Committee has an appropriate and transparent relationship with the external auditors. The role of the Audit Committee in relation to the external auditors is stated in page 103 in the Report of the Audit Committee.

RELATIONSHIP AND COMMUNICATION WITH SHAREHOLDERS/INVESTORS

The Board believes that transparency and voluntary disclosure is at the heart of good governance as it ensures that market credibility and investors' confidence are maintained. In discharging the obligations imposed by the Listing Requirements of Bursa Malaysia on listed companies, the Company discloses material information in a timely, complete, clear and accurate manner which enables shareholders, investors and the market at large conduct proper evaluation of the Company's stocks.

Directors are also continuously updated and advised on any new regulations or directives issued by Bursa Malaysia and other regulatory authorities which must be adhered to by the Company.

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

Briefing to Analysts

The management conducts, on annual basis, dialogues and briefings with financial analysts, brokers and institutional fund managers and investors on the Group's financial results, performance and business strategies.

This is to ensure that the investing community receives a balanced and complete view of the Group's performance and the current issues faced by the business in the regional and global economic climate.

During the financial year, the Company held group fund analyst briefings on 10 March 2005 and 22 August 2005 in Sunway Lagoon Resort Hotel and Equatorial Hotel, Bangi respectively. In addition, the Chief Financial Officer and the Managing Director also attended various one-on-one meetings with analysts and fund managers throughout the year.

Annual General Meeting

At the Annual General Meeting (AGM), shareholders exercise their voting rights and the meeting is convened in strict compliance with the laws and procedures of a shareholders' general meeting. At the start of the meeting, the Chairman provides a brief presentation on the Company and the Group's financial performance for the year as well as update on key activities carried out during the year. Each item of ordinary and special business in the notice of the AGM is accompanied by a full explanation of the effects of the proposed resolution.

The company also encourages constructive dialogue between the Board and the shareholders, whereby shareholders are given the opportunity to put forward their questions on the proposed resolutions and the Group's operations.

As a matter of providing all stakeholders with the latest update on the Company, a press conference is held immediately after the General Meeting where the Chairman and the Managing Director address all the issues raised by members of the press and analysts.

Other Communications

The Company firmly observes the continuing disclosure obligations imposed upon listed issuer by Bursa Malaysia. Timely and accurate disclosure is made on all the material information and throughout the financial year under review, the material information and the material development thereof on acquisition, merger and takeover, issuance of notes, proposed financing facility, related party transaction, employee share option scheme, notice of book closure, change in boardroom and mandatory offer are among the material information released to Bursa Malaysia via Bursa Malaysia Link.

The Company has consistently released its quarterly financial results well before the deadlines set by Bursa Malaysia for their release.

The Board ensures that all formal queries by Bursa Malaysia and other regulatory authorities are expeditiously responded to via written communication.

Shareholders can also have access to information about the Company and its subsidiaries through the website at www.pharmaniaga.com.

Confidentiality of information

In the conduct of briefings or presentations, the Company takes care to ensure that any information regarded as undisclosed material information about the Company and its operations will not be given to any single shareholder or shareholder group.

OTHER INFORMATION

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

1. Utilisation of Proceeds Raised from any Corporate Proposal

The issuance of Islamic Medium Term Notes ("IMTN") of RM25.0 million on 24 December 2005 was used to part finance the cost of construction of the Small Volume Injectables Plant in Puchong and repaid the bridging loan facility taken for the same purpose whilst the Islamic Commercial Papers ("ICP") of RM40.0 million issued on 2 December 2005 was used for working capital financing purposes.

2. Non – Audit Fees

The amount of non-audit fees paid and payable to external audit firms by the Company and its subsidiaries for the financial year ended 31 December 2005 are as follows:

External Auditor	Total Paid (RM)
PriceWaterhouseCoopers	328,713
Shamsir Jasani Grant Thornton (Tax)	805
Ernst & Young Tax Consultants Sdn Bhd	59,180
Total	388,698

3. Sanctions

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year ended 31 December 2005.

4. Material Contracts

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

- (a) Collaboration Agreement dated 9 March 2005 entered into between Procon Fischer (Proprietary) Limited, Pharmaniaga and Corpafrica (Proprietary) Limited whereby the parties wish to associate themselves for the purposes of offering services to the National or Provincial Departments of Health within the Southern African Development Community by way of responding to requests for expression of interest, tenders or submission of proposals.
- (b) Share Transfer and Capital Increase Agreement ("STACIA") dated 8 September 2005 entered into by Pharmaniaga Pegasus (Seychelles) Co Ltd (a wholly-owned subsidiary of Pharmaniaga) ("PPS") with Shanghai Worldbest Treeful Pharmaceuticals (Group) Co Ltd and Shandong Changfu Jeijing Pharmaceutical Co. Ltd (collectively referred to as "Vendors") whereby PPS will acquire 40% equity in Wuxi Worldbest Treeful Pharma Pharmaceutical Co Ltd from the Vendors for a total cash consideration of RMB46,222,606 (approximately RM21,424,178).

5. Recurrent Related Party Transactions of a Revenue or Trading Nature (RRPT)

At the last AGM held on 5 May 2005, the shareholders of the Company approved the renewal of the mandate to allow the Company and/or its subsidiary companies, in their normal course of business, to enter into recurrent transactions of a revenue or trading nature with related parties ("RRPT Mandate"), which are necessary for its day-to-day operations on terms not more favourable to the related party than those generally available to the public and are not to the detriment of minority shareholders.

The Group proposes to continue entering into recurrent related party transactions with its related parties, and thus, proposes to seek renewal of the RRPT Mandate in the forthcoming AGM of the Company. This RRPT Mandate, if approved by shareholders, will be valid until the conclusion of the next AGM of the Company.

The aggregate value of the recurrent transactions of a revenue or trading nature conducted for the year under review between the Company and/or its subsidiary companies with related parties are set out below:

	Name of Related Party	Relationship	Nature of Transactions	The Company	Aggregate Value of Transactions during the year under review RM'000
1	UEM Construction Sdn Bhd	UEM Construction Sdn Bhd is a wholly-owned subsidiary of UEM Builders Berhad which is 51.7% owned by UEM World Berhad ("UEM World"). Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Contracts for the supply of medical equipment for the hospital construction projects in Sabah and Sarawak	Pharmaniaga Group	7,851

	Name of Related Party	Relationship	Nature of Transactions	The Company	Aggregate Value of Transactions during the year under review RM'000
2	UEM Construction Sdn Bhd	UEM Construction Sdn Bhd is a wholly-owned subsidiary of UEM Builders Berhad which is 51.7% owned by UEM World. Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Turnkey contractor for construction of warehouse, office and upgrading of manufacturing plant	Pharmaniaga Group	11,719
3	Gapima Sdn Bhd	Gapima Sdn Bhd is a 37.3% associate company of United Engineers (Malaysia) Berhad ("UEM") and 62.7% subsidiary of UEM World. Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Provision of transportation and freight forwarding services for distribution of pharmaceutical and medical products	Pharmaniaga Logistics Sdn Bhd	1,688
4	UEM Group Management Sdn Bhd	UEM Group Management Sdn Bhd is a wholly-owned subsidiary of UEM that owns 50.8% interest in UEM World. Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Provision of corporate and administrative support services and training	Pharmaniaga Group	229
5	Faber Mediserve Sdn Bhd	Faber Mediserve Sdn Bhd is a 57% subsidiary of Faber Healthcare Management Sdn Bhd which in turn is a wholly-owned subsidiary of Faber Group Berhad ("Faber"). Faber also directly holds 13.3% of the issued and paid-up share capital of Faber Mediserve Sdn Bhd. Faber is 37.9% owned by UEM, which holds 50.8% interest in UEM World. Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Sale of disinfectant range of products	Pharmaniaga Logistics Sdn Bhd	1,012
6	Kualiti Alam Sdn Bhd	Kualiti Alam Sdn Bhd is a wholly-owned subsidiary of UEM World through UEM Environment Sdn Bhd. Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Provision of scheduled waste treatment and disposal services	Pharmaniaga Group	209

	Name of Related Party	Relationship	Nature of Transactions	The Company	Aggregate Value of Transactions during the year under review RM'000
7	UEM World	UEM World is a substantial shareholder of the Company with 72.56% equity interest of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Computer Disaster Recovery and Business Continuity Plan	Pharmaniaga Solutions Sdn Bhd	176
8	UEM Builders Berhad	UEM World is a major shareholder of UEM Builders Berhad with 51.7% equity interest. Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Computer Disaster Recovery and Business Continuity Plan	Pharmaniaga Solutions Sdn Bhd	90
9	Kualiti Alam Sdn Bhd	Kualiti Alam Sdn Bhd is a wholly-owned subsidiary of UEM World through UEM Environment Sdn Bhd. Pharmaniaga is a 72.56% owned subsidiary of UEM World of which 43.59% is held through Trinity Saga Sdn Bhd, a wholly-owned subsidiary of UEM World and 28.97% held directly by UEM World.	Computer Disaster Recovery and Business Continuity Plan	Pharmaniaga Solutions Sdn Bhd	46
10	Rasma Corporation Sdn Bhd	Rasma Sdn Bhd is 30% controlled by YM Dato' Raja Nong Chik bin Raja Zainal Abidin and 19% by his wife. Dato' Raja Nong Chik is a director of the Company and has a 16.30% indirect interest in Pharmaniaga through Raza Sdn Bhd. He is also a director of Raza Sdn Bhd. Raza Sdn Bhd is a substantial shareholder of Pharmaniaga by virtue of its 16.30% direct interest.	Supply of sterilizers and associated equipment	Pharmaniaga Biomedical Sdn Bhd	360
11	RZA – Taiun Sdn Bhd	RZA-Taiun Sdn Bhd is a 51% subsidiary of Kumpulan RZA Sdn Bhd, which is a substantial shareholder of Raza Sdn Bhd through its 53.2% equity interest in Raza Sdn Bhd. Raza Sdn Bhd is a substantial shareholder of Pharmaniaga by virtue of its 16.30% direct interest.	Provision of freight forwarding services	Pharmaniaga Manufacturing Berhad	107

Note: Rasma Corporation Sdn Bhd and RZA – Taiun Sdn Bhd have ceased to be related parties subsequent to the disposal of shares held in the Company by Raza Sdn Bhd to Trinity Saga Sdn Bhd on 29 July 2005.

Statement of Compliance with Best Practices of the Code

The Board considers that it has complied throughout the financial year with Best Practices as set out in the Code, except for disclosure on directors' remuneration that complies with Appendix 9C Part A (10)(a) and (b) Chapter 9 of the Listing Requirements. In addition reports on environmental and social responsibility, are disclosed on pages 62 to 65 of this Annual Report.

Statement on Internal Control

Introduction

The Malaysian Code of Corporate Governance (“the Code”) specifies that all listed companies must maintain a sound internal control system to safeguard shareholders’ investment and assets of that listed company.

The Board of Directors is therefore pleased to provide the statement to the shareholders on the state of the Group’s internal control system during the year.

Board Responsibilities

The Board and the management accept full responsibility for maintaining a sound system of internal control and for reviewing the adequacy and integrity of the system. The system covers controls relating to all financial and operational matters, risk management, management information systems and compliance with applicable laws, and regulations.

The Board however, recognises that due to inherent limitations, the internal controls in place can only provide reasonable, and not absolute, assurance against material misstatements or losses and fraud.

Having reviewed the key elements of internal control, after due and careful inquiry and based on the information and assurance provided, the Board is of the view that the system of internal controls in place during the year under review and up to the date of issuance of the annual report is sound and sufficient to safeguard the shareholders’ investment, the interests of customers, regulators and employees, and the Group’s assets.

KEY ELEMENTS OF INTERNAL CONTROL

The key processes that have been established in ensuring the adequacy and integrity of the system of internal controls are:

Risk Management

The Board regards risk management is an integral part of the business operations.

The Risk Management Committee (“RMC”) that is chaired by the Senior Independent Director, and whose

members comprise the Managing Director and certain key senior management as identified by the Managing Director, maintains the overall responsibility for risk oversight within Pharmaniaga Group. The RMC is assisted by the various Risk Management Working Group Committees (“RWGC”) set up within the respective business units.

As provided for in the Group’s risk management framework, the RMC and RWGCs met up at least twice during the year to review the risk registers, re-evaluate 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. 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.

Risk assessment reports as well as the minutes of RMC meetings were presented to the Board as a whole at Board meetings.

In line with the Group’s focus to expand its business activities overseas, the RMC had undertaken a more detailed approach towards assessing risks related to doing business overseas.

Policies, Procedures and Discretionary Authority Limits

The limits of delegated authority for financial and non-financial transactions are clearly defined under the Discretionary Authority Limits (“DAL”). The DAL allows for decisions to be taken timely and at the same time provides for checks and balance on the amounts and types of commitments that management can undertake on behalf of the Company. The DAL is reviewed regularly

to ensure that it continues to be relevant and effective. The Board of Directors approved all changes to the DAL.

Policies and procedures for all key processes are clearly documented and reviewed at regular intervals. Certain subsidiary companies are certified under the various standards such as ISO 9001, ISO 14001, ISO/IEC 17025 and OHSAS 18001. The business operations of the Group are also governed by various regulations and laws applicable to the pharmaceutical and healthcare industry. Compliance to stated policies, procedures and regulations is regularly audited by various independent bodies for the various certifications and licences obtained by group companies, such as SIRIM, the National Pharmaceutical Control Bureau and certain multinational companies. The Board, either directly or through the Audit Committee, has been regularly briefed of any major findings arising from these independent audits.

Business Planning and Budget Monitoring

The Board and the management review the 5-year business plan critically every year in light of the prevailing market conditions and the risks identified. Monitoring of actual achievements of financial and non-financial indicators is carried out at monthly management meetings and quarterly Board meetings.

Internal Audit

As in previous years, the Group Internal Auditors from UEM Group Management Sdn Bhd continued to provide the internal audit support function to the Audit Committee and the Board during the year.

All internal audit assignments are prioritised according to the results of the risk assessment, and discussion with the senior management and Audit Committee members. Based on the Annual Audit Plan approved by the Audit Committee, the Internal Auditors conducted reviews on the Group's compliance with policies including the Code, the effectiveness of the risk review processes, as well the accuracy of reported statements on internal control system and corporate governance. All audit findings, recommendations and management actions are rigorously deliberated at Audit Committee meetings before being reported to the Board.

Standard of Ethical Code of Conduct

Staff handbook containing the human resource policies and code of conduct is available to all employees either in bound copies or on the intranet. All employees are required to renew their declaration of non-conflict of interest every year. Induction programs 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.

Organisational Development and System

Employee performance is monitored against the agreed key performance indicators that are aligned to the Divisional and corporate goals and objectives. A standardised performance management system is adopted to ensure a more consistent method of setting performance standards and assessing employee performance. Training and development needs of employees are identified not just through the performance management process, but also during the risk assessment process.

Succession plan is also reviewed annually to ensure continuity at all critical positions.

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 2005 and reported to the Board that the Statement appropriately reflects the process undertaken by the Company and the Group in ensuring the adequacy and integrity of the system of internal controls.

This statement is made in accordance with the resolution of the Board of Directors dated 6 April 2006.

Statement of Directors' Responsibilities

The Board of Directors is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of their results and cash flows for the period then ended.

In preparing the financial statements, the Directors have considered and ensured that,

1. applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been applied;
2. suitable and appropriate accounting policies have selected and applied consistently; and
3. reasonable and prudent judgements and estimates were made.

The Directors also have a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

Report of the Audit Committee

The Board of Directors of Pharmaniaga Berhad is pleased to present the report of the Audit Committee for the year ended 31 December 2005.

Membership

The Audit Committee comprises three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director of the Board as follows:-

1. Ismael Fariz bin Ali (Chairman/ Independent Non-Executive Director)
2. Datuk Sulaiman bin Daud (Senior Independent Non-Executive Director)
3. Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Salleh (Independent Non-Executive Director)
4. Dato' Raja Nong Chik bin Raja Zainal Abidin (Non-Independent Non-Executive Director)

Members of the Audit Committee shall not have any relationship with the Company or any of its subsidiary companies that in the opinion of the Board of Directors, would interfere with the exercise of independent judgement in carrying out the functions of the Audit Committee. Should such a relationship exist, the affected director shall make full disclosure of the fact and nature of the relationship to the Audit Committee and shall abstain from deliberations and recommendations on related matters.

Dato' Raja Nong Chik's professional accounting qualification meets the requirement of Chapter 15.10 of the Bursa Malaysia Listing Requirements.

Meetings

The Audit Committee had five (5) meetings during the financial year ended 31 December 2005. The attendance of the Committee members is as follows:

	Audit Committee Members	Number of Committee Meeting	
		Held	Attended
1	Ismael Fariz bin Ali	5	5
2	Datuk Sulaiman bin Daud	5	4
3	Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Salleh	5	5
4	Dato' Raja Nong Chik bin Raja Zainal Abidin	5	5

The meeting shall be chaired by the Chairman of the Audit Committee or in the absence of the Chairman, another member who is an independent Director nominated by the Audit Committee members shall chair the meeting. The quorum for the meeting of the Audit Committee shall be 2 members the majority of whom must be Independent Directors. The Chairman also has the discretion to call for additional meetings at any time, as he deems necessary.

The Audit Committee shall meet at least once in year with the external auditors without the presence of any executive board members and management.

The Managing Director and the Chief Financial Officer were present by invitation in all meetings. Representatives of the external auditors, Messrs PricewaterhouseCoopers as well as of the Group Internal Audit (UEM Group Management Services Sdn Bhd) also attended the meeting upon invitation. Additionally, where required, external parties such as lawyers, consultants and merchant bankers were in attendance to brief and explain matters requiring their input and clarification.

Minutes of the meetings of the Audit Committee are circulated to all members of the Board and significant issues are discussed at the Board Meetings.

Summary of activities

In line with the terms of reference of the Audit Committee, the Audit Committee carried out the following activities during the financial year ended 31 December 2005, in discharging its function:

- Reviewed with external auditors the Audited Financial Report of the Company for 2004
- Reviewed the Quarterly Financial results for four quarters in 2005, and recommended these to the Board for consideration and approval. The review is to ensure compliance with the Bursa Malaysia Listing Requirements, applicable accounting standards and other relevant legal and regulatory requirements
- Reviewed the scope of work and the audit plans of the external and internal auditors for 2005, as well as the audit fees proposed by the external auditors
- Reviewed the internal audit reports presented by UEM Group Management Sdn Bhd and discussed the management's actions taken to improve the system of internal control and any outstanding matters
- Reviewed the status of Advances/Intercompany Balances of companies in the Group
- Reviewed the status of operations of associate company
- Reviewed the Related Party Transactions which were thereafter, as deemed fit, recommended to the Board for consideration and approval
- Reviewed the Statement of Corporate Governance and Internal Control Statement for disclosure in Annual Report 2004.

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

Terms of Reference

1. 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 if he is not a member of the MIA, he must have at least 3 years working experience and he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967 or he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967;
- 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 shall 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.

2. Secretary of the Audit Committee

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

3. Objectives of the Audit Committee

The objective of the Audit Committee is to assure the shareholders of the Company that the Directors of Pharmaniaga have complied with specified financial standards and required disclosure policies developed and administered by Bursa Malaysia and other approved accounting standard bodies.

In addition, the Audit Committee needs to ensure consistency with Bursa Malaysia commitments to encourage high standards of corporate disclosure and transparency. The Audit Committee will endeavour to adopt certain practices aimed at maintaining appropriate standards of corporate responsibility, integrity and accountability to Pharmaniaga's shareholders.

4. Duties and Responsibilities of the Audit Committee

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

- 4.01 Recommend to the Board on the appointment and annual reappointment 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.
- 4.02 Discuss with the external auditor 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.
- 4.03 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.
- 4.04 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.
- 4.05 Review the external auditor's management letter and management's response.
- 4.06 Review and ensure the Internal Audit Department/Function is adequately resourced, has appropriate standing within the Company and evaluate the standards of internal controls and financial reporting.
- 4.07 Consider the major findings of internal investigations and management's response.
- 4.08 Review any related party transactions and conflict of interest situation that may arise within the Company or the Group and its related companies and ensure that such transactions are undertaken at arm's length, normal commercial, on terms not favourable to the related party that those generally available to the public and are not to the detriment of the minority shareholders and in the best interest of the Company and its subsidiaries.
- 4.09 Review the terms of the shareholders' mandate for recurrent related party transactions of a revenue or trading nature.
- 4.10 Consider other topics as defined by the Board.

5. Power of the Audit Committee

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

- a. Have explicit authority to investigate any matter within its terms of reference;
- b. Have the resources required to perform its duties;
- c. Have full and unrestricted access to any information, records, properties and personnel of the Company and of any other companies within the Group;
- d. Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e. Be able to obtain independent professional or other advice and to invite outsiders with relevant experience to attend the Committee's meetings (if required) and to brief the Committee;
- f. The attendance of any particular Audit Committee meeting by other Directors and employees of the Company shall be at the Committee's invitation and discretion and must be specific to the relevant meeting; and
- g. Be able to convene meetings with external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

Internal Audit Function

The Internal Audit function was undertaken by UEM Group Management Services Sdn Bhd ("UEG"). UEG supports the Audit Committee in discharging its duties and responsibilities, giving assurance that adequate, efficient and effective internal control systems are in place. The principal role of internal audit is to undertake an independent, regular and systematic review of the system of internal control so as to provide reasonable assurance that such a system continue to operate satisfactorily and effectively.

During the financial year, UEG has carried out 5 audit assignments within Pharmaniaga Group. The internal audit reports arising from the assignments were issued to management for their response and corrective actions. The reports were subsequently tabled to the Audit Committee for their deliberation. Management representatives were present during the deliberation of the reports so that they undertake the responsibility of carrying out corrective actions on the reported recommendations.

Further details of the activities of the internal audit are set out in the Statement on Internal Control on page 99.

Statement on Employees' Share Option Scheme (ESOS)

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

FINANCIAL STATEMENTS

106	DIRECTORS' REPORT
113	STATEMENT BY DIRECTORS
113	STATUTORY DECLARATION
114	REPORT OF THE AUDITORS
115	INCOME STATEMENTS
116	BALANCE SHEETS
117	STATEMENTS OF CHANGES IN EQUITY
119	CASH FLOW STATEMENTS
121	NOTES TO THE FINANCIAL STATEMENTS

Directors' Report

The Directors are pleased to present their report together with the audited financial statements of the Group and Company for the financial year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiary companies are disclosed in Note 11 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 after taxation	29,134	15,173
Minority interests	(2,232)	-
Net profit for the financial year	<u>26,902</u>	<u>15,173</u>

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 2004: Final 10.5% tax exempt dividend paid on 22 June 2005	<u>10,740</u>
In respect of the financial year ended 31 December 2005: Interim 3.5% tax exempt dividend paid on 28 December 2005	<u>3,743</u>

The Directors have recommended the payment of a final 11.5% tax exempt dividend for the financial year ended 31 December 2005 amounting to approximately RM12,300,000 which, subject to the approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 28 June 2006 to shareholders registered on the Company's Register of Members at the close of business on 6 June 2006.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

During the financial year, 5,024,490 new ordinary shares of RM1.00 each were issued by the Company for cash consideration by virtue of the exercise of options pursuant to the Company's Employee Share Option Scheme ("ESOS"). The market price of the Company's shares at dates the options were exercised ranged from RM4.88 to RM5.50 per share.

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

There was no change in the authorised share capital of the Company during the financial year.

There were no debentures issued during the financial year.

SIGNIFICANT EVENTS

Significant events during the financial year are disclosed in Note 32 to the financial statements.

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

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

The principal features of the ESOS are as follows:

- (a) Eligible employees and Executive Directors of the Company and its subsidiary companies can subscribe under the ESOS for new ordinary shares of RM1 each in the Company. The number of options granted is subject to among others, the seniority and years of service of the respective eligible employees as provided under the ESOS Bye-Laws.
- (b) The ESOS will expire on 3 July 2008. Any extension of time of the ESOS would have to be approved by the relevant authorities and shareholders of the Company in a general meeting. The Company in a general meeting may terminate the ESOS prior to the expiry date.
- (c) The total number of shares to be offered under the ESOS shall not in aggregate exceed 10% of the total issued and paid up share capital of the Company at any point in time during the duration of the scheme.
- (d) The option price under the ESOS shall be based on the weighted average market price of the shares as shown in the daily official list issued by Bursa Malaysia Securities Berhad for the five (5) Market Days immediately preceding the date of offer subject to a discount of not more than ten per cent (10%) at the ESOS Committee's discretion, or at par value of the shares, whichever is higher.
- (e) The newly issued ordinary shares shall rank pari passu with the existing ordinary shares of the Company.

EMPLOYEE SHARE OPTION SCHEME ("ESOS") (CONTINUED)

As at 31 December 2005, particulars of the outstanding options granted under the ESOS were as follows:

Date of offer	Option price RM	Number of option over ordinary shares of RM1.00 each				As at 31.12.2005
		As at 1.1.2005	Granted	Exercised	Lapsed	
4 July 2003	4.06	3,497,300	–	(3,228,000)	(269,300)	–
21 May 2004	4.64	809,350	–	(730,150)	(79,200)	–
1 November 2004	4.69	1,227,500	–	(1,066,340)	(161,160)	–

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

DIRECTORS

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

Dato' Mohamed Azman bin Yahya
 Dato' Ahmad Pardas bin Senin
 Datuk Sulaiman bin Daud
 Dato' Raja Nong Chik bin Raja Zainal Abidin
 Dato' Prof. Ir. Dr. Mohammad Noor bin Salleh
 Azhar bin Hussain
 Ismael Fariz bin Ali
 Oh Kim Sun (appointed on 12 December 2005)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the options granted to certain Directors over the ordinary shares in the Company pursuant to the ESOS and the offer for sale of UEM World Berhad's ("UEM World") shares to eligible employees of United Engineers (Malaysia) Berhad, Khazanah Nasional Berhad, and UEM World's subsidiaries and certain of its associated companies, via UEM World's Employee Equity Scheme ("EES").

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 29 to the financial statements.

DIRECTORS' BENEFITS (CONTINUED)

The options granted to the Directors pursuant to holding company's EES are set out below:

	Number of ordinary shares of RM1.00 each	
	Fixed entitlement	Eligible under performance
<u>Holding company's EES</u>		
Dato' Ahmad Pardas bin Senin	7,162,000	540,000
Azhar bin Hussain	1,170,200	85,900

DIRECTORS' INTERESTS

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

The Company

	Number of ordinary shares of RM1.00 each			
	As at 1.1.2005/ date of appointment	Bought	Sold	As at 31.12.2005
Direct interest				
Dato' Raja Nong Chik bin Raja Zainal Abidin	27,000	—	—	27,000
Azhar bin Hussain	12,000	372,500	(352,500)	32,000
Deemed interest				
Dato' Mohamed Azman bin Yahya*	10,000	—	—	10,000
Oh Kim Sun**	177,000	—	—	177,000

The options granted to the Directors pursuant to the Company's ESOS are set out below:

	Number of options over ordinary shares of RM1.00 each			
	As at 1.1.2005	Granted	Exercised	As at 31.12.2005
Company's ESOS				
Azhar bin Hussain	372,500	—	(372,500)	—

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

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

DIRECTORS' INTERESTS (CONTINUED)

Holding company – UEM World

	Number of ordinary shares of RM1.00 each			
	As at 1.1.2005/ date of appointment	Granted/ Bought	Sold	As at 31.12.2005
Direct interest				
Dato' Ahmad Pardas bin Senin [#]	7,162,000	540,000	—	7,702,000
Azhar bin Hussain [#]	1,170,200	85,900	—	1,256,100
Oh Kim Sun	22,250	—	—	22,250
Deemed interest				
Oh Kim Sun ^{***}	11,250	—	—	11,250

Related company - Plus Expressways Berhad

	Number of ordinary shares of RM0.25 each			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
Direct interest				
Dato' Ahmad Pardas bin Senin	20,000	—	—	20,000

[#] In respect of EES allocation under fixed entitlement and performance-based scheme.

^{***} Through his spouse's direct shareholding in UEM World.

By virtue of their direct and indirect interests in the Company, Dato' Mohamed Azman bin Yahya, Dato' Raja Nong Chik bin Raja Zainal Abidin and Azhar bin Hussain are also deemed to have interests in the shares of all the subsidiary companies to the extent that the Company has an interest under Section 6A of the Companies Act, 1965.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

CURRENT ASSETS VALUATION

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

CURRENT ASSETS VALUATION (CONTINUED)

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.

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

With effect from 8 August 2005, the immediate, intermediate and ultimate holding companies of the Company are UEM World Berhad, United Engineers (Malaysia) Berhad and Khazanah Nasional Berhad respectively, all of which are incorporated in Malaysia.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 22 February 2006.



DATO' MOHAMED AZMAN BIN YAHYA
Director



AZHAR BIN HUSSAIN
Director

Statement by Directors

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

We, Dato' Mohamed Azman bin Yahya and Azhar bin Hussain, two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 115 to 162 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 2005 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.

Signed on behalf of the Board of Directors in accordance with their resolution dated 22 February 2006.

DATO' MOHAMED AZMAN BIN YAHYA
Director

AZHAR BIN HUSSAIN
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 115 to 162 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 22 February 2006, before me.



COMMISSIONER FOR OATHS

Mezzanine Floor
No. 86, Jalan Putra
50350 Kuala Lumpur

Report of the Auditors

to the members of Pharmaniaga Berhad

We have audited the financial statements set out on pages 115 to 162. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purposes. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Company as at 31 December 2005 and of the results and cash flows of the Group and Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiary companies of which we have not acted as auditors are indicated in Note 11 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies 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 consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under subsection 3 of Section 174 of the Act.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/06 (J))
Partner of the firm

Kuala Lumpur
22 February 2006

Income Statements

for the financial year ended 31 December 2005

		Group		Company	
	Note	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	4	936,431	799,991	22,800	26,110
Cost of sales	5	(783,815)	(633,173)	–	–
Gross profit		152,616	166,818	22,800	26,110
Other operating income		804	598	106	–
Selling and distribution cost		(20,410)	(16,737)	–	–
Administration expenses		(65,950)	(49,779)	(1,361)	(561)
Other operating expenses		(18,742)	(14,237)	(3,936)	–
Profit from operations		48,318	86,663	17,609	25,549
Finance cost		(6,246)	(2,275)	(2,436)	–
Share of results of associated company		–	(2,610)	–	–
Profit before taxation	6	42,072	81,778	15,173	25,549
Taxation	7	(12,938)	(18,705)	–	–
Profit after taxation		29,134	63,073	15,173	25,549
Minority interests		(2,232)	(12,238)	–	–
Net profit for the financial year		26,902	50,835	15,173	25,549
Earnings per share (sen)					
- Basic	8(a)	25.98	50.18		
- Diluted	8(b)	25.98	46.55		
Dividend per share (sen) - tax exempt	9				
- Interim		3.5	4.5		
- Final		11.5	10.5		

Balance Sheets

as at 31 December 2005

		Group		Company	
	Note	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	10	251,544	213,783	—	—
Investments in subsidiary companies	11	—	—	191,024	112,518
Investments in associated companies	12	19	144	19	2,629
Amount due from subsidiary company	18	—	—	24,588	—
Project development expenditure	13	2,634	3,267	—	—
Goodwill	14	31,620	16,595	—	—
Deferred tax assets	25	1,915	1,403	—	—
		287,732	235,192	215,631	115,147
CURRENT ASSETS					
Inventories	15	161,984	128,388	—	—
Trade receivables	16	228,178	195,343	—	—
Other receivables	17	23,076	15,305	26	7,799
Amounts due from subsidiary companies	18	—	—	63,472	28,188
Amounts due from related companies	19	38,499	—	20	—
Tax recoverable		5,628	2,087	—	—
Fixed deposits	20	1,212	2,175	—	—
Cash and bank balances		51,569	52,249	384	467
		510,146	395,547	63,902	36,454
CURRENT LIABILITIES					
Trade payables	21	236,428	201,798	—	—
Other payables		31,660	30,508	1,153	437
Amounts due to subsidiary companies	18	—	—	1,727	30,738
Amounts due to related companies	19	4,677	—	—	—
Taxation payable		1,357	5,792	—	—
Loans and borrowings	22	106,131	37,310	47,704	—
		380,253	275,408	50,584	31,175
NET CURRENT ASSETS					
		129,893	120,139	13,318	5,279
		417,625	355,331	228,949	120,426
SHARE CAPITAL					
	23	106,952	101,927	106,952	101,927
RESERVES					
	24	210,705	182,917	35,659	18,499
SHAREHOLDERS' FUNDS					
		317,657	284,844	142,611	120,426
LOANS AND BORROWINGS					
	22	86,654	887	86,338	—
DEFERRED TAXATION					
	25	3,766	2,963	—	—
MINORITY INTERESTS					
		9,548	66,637	—	—
		417,625	355,331	228,949	120,426

Statements of Changes In Equity

for the financial year ended 31 December 2005

	Note	Share capital RM'000	Share premium RM'000	Consolidation reserve RM'000	Exchange reserves RM'000	Retained profits RM'000	Total RM'000
Group							
At 1 January 2005		101,927	5,902	32,462	–	144,553	284,844
Issue of shares							
- exercise of share options	23	5,025	16,470	–	–	–	21,495
Currency translation differences		–	–	–	(1,101)	–	(1,101)
Net profit for the financial year		–	–	–	–	26,902	26,902
Dividends for financial year ended							
- 31 December 2004, final of 10.5% tax exempt dividend	9	–	–	–	–	(10,740)	(10,740)
- 31 December 2005, interim of 3.5% tax exempt dividend	9	–	–	–	–	(3,743)	(3,743)
At 31 December 2005		<u>106,952</u>	<u>22,372</u>	<u>32,462</u>	<u>(1,101)</u>	<u>156,972</u>	<u>317,657</u>

Group							
At 1 January 2004		100,576	1,764	32,462	-	106,881	241,683
Issue of shares							
- exercise of share options	23	1,351	4,138	-	-	-	5,489
Net profit for the financial year		-	-	-	-	50,835	50,835
Dividends for financial year ended							
- 31 December 2003, final of 8.5% tax exempt dividend		-	-	-	-	(8,591)	(8,591)
- 31 December 2004, interim of 4.5% tax exempt dividend	9	-	-	-	-	(4,572)	(4,572)
At 31 December 2004		<u>101,927</u>	<u>5,902</u>	<u>32,462</u>	<u>-</u>	<u>144,553</u>	<u>284,844</u>

Statements of Changes In Equity (continued)

for the financial year ended 31 December 2005

		Non-distributable		Distributable	
	Note	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
Company					
At 1 January 2005		101,927	5,902	12,597	120,426
Issue of shares					
- exercise of share options	23	5,025	16,470	–	21,495
Net profit for the financial year		–	–	15,173	15,173
Dividends for financial year ended					
- 31 December 2004, final of 10.5% tax exempt dividend	9	–	–	(10,740)	(10,740)
- 31 December 2005, interim of 3.5% tax exempt dividend	9	–	–	(3,743)	(3,743)
At 31 December 2005		<u>106,952</u>	<u>22,372</u>	<u>13,287</u>	<u>142,611</u>
At 1 January 2004		100,576	1,764	211	102,551
Issue of shares					
- exercise of share options	23	1,351	4,138	–	5,489
Net profit for the financial year		–	–	25,549	25,549
Dividends for financial year ended					
- 31 December 2003, final of 8.5% tax exempt dividend		–	–	(8,591)	(8,591)
- 31 December 2004, interim of 4.5% tax exempt dividend	9	–	–	(4,572)	(4,572)
At 31 December 2004		<u>101,927</u>	<u>5,902</u>	<u>12,597</u>	<u>120,426</u>

Cash Flow Statements

for the financial year ended 31 December 2005

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
OPERATING ACTIVITIES				
Cash receipts from customers	866,334	828,860	–	–
Cash payments to suppliers	(771,577)	(598,906)	–	–
Cash payments to employees and for expenses	(97,301)	(93,339)	(647)	(1,713)
Advances to subsidiary companies	–	–	(89,864)	(9,702)
Cash (used in)/generated from operations	(2,544)	136,615	(90,511)	(11,415)
Interest paid	(3,224)	(1,924)	–	–
Profit on Murabahah Commercial Paper paid	(318)	–	(318)	–
Tax paid	(20,623)	(16,852)	–	–
Interest received	254	108	–	–
Net cash (used in)/generated from operating activities	(26,455)	117,947	(90,829)	(11,415)
INVESTING ACTIVITIES				
Dividends received	–	–	22,800	26,110
Proceeds from disposal of property, plant and equipment	171	24	–	–
Purchase of property, plant and equipment	(50,592)	(14,568)	–	–
Subscription of shares in an associated company	–	(1,410)	–	(1,410)
Deposit for acquisition of an associated company	(13,014)	–	–	–
Acquisition of a subsidiary company, net of cash acquired	(493)	(6,702)	–	–
Additional investment in subsidiary companies	(70,278)	(7,750)	(70,756)	(7,750)
Net cash (used in)/generated from investing activities	(134,206)	(30,406)	(47,956)	16,950

Cash Flow Statements (continued)

for the financial year ended 31 December 2005

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
FINANCING ACTIVITIES				
Proceeds from issuance of shares - exercise of share options	21,495	5,489	21,495	5,489
Dividends paid	(14,483)	(13,163)	(14,483)	(13,163)
Proceeds from issuance of Murabahah CP/MTN	64,788	—	64,788	—
Drawdown/(repayments) of short term borrowings	20,546	(32,092)	—	—
Repayments of revolving credit	—	(12,000)	—	—
Drawdown/(repayments) of term loan	69,750	(8,554)	69,750	—
Term loan interest paid	(2,330)	—	(2,330)	—
Profit paid on Murabahah Medium Term Notes	(518)	—	(518)	—
Fixed deposits released/(pledged)	963	(1,924)	—	—
Net cash generated from/(used in) financing activities	160,211	(62,244)	138,702	(7,674)
NET CHANGE IN CASH AND CASH EQUIVALENTS				
	(450)	25,297	(83)	(2,139)
Foreign exchange differences	(230)	—	—	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR				
	52,249	26,952	467	2,606
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR				
	51,569	52,249	384	467
Cash and cash equivalents comprise:				
Fixed deposits	1,212	2,175	—	—
Cash and bank balances	51,569	52,249	384	467
	52,781	54,424	384	467
Less: Fixed deposits pledged to banks	(1,212)	(2,175)	—	—
Cash and cash equivalents	51,569	52,249	384	467

1 GENERAL INFORMATION

The Company is an investment holding company. The principal activities of the Group consist of:

- (i) Research and development, manufacturing, marketing, distribution and trading of pharmaceutical products;
- (ii) Purchasing, storage and distribution of pharmaceutical and medical products to government hospitals and private institutions;
- (iii) Provision of information technology solutions and systems support services;
- (iv) Medical and hospital equipment planning and equipping activities; and
- (v) Provision of diagnostic laboratory testing services.

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:

1st Floor, Bangunan MCOBA
42, Jalan Syed Putra
50460 Kuala Lumpur.

Principal place of business:

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

With effect from 8 August 2005, the immediate, intermediate and ultimate holding companies of the Company are UEM World Berhad ("UEM World"), United Engineers (Malaysia) Berhad and Khazanah Nasional Berhad respectively, all of which are incorporated in Malaysia.

2 BASIS OF PREPARATION

The financial statements of the Group and Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia except as disclosed in the summary of significant accounting policies.

There are no changes in accounting policy that affect net profit or shareholders' equity during the financial year.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. Although these estimates are based on Directors' best knowledge of current events and actions, actual results may differ from those estimates.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiary companies

The consolidated financial statements of the Company and all its subsidiary companies are made up to the end of the financial year. Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The cost of an acquisition is the amount of cash paid and the fair value at the date of acquisition of other purchase consideration given by the acquirer. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of acquisition over the Group's share of the fair value of the identifiable net assets of the subsidiary company acquired at the date of acquisition is reflected as goodwill or consolidation reserve.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

Intragroup transactions, balances and unrealised gains on such transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiary companies to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill on acquisition and any exchange differences which were not previously recognised in the consolidated income statement.

(b) Associated companies

Associated companies are those companies in which the Group exercises significant influence, but which it does not control. 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 in the consolidated financial statements by equity method of accounting.

Equity accounting involves recognising the Group's share of the post acquisition results of associated companies in the income statement and its share of post acquisition movements within reserves in reserves. The cumulative post acquisition movements are adjusted against the cost of the investment and includes goodwill on acquisition (net of accumulated amortisation). Equity accounting is discontinued when the carrying amount of the investment in an associate company reaches zero.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Borrowings

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

Borrowing costs attributable to the acquisition, construction or production of an asset during the periods when activities necessary to prepare the asset for its intended use are in progress, are capitalised as a component of the cost of the asset. Such capitalisation ceases when substantially all activities necessary to prepare the asset for their intended use are complete. All other borrowing costs are expensed.

Where the carrying amount of an asset exceeds its recoverable amount, inclusive of capitalised borrowing costs if applicable, such excess is written down or adjusted for as allowance for impairment, through an appropriate charge to the income statement.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The accounting policy for the recognition and measurement of impairment losses is in accordance with Note 3(n).

Freehold land is not depreciated as it has an infinite life. Capital work-in-progress is not depreciated until it is completed and ready for its intended use. Incidental cost for the purchase of land and building has been capitalised as part of the cost of asset up to the date when the property is ready for use.

All other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives.

The principal annual depreciation rates used are as follows:

Freehold buildings	2%
Leasehold land	over the lease period of 33 - 99 years
Leasehold buildings	2% - 5%
Motor vehicles	20% - 50%
Plant and machinery	10% - 20%
Furniture and fittings	10% - 20%
Renovation	10% - 20%
Equipment	10% - 20%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(e) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiary companies and associated companies over the Group's share of the fair value of their identifiable net assets at the date of acquisition.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (continued)

Capitalised goodwill is amortised using the straight line method over its estimated useful life of not more than 15 years. The Directors determine the estimated useful life of goodwill based on its evaluation of the respective enterprises at the time of the acquisition. Where an indication of impairment exists, the carrying amount of the goodwill is assessed and written down immediately to their recoverable amount. The accounting policy for the recognition and measurement of impairment losses is in accordance with Note 3(n).

Consolidation reserves represent the excess of the Group's share of identifiable net assets acquired over the cost of acquisition of subsidiary companies and associated companies and is credited directly to reserve.

(f) 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. The accounting policy for the recognition and measurement of impairment losses is in accordance with Note 3(n).

(g) Investments

Investments in subsidiary companies and associated companies are stated at cost less accumulated impairment losses. The recognition and measurement of impairment losses is in accordance with Note 3(n).

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

(h) Inventories

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

Cost includes the actual cost of materials and incidental cost incurred in bringing the inventories into store. As for in-house manufactured finished goods and work-in-progress, it also includes labour and appropriate production overhead.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. In arriving at the net realisable value, due allowances have been made by Directors for all damaged, obsolete and slow moving items.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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

Obligations for contributions to defined contribution plans such as Employees Provident Fund (“EPF”) are recognised as an expense in the income statement in the financial year to which they relate to. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Equity compensation benefits

The Employee Share Option Scheme (“ESOS”) and Employee Equity Scheme (“EES”) allow the Group’s employees to acquire ordinary shares of the Company and of the holding company respectively. No compensation cost or obligation is recognised. When the options under ESOS are exercised, equity is increased by the amount of the proceeds received.

(j) Receivables

Receivables are carried at anticipated realisable values. Known bad debts are written off in the period in which they are identified. An estimate is made for any doubtful debts based on a review of all outstanding amounts as at the balance sheet date. The allowance is established when there is objective evidence that the Group will not be able to collect all amounts due to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount.

(k) Payables

Payables are stated at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

(l) Cash and cash equivalents

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

(m) Share capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares are shown as a deduction, net of tax, in equity from the proceeds. Dividends on ordinary shares are recognised as liabilities when proposed or declared and approved before the balance sheet date.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately. Any subsequent increase in the recoverable amount is recognised in the income statement.

(o) Research and development costs

Research expenditure are expensed in the year in which they are incurred. Costs 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. The accounting policy for the recognition and measurement of impairment losses is in accordance with Note 3(n).

(p) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly to reserve, in which case the deferred tax is also charged or credited directly to reserve, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Foreign currency translation and balance

The financial statements are stated in Ringgit Malaysia.

(i) Foreign entity

The Group's foreign entities are those operations that are not an integral part of the operations of the Company. Income statements of foreign entities are translated into Ringgit Malaysia at average exchange rates for the period and the balance sheets are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the net investment in foreign entities are taken to 'exchange reserve' in shareholders' equity. On disposal of the foreign entity, such translation differences are recognised in the income statement as part of the gain or loss on disposal.

(ii) Foreign currency transactions and balances

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

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

	2005 RM	2004 RM
US Dollar	3.78	3.80
Euro	4.48	5.17
Singapore Dollar	2.27	2.32
Indonesian Rupiah	0.03	0.04
Sterling Pound	6.52	7.39
Australian Dollar	2.93	–
Chinese Renminbi	0.47	–

(r) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present legal or constructive obligation as a result of a past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(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.

Where 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 profit (less recognised losses) exceeds progress billings, the balance is shown as amounts due from customers on contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amounts due to customers on contracts.

(iii) Interest

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

(iv) Dividend

Dividend income from investments in 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.

Sales between Group companies are excluded from revenue of the Group.

(t) Financial instruments

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statement associated with each item.

The fair values of financial assets and liabilities with maturity of more than one year are estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

The face values of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity of less than one year are assumed to approximate their fair values.

4 REVENUE

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Revenue consists of:				
Sale of goods	922,407	798,925	–	–
Rendering of services	1,150	1,066	–	–
Dividend income	–	–	22,800	26,110
Contracts	12,874	–	–	–
	936,431	799,991	22,800	26,110

5 COST OF SALES

	Group	
	2005	2004
	RM'000	RM'000
Cost of sales consists of:		
Cost of inventories sold	772,682	633,173
Contracts costs	11,133	–
	783,815	633,173

6 PROFIT BEFORE TAXATION

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Auditors' remuneration				
- statutory				
- current	144	119	21	14
- under/(over) provision in prior year	7	(9)	7	–
- others	308	382	–	–
Amortisation of project development expenditure	633	632	–	–
Amortisation of goodwill	4,175	1,151	–	–
Depreciation	19,742	17,320	–	–
Property, plant and equipment written off	92	7	–	–
(Gain)/loss on disposal of property, plant and equipment	(43)	15	–	–
Deposit written off	–	6	–	–
Directors' fees				
- payable to directors	228	228	228	228
- payable to intermediate holding company	30	30	30	30
Directors' emoluments	891	676	95	101

6 PROFIT BEFORE TAXATION (CONTINUED)

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Finance cost				
- interest expense on term loan	3,860	374	2,330	–
- interest expense on bankers' acceptance	1,648	1,550	–	–
- interest expense on bank overdrafts	46	20	–	–
- profit on Murabahah Commercial Paper	106	–	106	–
- others	586	331	–	–
Interest income	(254)	(108)	(106)	–
Allowance for doubtful debts	1,334	1,268	1,326	–
Write back of allowance for doubtful debts	(126)	(971)	–	–
Bad debts written off	91	335	–	–
Bad debts recovered	(137)	(129)	–	–
Allowance for slow moving and obsolete inventories	1,827	2,233	–	–
Inventories written off	1	4,165	–	–
Rental of premises	1,628	146	–	–
Rental of equipment	456	602	–	–
Research and development expenses	677	2,804	–	–
(Gain)/loss on foreign currency exchange	(22)	54	–	–
Tax recoverable written off	–	72	–	–
Rental income	(348)	(343)	–	–
Impairment in associated companies	125	–	2,610	–
Staff costs:				
- salaries and bonus	38,981	31,921	–	–
- defined contribution plan	4,954	3,986	–	–
- other employee benefits	6,524	9,871	–	–

The estimated monetary value of benefits provided to Directors of the Company during the financial year amounted to RM23,129 (2004: RM23,800).

The number of employees of the Group and Company at the end of the financial year was 1,926 and Nil (2004: 1,863 and Nil) persons respectively.

7 TAXATION

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Current tax:				
- Malaysian income tax	11,825	19,122	–	–
- Foreign income tax	1,238	–	–	–
(Over)/under provision in prior years	(416)	309	–	–
Deferred taxation (Note 25)	291	(726)	–	–
	12,938	18,705	–	–

7 TAXATION (CONTINUED)

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

The Company has sufficient tax exempt account balance to declare its entire retained profit as tax exempt dividend.

The Group's unutilised business losses and unabsorbed capital allowances which can be carried forward to offset against future taxable profit amounted approximately to RM30,777,000 (2004: RM28,455,000) and RM7,785,000 (2004: RM4,843,000) respectively.

However, the above amounts are subject to Inland Revenue Board of Malaysia's approval.

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

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	42,072	81,778	15,173	25,549
Income tax at rate of 28% (2004: 28%)	11,780	22,898	4,248	7,154
Tax effect in respect of:				
Non allowable expenses	5,078	1,574	2,135	157
Income not subject to tax	(1,080)	(559)	(6,383)	(7,311)
Effect of different tax rate	21	3	–	–
Utilisation of current year's reinvestment allowances	(2,026)	(938)	–	–
(Over)/under provision of tax in prior year	(416)	309	–	–
Utilisation of previously unrecognised deferred tax assets	(419)	(656)	–	–
Utilisation of previously unrecognised tax losses	–	(3,926)	–	–
	12,938	18,705	–	–

8 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the net profit attributable to shareholders of RM26,902,000 (2004: RM50,835,000) and the weighted average number of ordinary shares in issue during the year of RM103,560,000 (2004: RM101,297,000).

	2005	2004
	RM'000	RM'000
Net profit attributable to shareholders (RM'000)	26,902	50,835
Weighted average number of ordinary shares in issue ('000)	103,560	101,297
Basic earnings per share (sen)	25.98	50.18

8 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

The diluted earnings per share is based on the net profit attributable to shareholders of RM26,902,000 (2004:RM50,835,000) and the weighted average number of ordinary shares in issue which is adjusted to assume the conversion of all dilutive potential ordinary shares arising from the options granted to employees under ESOS of 103,560,000 (2004:109,213,000) calculated as follows:

	2005	2004
Weighted average number of ordinary shares in issue ('000)	103,560	101,297
Adjusted for:		
Share options under ESOS ('000)	–	7,916
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)	103,560	109,213
	<hr/>	<hr/>
Diluted earnings per share (sen)	25.98	46.55
	<hr/>	<hr/>

For the share options granted to employees, a calculation is done to determine the number of shares that could have been acquired at market price (determined based on the average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "unpurchased" shares to be added to the weighted average number of ordinary shares outstanding for the purpose of computing the diluted earnings per share. No adjustment is made to net profit attributable to shareholders for the diluted earnings per share calculation.

9 DIVIDEND

During the year, an interim tax exempt dividend of 3.5 sen (2004: 4.5 sen) per share amounting to RM3,473,000 (2004: RM4,572,000) was declared and paid on 28 December 2005.

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the year ended 31 December 2005 of 11.5 sen (2004: 10.5 sen) per share amounting to approximately RM12,300,000 (2004: RM10,740,000) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect the proposed final dividend. This will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2006.

10 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 2005						
Cost	185,431	93,773	9,235	59,726	26,851	375,016
Accumulated depreciation	(26,831)	(53,746)	(7,889)	(35,006)	–	(123,472)
Net book value	<u>158,600</u>	<u>40,027</u>	<u>1,346</u>	<u>24,720</u>	<u>26,851</u>	<u>251,544</u>
At 31 December 2004						
Cost	162,596	79,823	9,164	49,782	17,731	319,096
Accumulated depreciation	(22,795)	(46,139)	(7,316)	(29,063)	–	(105,313)
Net book value	<u>139,801</u>	<u>33,684</u>	<u>1,848</u>	<u>20,719</u>	<u>17,731</u>	<u>213,783</u>
Movements in net book value						
At 1 January 2005	139,801	33,684	1,848	20,719	17,731	213,783
Additions	9,990	18,648	422	8,359	20,484	57,903
Disposals	–	(39)	(89)	–	–	(128)
Written off	–	(92)	–	–	–	(92)
Depreciation charged	(4,431)	(8,538)	(798)	(5,975)	–	(19,742)
Reclassification	13,362	(3,618)	–	1,620	(11,364)	–
Foreign exchange adjustment	(122)	(18)	(37)	(3)	–	(180)
At 31 December 2005	<u>158,600</u>	<u>40,027</u>	<u>1,346</u>	<u>24,720</u>	<u>26,851</u>	<u>251,544</u>

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Freehold buildings RM'000	Long leasehold land and buildings RM'000	Short leasehold land and buildings RM'000	Total RM'000
Group					
Analysis of land and buildings					
At 31 December 2005					
Cost	39,981	51,332	64,825	29,293	185,431
Accumulated depreciation	–	(6,607)	(16,394)	(3,830)	(26,831)
Net book value	<u>39,981</u>	<u>44,725</u>	<u>48,431</u>	<u>25,463</u>	<u>158,600</u>
At 31 December 2004					
Cost	40,044	55,217	46,334	21,001	162,596
Accumulated depreciation	–	(5,754)	(13,854)	(3,187)	(22,795)
Net book value	<u>40,044</u>	<u>49,463</u>	<u>32,480</u>	<u>17,814</u>	<u>139,801</u>
Movements in net book value					
At 1 January 2005	40,044	49,463	32,480	17,814	139,801
Additions	–	4	9,579	407	9,990
Depreciation charged	–	(1,210)	(2,781)	(440)	(4,431)
Reclassification	–	(3,486)	9,164	7,684	13,362
Foreign exchange adjustment	(63)	(46)	(11)	(2)	(122)
At 31 December 2005	<u>39,981</u>	<u>44,725</u>	<u>48,431</u>	<u>25,463</u>	<u>158,600</u>

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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 2005				
Cost	20,169	13,388	60,216	93,773
Accumulated depreciation	(13,009)	(9,077)	(31,660)	(53,746)
Net book value	<u>7,160</u>	<u>4,311</u>	<u>28,556</u>	<u>40,027</u>
At 31 December 2004				
Cost	18,133	11,580	50,110	79,823
Accumulated depreciation	(12,922)	(8,127)	(25,090)	(46,139)
Net book value	<u>5,211</u>	<u>3,453</u>	<u>25,020</u>	<u>33,684</u>
Movements in net book value				
At 1 January 2005	5,211	3,453	25,020	33,684
Additions	2,351	1,808	14,489	18,648
Disposals	(34)	-	(5)	(39)
Written off	(17)	-	(75)	(92)
Depreciation charged	(351)	(950)	(7,237)	(8,538)
Reclassification	-	-	(3,618)	(3,618)
Foreign exchange adjustment	-	-	(18)	(18)
As at 31 December 2005	<u>7,160</u>	<u>4,311</u>	<u>28,556</u>	<u>40,027</u>

Included in the land and buildings of the Group are properties costing RM341,136 (2004: RM341,136) where the title deeds are pending issuance by the State Authority.

Certain property, plant and equipment of a subsidiary company with net book value totalling RM1,241,000 (2004: RM1,419,000) has been pledged as collateral for borrowings as explained in Note 22.

Borrowing costs of RM346,000 (2004: RM nil), incurred specifically for the construction of the Small Volume Injectable plant and purchase of related equipment were capitalised during the financial year.

11 INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	2005	2004
	RM'000	RM'000
Unquoted shares, at cost	191,024	112,518

Details of the subsidiary companies are as follows:

Name of company	Country of incorporation	Effective equity interest		Principal activities
		2005	2004	
		%	%	
Subsidiary companies				
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	70	Purchase, storage and distribution of pharmaceutical and medical products to government hospitals and private institutions
Pharmaniaga Solutions Sdn Bhd	Malaysia	100	100	Provision of information technology solutions and systems support services
Pharmaniaga Marketing Sdn Bhd	Malaysia	100	100	Trading and marketing of pharmaceutical and medical products
Pharmaniaga Research Centre Sdn Bhd	Malaysia	100	100	Conduct research and development of pharmaceutical products
Pharmaniaga Diagnostics Sdn Bhd	Malaysia	100	100	Temporarily ceased operations
Insurgress Sdn Bhd	Malaysia	100	100	Dormant
Safire Pharmaceuticals (M) Sdn Bhd	Malaysia	100	100	Manufacture and sale of pharmaceutical products

11 INVESTMENTS IN SUBSIDIARY COMPANIES (CONTINUED)

Name of company	Country of incorporation	Effective equity interest		Principal activities
		2005 %	2004 %	
Subsidiary companies (continued)				
Pharmaniaga International Corporation Sdn Bhd (formerly known as Esteem Interpoint Sdn Bhd)	Malaysia	100	100	Investment holding, trading and marketing of pharmaceuticals and medical products internationally
Pharmaniaga Pegasus (Seychelles) Co Ltd * #	Republic of Seychelles	100	—	Investment holding
Subsidiary company of Pharmaniaga Manufacturing Berhad				
Pharmaniaga Trading (M) Sdn Bhd	Malaysia	100	100	Temporarily ceased operations
Subsidiary companies of Pharmaniaga Logistics Sdn Bhd				
Pharmaniaga Medisystem Sdn Bhd	Malaysia	100	70	Temporarily ceased operations
Pharmaniaga Biomedical Sdn Bhd	Malaysia	100	70	Supply, trading and installation of medical and hospital equipment
Subsidiary company of Pharmaniaga International Corporation Sdn Bhd (formerly known as Esteem Interpoint Sdn Bhd)				
PT Millennium Pharmacon International Tbk *	Indonesia	55	55	Distribution and trading of pharmaceutical products, food supplements and diagnostic products

* The financial statements of these companies are audited by firms other than the auditors of the Company.

On 24 August 2005, the Company paid RM378,000 in cash to subscribe and pay in full the 100% equity interest in Pharmaniaga Pegasus (Seychelles) Co Ltd.

12 INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Unquoted shares at cost	2,754	2,754	2,629	1,219
Group's share of post acquisition losses	(2,610)	(2,610)	–	–
	144	144	2,629	2,629
Less: Accumulated impairment losses	(125)	–	(2,610)	–
	19	144	19	2,629

Details of these associated companies are as follows:

Name of company	Country of incorporation	Effective equity interest		Principal activities
		2005	2004	
		%	%	
Associated companies				
Pharmacare Asia Holdings (Cayman) Limited*	Cayman Island	49	49	Investment holding
Amcare Labs Malaysia Sdn Bhd	Malaysia	40	40	Reference laboratory testing services
Associated company of Pharmaniaga Logistics Sdn Bhd				
Rumpun Lagenda Sdn Bhd*	Malaysia	50	35	Inactive

* The financial statements of these companies are audited by firms other than the auditors of the Company.

Certain losses of an associated company of the Group are not recognised when they exceed the Group's cost of investment and advances as the Group has no further financial obligation beyond these exposures. The Group's cumulative share of such unrecognised losses based on the unaudited management accounts prepared up to 31 December 2004 of the associated company is as follows (financial statements for the year ended 2005 are not yet available):

	Group	
	2005	2004
	RM'000	RM'000
Current year share of losses	–	1,654
Cumulative share of losses	1,654	1,654

13 PROJECT DEVELOPMENT EXPENDITURE

	Group	
	2005	2004
	RM'000	RM'000
At cost	9,371	9,371
Less: Accumulated amortisation	(6,737)	(6,104)
	<u>2,634</u>	<u>3,267</u>

The project development expenditure is amortised over the concession period of 15 years as the expected related economic benefits of the cost are expected to accrue during that period.

14 GOODWILL

	Group	
	2005	2004
	RM'000	RM'000
At beginning of year	16,595	14,956
Arising from acquisition of additional interest in a subsidiary company (Note 31)	18,707	2,790
Arising from additional costs incurred in acquisition of a subsidiary company	493	–
Less: Amortisation charge	(4,175)	(1,151)
At end of year	<u>31,620</u>	<u>16,595</u>

15 INVENTORIES

	Group	
	2005	2004
	RM'000	RM'000
At cost:		
Raw materials	11,856	13,987
Packaging materials	2,309	3,063
Work-in-progress	1,775	6,821
Finished goods	145,287	102,223
	<u>161,227</u>	<u>126,094</u>
At net realisable value:		
Raw materials	329	–
Packaging materials	335	–
Finished goods	93	2,294
	<u>161,984</u>	<u>128,388</u>

Certain inventories of a subsidiary company have been pledged as collateral for borrowings as explained in Note 22.

16 TRADE RECEIVABLES

	Group	
	2005	2004
	RM'000	RM'000
Trade receivables	231,343	204,825
Less: Allowance for doubtful debts	(7,299)	(9,482)
	224,044	195,343
Amount due from customer on contract (Note 26)	4,134	–
	228,178	195,343

The credit terms of trade receivables range from 30 days to 120 days (2004: 30 days to 120 days).

Certain trade receivables of a subsidiary company has been pledged as collateral for borrowings as explained in Note 22.

17 OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Other receivables	24,090	15,258	26	7,372
Amount due from an associated company	1,284	1,062	157	427
	25,374	16,320	183	7,799
Less: Allowance for doubtful debts	(2,298)	(1,015)	(157)	–
	23,076	15,305	26	7,799
Represented by:				
Other debtors and prepayments	10,062	7,555	26	49
Deposit for acquisition of additional interest in a subsidiary company	–	7,750	–	7,750
Deposit for acquisition of shares in an associated company	13,014	–	–	–
	23,076	15,305	26	7,799

18 AMOUNTS DUE FROM/(TO) SUBSIDIARY COMPANIES

Amounts due from subsidiary companies are unsecured and comprise of:

	Company	
	2005	2004
	RM'000	RM'000
Current:		
Interest bearing	39,704	–
Interest free	23,768	28,188
	63,472	28,188
Non-current:		
Interest bearing	24,588	–
	88,060	28,188

Amounts due to subsidiary companies are unsecured and comprise of:

Current:		
Interest free	1,727	30,738

Current

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

The interest bearing portion of the amount due from a subsidiary company bears interest at rates ranging from 3.10% to 3.35% (2004: Nil) per annum.

Non-current

The interest bearing portion of the amount due from a subsidiary company relates to the funds extended by the Company for partial funding of construction cost of the Small Volume Injectable plant and purchase of related equipment undertaken by a subsidiary company.

This amount bears interest rates ranging from 3.5% to 3.7% (2004: Nil) per annum and repayable in full upon maturity of the Murabahah MTN facility (see Note 22).

19 AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from related companies arose from billings made under the hospital equipping contracts. The credit term extended to the related companies is 45 days.

The amounts due to related companies arose from expenses incurred for the upgrading and refurbishment work at the manufacturing plants. The credit terms of amounts due to related companies granted to the Group range from 30 days to 60 days.

20 FIXED DEPOSITS

Fixed deposits amounting to RM172,000 (2004: RM252,000) and RM1,040,000 (2004: RM1,923,000) of subsidiary companies have been pledged to licensed banks for credit facility granted to the subsidiary companies and as collateral for guarantees given to principals respectively.

During the year, the fixed deposits bear interest at rates ranging from 3.7% to 8.0% (2004: 2.4% to 8.0%) per annum.

21 TRADE PAYABLES

	Group	
	2005	2004
	RM'000	RM'000
Trade payables	235,310	201,798
Amounts due to customers on contracts (Note 26)	1,118	–
	236,428	201,798

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2004: 30 days to 150 days).

22 LOANS AND BORROWINGS

		Group		Company	
		2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000
Short term					
Unsecured:					
- Bankers' acceptance	(i)	48,419	28,736	–	–
- Murabahah Commercial Paper	(ii)	39,704	–	39,704	–
		88,123	28,736	39,704	–
Secured:					
- Foreign time loan	(iii)	–	6,843	–	–
- Foreign term loan	(v)	9,759	1,731	–	–
Sub-total		97,882	37,310	39,704	–
Add: Portion of long term borrowings due within 12 months		8,249	–	8,000	–
		106,131	37,310	47,704	–

22 LOANS AND BORROWINGS (CONTINUED)

		Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Long term					
Unsecured:					
- Murabahah Medium Term Notes	(ii)	24,588	—	24,588	—
Secured:					
- Term loan	(iv)	69,750	—	69,750	—
- Foreign Term Loan	(v)	565	887	—	—
		70,315	887	69,750	—
Sub-total		94,903	887	94,338	—
Less: Portion of long term borrowings due within 12 months					
Secured:					
- Term loan		(8,000)	—	(8,000)	—
- Foreign term loan		(249)	—	—	—
		(8,249)	—	(8,000)	—
Sub-total		86,654	887	86,338	—
Analysis of maturity of long term borrowings:					
- Within 1 year		8,249	—	8,000	—
- Between 1 and 2 years		32,989	414	32,788	—
- Between 2 and 5 years		53,665	473	53,550	—
		94,903	887	94,338	—

(i) Bankers' Acceptance

Bankers' acceptances bear interest rates which vary according to the prevailing market rates ranging from 3.5% to 3.9% (2004: 3.0% to 7.2%) per annum.

22 LOANS AND BORROWINGS (CONTINUED)**(ii) Murabahah Commercial Papers (“CP”) and Murabahah Medium Term Notes (“MTN”) Programme (“CP/MTN Programme”)**

On 24 November 2005 and 1 December 2005, the Company issued Murabahah MTN and Murabahah CP with total nominal values of RM25 million and RM40 million respectively. The issuance is part of the CP/MTN Programme comprising of the following:

Instruments	Total nominal value (RM million)	Purpose of issuance
Murabahah CP	40.0	- Working capital financing of a subsidiary company
Murabahah MTN	60.0	- Partial funding of the construction cost of the Small Volume Injectable plant and purchase of related equipment undertaken by a subsidiary company
		- Refinance a Bridging loan facility of up to RM30.0 million. The Bridging loan was extended as an interim financing facility pending the issuance of the Murabahah MTN
	<u>100.0</u>	

The Murabahah CP facility is available for 7 years from the date of the first issuance and shall be issued for maturities ranging from one (1) to twelve (12) months. The Murabahah CP issued during the year is subject to profits ranging from 3.10% to 3.35% (2004: Nil) per annum.

The Murabahah MTN facility is available for 5 years from the date of the first issuance and shall be issued with maturities ranging from one (1) to five (5) years, provided the final maturity of the MTN does not exceed the tenure of the facility. The MTN is subject to the following redemption schedule:

Anniversary date from 1st issue	Amount to be redeemed (RM million)	Limit available (RM million)
1st	—	60.0
2nd	15.0	45.0
3rd	15.0	30.0
4th	15.0	15.0
5th	15.0	—

The Murabahah MTN issued during the year is subject to profits ranging from 3.5% to 3.7% (2004: Nil) per annum.

All direct costs incurred for the Murabahah CP/MTN Programme amounting to RM212,000 are capitalised as future finance charges and deducted against the total borrowings. These costs will be charged to the income statement over the maturity periods of the financial instruments as appropriate.

22 LOANS AND BORROWINGS (CONTINUED)

(iii) Foreign time loan

In previous year, a subsidiary company had an outstanding time loan facility of Indonesian Rupiah 11 billion and an overdraft facility of Indonesian Rupiah 1 billion, both due on 3 October 2005, bearing interest at rates ranging from 13% to 14% per annum. These facilities were fully paid on 30 September 2005. These facilities were secured over certain property, plant and equipment, inventories and trade receivables of the subsidiary company.

(iv) Term loan

The term loan was drawn down to part finance the cost of acquisition of the remaining 30% equity interest in a subsidiary company during the financial year. The term loan that is secured over the unquoted shares of that subsidiary, is to be repaid over 15 quarterly instalments with the first instalment payment due on 30 September 2006.

The term loan bears an average interest rate of 4.45% per annum.

(v) Foreign term loan

The foreign short term loan bears interest at 17% (2004:18%) per annum. The foreign long term loan was for vehicle and building credit facilities, bearing interest at rates ranging from 15% to 19% per annum.

All foreign term loans are denominated in Indonesian Rupiah and are secured over certain property, plant and equipment, inventories and trade receivables of the subsidiary company.

23 SHARE CAPITAL

	Group and Company	
	2005	2004
	RM'000	RM'000
Authorised:		
300,000,000 ordinary shares of RM1 each	300,000	300,000
Issued and fully paid:		
Ordinary shares of RM1 each		
At beginning of year	101,927	100,576
Issue of shares under ESOS	5,025	1,351
At end of year	106,952	101,927

The principal features of the ESOS are as follows:

- Eligible employees and Executive Directors of the Company and its subsidiary companies can subscribe under the ESOS for new ordinary shares of RM1 each in the Company. The number of options granted is subject to the seniority and years of service of the respective eligible employees as provided under the ESOS Bye-Laws.
- The ESOS will expire on 3 July 2008. Any extension of time of the ESOS would have to be approved by the relevant authorities and shareholders of the Company in a general meeting. The Company in a general meeting may terminate the ESOS prior to the expiry date.

23 SHARE CAPITAL (CONTINUED)

- (c) The total number of shares to be offered under the ESOS shall not in aggregate exceed 10% of the total issued and paid up share capital of the Company at any point in time during the duration of the scheme.
- (d) The option price under the ESOS shall be based on the weighted average market price of the shares as shown in the daily official list issued by Bursa Malaysia Securities Berhad for the five (5) Market Days immediately preceding the date of offer subject to a discount of not more than ten per cent (10%) at the ESOS Committee's discretion, or at par value of the shares, whichever is higher.
- (e) The newly issued ordinary shares shall rank pari passu with the existing ordinary shares of the Company.

As at 31 December 2005, particulars of the outstanding options granted under the ESOS were as follows:

Date of offer	Option price RM	Number of option over ordinary shares of RM1.00 each				As at 31.12.2005
		As at 1.1.2005	Granted	Exercised	Lapsed	
4 July 2003	4.06	3,497,300	–	(3,228,000)	(269,300)	–
21 May 2004	4.64	809,350	–	(730,150)	(79,200)	–
1 November 2004	4.69	1,227,500	–	(1,066,340)	(161,160)	–
Total		5,534,150	–	(5,024,490)	(509,660)	–

Pursuant to the Notice of Mandatory Offer ("the Offer") made by Trinity Saga Sdn Bhd to the Company as mentioned in Note 32 (d), all employees who have been granted and have accepted the options under the ESOS were entitled to exercise all options held by them which were yet unexercised at the date the Offer was declared unconditional. Option that remained unexercised up until the close of the Offer automatically lapsed and became null and void and was no longer enforceable on the expiry of the Offer period.

The Company, however, may continue to grant new options under the ESOS to eligible employees until the expiry of the ESOS on 3 July 2008.

Details of share options exercised during the financial year:

Date of offer	Expiry date	Option price per ordinary share RM	Number of options exercised	Aggregate issue proceeds RM'000	Fair value at date of issue RM'000
4 July 2003	3 July 2008	4.06	3,228,000	13,106	14,558
21 May 2004	3 July 2008	4.64	730,150	3,388	3,760
1 November 2004	3 July 2008	4.69	1,066,340	5,001	5,556

The Company received proceeds of RM21,495,000 in respect of the 5,024,490 options exercised during the financial year. RM5,025,000 was credited to the share capital and RM16,470,000 was credited to the share premium account.

24 RESERVES

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Non-distributable:				
Share premium	22,372	5,902	22,372	5,902
Consolidation reserve	32,462	32,462	–	–
Exchange reserve	(1,101)	–	–	–
Distributable:				
Retained profits	156,972	144,553	13,287	12,597
Total reserves	<u>210,705</u>	<u>182,917</u>	<u>35,659</u>	<u>18,499</u>

25 DEFERRED TAXATION

The components and movements of deferred taxation during the financial year are as follows:

	Group	
	2005	2004
	RM'000	RM'000
Deferred tax assets	1,915	1,403
Deferred tax liabilities	(3,766)	(2,963)
	<u>(1,851)</u>	<u>(1,560)</u>
At beginning of year	(1,560)	(2,286)
(Charged)/credited to income statement		
- property, plant and equipment	(762)	(1,561)
- provisions	471	2,287
	<u>(291)</u>	<u>726</u>
	<u>(1,851)</u>	<u>(1,560)</u>
Deferred tax assets		
- property, plant and equipment	288	36
- provisions	2,803	2,332
	<u>3,091</u>	<u>2,368</u>
Offsetting	(1,176)	(965)
	<u>1,915</u>	<u>1,403</u>
Deferred tax liabilities		
- property, plant and equipment	(4,942)	(3,928)
Offsetting	1,176	965
	<u>(3,766)</u>	<u>(2,963)</u>

25 DEFERRED TAXATION (CONTINUED)

As at 31 December 2005, 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	
	2005	2004
	RM'000	RM'000
Deductible temporary differences	608	501
Unabsorbed capital allowances	1,865	1,231
Unutilised business losses	8,204	7,794
	10,677	9,526

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

The potential deferred tax assets of the Group have not been recognised in respect of these items as they cannot be used to offset against taxable profits of other subsidiary companies within Group and it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

26 AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONTRACTS

	Group	
	2005	2004
	RM'000	RM'000
Aggregate costs incurred to-date	11,133	–
Add: Attributable profit	1,741	–
	12,874	–
Less: Progress billings	(9,858)	–
	3,016	–
Amount due from a customer (Note 16)	4,134	–
Amounts due to customers (Note 21)	(1,118)	–
	3,016	–
Contract revenue recognised during the year	12,874	–
Contract costs recognised as expense during the year	11,133	–

27 CAPITAL COMMITMENTS

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

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Authorised and contracted for:				
- acquisition of property, plant and equipment	81,216	57,264	–	–
- acquisition of additional interest in a subsidiary company	–	69,750	–	69,750
- subscription of shares in an associated company	8,660	–	8,660	–
	89,876	127,014	8,660	69,750
Authorised but not contracted for:				
- acquisition of property, plant and equipment	6,584	40,067	–	–

28 CONTINGENT LIABILITIES - UNSECURED

	Company	
	2005	2004
	RM'000	RM'000
Corporate guarantee given to financial institution for credit facilities extended to a subsidiary company	9,759	–

29 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions during the financial year were as follows:

Name of company	Nature of transaction	Group	
		2005	2004
		RM'000	RM'000
Sale of goods and services			
UEM Construction Sdn Bhd +	Revenue from supply of medical equipment	7,851	45,744
UEM World Berhad +	Revenue from services rendered on on Computer Disaster Recovery Plan & Business Continuity Plan	176	–
UEM Builders Berhad +	Revenue from services rendered on Computer Disaster Recovery Plan & Business Continuity Plan	90	–
Kualiti Alam Sdn Bhd +	Revenue from services rendered on Computer Disaster Recovery Plan & Business Continuity Plan	46	–

29 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name of company	Nature of transaction	Group	
		2005 RM'000	2004 RM'000
Sale of goods and services (continued)			
Faber Medi-Serve Sdn Bhd +	Sale of disinfectant range of products	1,012	1,040
Purchase of goods and services			
UEM Construction Sdn Bhd +	Construction and engineering work	(11,719)	(8,284)
Gapima Sdn Bhd +	Transportation and freight forwarding expenses	(1,688)	(1,518)
UEM Group Management Sdn Bhd +	Training and administration expenses	(229)	(150)
Rasma Corporation Sdn Bhd *	Supply of sterilisers and associated equipment	(360)	(4,117)
Kualiti Alam Sdn Bhd +	Provision of scheduled waste treatment and disposal service	(209)	(306)
RZA – Taiun Sdn Bhd *	Provision of freight forwarding services	(107)	(154)

The Directors of the Company are of the opinion that the above transactions have been entered at:

- (i) arm's length and on normal commercial terms;
- (ii) terms not more favourable to the related parties than those generally available to the public; and
- (iii) not to the detriment of the minority shareholders.

+ Companies within the UEM World Group

* Companies where Dato' Raja Nong Chik bin Raja Zainal Abidin is a substantial shareholder and/or a director

30 SEGMENTAL REPORTING

(a) Primary reporting – Business segments

Group	Pharmaceutical manufacturing RM'000	Pharmaceutical trading, marketing, distribution and e-services RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2005						
Revenue						
External sales	8,011	898,278	30,142	–	–	936,431
Intersegment sales	106,731	28,345	–	22,800	(157,876)	–
	<u>114,742</u>	<u>926,623</u>	<u>30,142</u>	<u>22,800</u>	<u>(157,876)</u>	<u>936,431</u>
Results						
Segment results	<u>17,804</u>	<u>30,646</u>	<u>7,668</u>	<u>15,389</u>	<u>(18,732)</u>	<u>52,775</u>
Unallocated corporate expenses						(5,297)
Profit from operations						47,478
Interest expense	–	(3,330)	–	(2,436)	106	(5,660)
Interest income	–	254	–	106	(106)	254
Profit before taxation						42,072
Taxation						(12,938)
Profit after taxation						29,134
Minority interests						(2,232)
Net profit for the financial year						<u>26,902</u>
Other information						
Segment assets	214,376	553,238	65,226	109,404	(151,928)	790,316
Investments in associated companies	–	–	–	19	–	19
Unallocated corporate assets						7,543
Total consolidated assets						<u>797,878</u>
Segment liabilities	86,693	336,270	44,442	150,073	(151,928)	465,550
Unallocated corporate liabilities						5,123
Minority interests						9,548
						<u>480,221</u>

30 SEGMENTAL REPORTING (CONTINUED)**(a) Primary reporting – Business segments (Continued)**

Group	Pharmaceutical manufacturing RM'000	Pharmaceutical trading, marketing, distribution and e-services RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2005						
Other Information (continued)						
Capital expenditure on property, plant and equipments and intangible assets (including purchases through acquisition of subsidiary company)	<u>30,324</u>	<u>26,938</u>	<u>641</u>	<u>–</u>	<u>–</u>	<u>57,903</u>
Depreciation	<u>8,348</u>	<u>10,494</u>	<u>900</u>	<u>–</u>	<u>–</u>	<u>19,742</u>
Amortisation of project development expenditure	<u>–</u>	<u>633</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>633</u>
Amortisation of goodwill	<u>–</u>	<u>4,175</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,175</u>
Non cash expenses other than depreciation and amortisation	<u>546</u>	<u>2,477</u>	<u>–</u>	<u>291</u>	<u>–</u>	<u>3,314</u>

30 SEGMENTAL REPORTING (CONTINUED)

(a) Primary reporting – Business segments (Continued)

Group	Pharmaceutical manufacturing RM'000	Pharmaceutical trading, marketing, distribution and e-services RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2004						
Revenue						
External sales	10,121	703,478	86,392	–	–	799,991
Intersegment sales	93,587	32,421	–	26,110	(152,118)	–
	<u>103,708</u>	<u>735,899</u>	<u>86,392</u>	<u>26,110</u>	<u>(152,118)</u>	<u>799,991</u>
Results						
Segment results	<u>26,038</u>	<u>42,126</u>	<u>18,145</u>	<u>25,511</u>	<u>(25,036)</u>	<u>86,784</u>
Unallocated corporate expense						(560)
Profit from operations						86,224
Interest expense	–	(1,944)	–	–	–	(1,944)
Interest income	–	108	–	–	–	108
Share of results of associated company						(2,610)
Profit before taxation						81,778
Taxation						(18,705)
Profit after taxation						63,073
Minority interests						(12,238)
Net profit for the financial year						<u>50,835</u>
Other information						
Segment assets	171,347	435,168	72,931	27,644	(79,985)	627,105
Investments in associated companies	–	125	–	19	–	144
Unallocated corporate assets						3,490
Total consolidated assets						<u>630,739</u>
Segment liabilities	52,769	214,584	60,262	22,873	(79,985)	270,503
Unallocated corporate liabilities						8,755
Minority interests						66,637
						<u>345,895</u>

30 SEGMENTAL REPORTING (CONTINUED)**(a) Primary reporting – Business segments (Continued)**

Group	Pharmaceutical manufacturing RM'000	Pharmaceutical trading, marketing, distribution and e-services RM'000	Medical products and services RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
2004						
Other Information (continued)						
Capital expenditure on property, plant and equipments and intangible assets (including purchases through acquisition of subsidiary company)	22,962	13,326	33	–	–	36,321
Depreciation	7,005	9,215	1,100	–	–	17,320
Amortisation of project development expenditure	–	632	–	–	–	632
Amortisation of goodwill	–	1,151	–	–	–	1,151
Non cash expenses other than depreciation and amortisation	474	5,417	371	–	–	6,262

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.

Segment results, assets and liabilities include items directly attributable to the segments as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise tax payable, tax recoverable and deferred taxation.

Segment revenues, expenses and results also include transfers between segments. The prices charged on intersegment transactions are determined based on arm's length transactions. These transfers are eliminated on consolidation.

30 SEGMENTAL REPORTING (CONTINUED)

(a) Primary reporting – Business segments (Continued)

The main business segments and respective business activity of each segment of the Group are:

Business segment	Business activity
Pharmaceutical manufacturing	Manufacturing of pharmaceutical products.
Pharmaceutical trading, marketing, distribution and e-services	Purchasing, storage, distribution and marketing of pharmaceutical and medical products. Provision of information technology solutions and systems support services.
Medical products and services	Supply and installation of medical and hospital equipment.
Other operations	Investment holding.

(b) Secondary reporting - Geographical segments

Geographical markets	Revenue from external customers RM'000	Total segment assets RM'000	Capital expenditure incurred during the year RM'000
2005			
Malaysia	716,648	735,097	57,650
Indonesia	191,927	62,871	253
Other countries	27,856	–	–
	936,431	797,878	57,903
2004			
Malaysia	739,399	600,123	36,321
Indonesia	–	30,616	–
Other countries	60,592	–	–
	799,991	630,739	36,321

In determining the geographical segments of the Group, revenue is based on the country in which the customer is located. Total segment assets and capital expenditure incurred during the year are determined based on where the assets are located.

31 SUMMARY EFFECT OF ACQUISITIONS OF INVESTMENTS IN SUBSIDIARY COMPANIES

- (a) The Company completed the acquisition of the remaining 30% equity in Pharmaniaga Logistics Sdn Bhd (“PLSB”) on 31 March 2005. As a result, PLSB became a wholly-owned subsidiary of Pharmaniaga Berhad.

The acquisition in prior year refers to the acquisition of 55% equity interest in PT Millennium Pharmacon International Tbk (“MPI”) on 1 December 2004.

- (b) The effects of the acquisition of the remaining 30% equity interest in PLSB during the financial year and the acquisition of MPI in previous financial year on the financial position of the Group are shown below:

	Group	
	2005	2004
	RM'000	RM'000
Property, plant and equipment	20,894	1,831
Goodwill	4,055	–
Project development expenditure	932	–
Investment in associated company	38	–
Inventories	28,630	10,872
Trade receivables	73,432	12,368
Other receivables	10,645	2,135
Fixed deposits with a licensed bank	–	1,058
Cash and bank balances	1,808	2,352
Trade payables	(58,782)	(14,462)
Other payables	(3,083)	(838)
Bank borrowings	(17,610)	(5,204)
Provision to taxation	(2,059)	–
Deferred taxation	421	–
Net asset as at date of acquisition	59,321	10,112
Minority interests' share of net assets	–	8,273
Increase in Group's net assets	59,321	18,385

31 SUMMARY EFFECT OF ACQUISITIONS OF INVESTMENTS IN SUBSIDIARY COMPANIES (CONTINUED)

- (c) The details of net assets acquired, goodwill and cash flow as at the date of acquisition arising from the acquisition of additional investment in a subsidiary company during the financial year and acquisition of a subsidiary company in previous financial year are as follows:

	Group	
	2005	2004
	RM'000	RM'000
Property, plant and equipment	20,894	1,831
Goodwill	4,055	–
Project development expenditure	932	–
Investment in associated company	38	–
Inventories	28,630	10,872
Trade receivables	73,432	12,368
Other receivables	10,645	2,135
Fixed deposits with a licensed bank	–	1,058
Cash and bank balances	1,808	2,352
Trade payables	(58,782)	(14,462)
Other payables	(3,083)	(838)
Bank borrowings	(17,610)	(5,204)
Provision to taxation	(2,059)	–
Deferred taxation	421	–
Share of net assets as at date of acquisition	59,321	10,112
Goodwill on consolidation	18,707	2,790
Purchase consideration	78,028	12,902
Less: Cash and bank balances/fixed deposits acquired	–	(6,200)
Net cash used in acquisitions	78,028	6,702

- (d) The impact of acquisitions of investments in subsidiary companies on the cash flows of the Group and Company are as follows:

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Net cash used in acquisition of PT Millennium Pharmacon International Tbk	(493)	(6,702)	–	–
Net cash used in acquisition of 30% equity stake in Pharmaniaga Logistics Sdn Bhd	(70,278)	(7,750)	(70,278)	(7,750)
Incorporation of Pharmaniaga Pegasus (Seychelles) Co Ltd, a wholly-owned subsidiary with 2 fully paid-up ordinary shares of USD50,000 each	–	–	(378)	–
Increase in issued share capital of Pharmaniaga Research Centre Sdn Bhd	–	–	(100)	–
	<u>(70,771)</u>	<u>(14,452)</u>	<u>(70,756)</u>	<u>(7,750)</u>

32 SIGNIFICANT EVENTS

Significant events of the Group are as follows:

- (a) Proposed acquisition of the remaining 30% equity interest in Pharmaniaga Logistics Sdn Bhd (“PLSB”) from Kuala Lumpur Industries Holdings Berhad (“KLIH”), a wholly-owned subsidiary company of Equine Capital Berhad (“ECB”) for a cash consideration of RM77.5 million.

On 30 November 2004, the Company entered into a sale and purchase agreement to acquire the remaining 30% equity in PLSB. The Foreign Investment Committee on 4 February 2005, the shareholders of the Company on 21 March 2005, and the shareholders of ECB approved the acquisition on 21 March 2005. The acquisition was subsequently completed on 31 March 2005.

- (b) Acquisition of PT Millennium Pharmacon International Tbk

On 1 December 2004, Pharmaniaga International Corporation Sdn Bhd (“PICSB”) (formerly known as Esteem Interpoint Sdn Bhd) acquired 55% equity interest in an Indonesian company, listed on the Jakarta and Surabaya Stock Exchanges, PT Millennium Pharmacon International Tbk (“MPI”) for a cash consideration of approximately RM12.2 million. Pursuant to the provisions of Badan Pengawas Pasar Modal Rule No. IX.H.1, the Indonesian regulation on take-overs of open limited companies in Indonesia, PICSB had undertaken a tender offer exercise to acquire the remaining shares in MPI which not already owned by PICSB. The tender offer was closed on 31 January 2005 and two shareholders opted for the tender offer for 4,000 ordinary shares of Indonesian Rupiah 100 each at Indonesian Rupiah 80 per share which was completed on 15 February 2005.

- (c) Proposed Joint Venture in China

Further to the Memorandum of Understanding signed by the Company with China Worldbest Group Co. Ltd on 28 May 2004, the Company through its wholly-owned subsidiary, Pharmaniaga Pegasus (Seychelles) Co Ltd (“PPS”) entered into the following two agreements:

- (i) the Share Transfer and Capital Increase Agreement (“STACIA”) with Shanghai Worldbest Treeful Pharmaceutical (Group) Co Ltd (“SWTP”) and Shandong Changfu Jeijing Pharmaceutical Co Ltd on 8 September 2005; and
- (ii) the Equity Joint Venture Contract (“EJVC”) with SWTP on 25 October 2005.

Under both the STACIA and EJVC, PPS will subscribe 40% of the equity in Wuxi Worldbest Treeful Pharmaceutical Co Ltd (“WWTP”) for a total cash consideration of Chinese Renminbi 46,222,606 (or approximately RM21,674,000). As at 31 December 2005, PPS has paid up to 60% of the purchase consideration. The remaining 40% is due within 60 days after WWTP obtains the Operations License.

- (d) Mandatory Offer by Trinity Saga Sdn Bhd for ordinary shares in the Company

On 29 July 2005, Trinity Saga Sdn Bhd (“Trinity”), a wholly-owned subsidiary of UEM World Berhad issued a notice to the Company to inform the Company of its obligation to extend a mandatory offer (“the Offer”) in accordance with Section 6 (4) of the Malaysian Code of Take-Overs and Mergers 1998 for the following:

- (i) the remaining 55,099,144 ordinary shares of RM1.00 each representing 53.8% of the issued and paid up share capital of the Company as at 18 July 2005; and
- (ii) any new share in the Company that may be allotted and issued by the Company up to the close of the Offer following the exercise of the share options under the Companies ESOS.

32 SIGNIFICANT EVENTS (CONTINUED)

(d) Mandatory Offer by Trinity Saga Sdn Bhd for ordinary shares in the Company (continued)

The Offer was made subsequent to the acquisition by Trinity on 29 July 2005 of 16,268,188 shares in the Company representing 15.9% equity interest in the Company from Raza Sdn Bhd for total cash consideration of RM89,475,034 or RM5.50 per share. As a result of the acquisition, Trinity and UEM World Berhad became the beneficial owners of 46.2% equity interests in the Company.

The Offer became unconditional on 8 August 2005, when Trinity and UEM World Berhad increased their effective interest to 50.09% through purchase of the Company's shares in the open market.

At the close of the Offer on 2 November 2005, Trinity and UEM World Berhad held 77,591,743 shares in the Company representing 72.55% equity interest.

On 21 October 2005, the Company notified Bursa Malaysia Securities that the Company had not complied with the public spread requirement as stipulated under Paragraph 8.15(1) of the Listing Requirements of Bursa Securities when the Company's public shareholders stood at only 901, a shortfall of 99 shareholders from the required minimum number of 1,000. In accordance with Paragraph 8.15(3) of the Listing Requirements, the Company has a period of 6 months to 25 April 2006 to rectify the shortfall in the public shareholding spread.

As at 31 December 2005, the number of public shareholders was 752, holding 27.08% of the Company's shareholding equity interest.

33 MATERIAL LITIGATION

(a) Demand by Siemens Financial Services GmbH ("Siemens")

On 26 March 2004, two of the Company's subsidiary companies namely Pharmaniaga Logistics Sdn Bhd and Safire Pharmaceuticals (M) Sdn Bhd ("Safire"), were served with letter of demand by Siemens claiming for payment amounting to USD12.0 million for an alleged dishonour of payment for ten (10) promissory notes of USD1.2 million each.

No civil suit has been filed in respect of this matter and the subsidiary companies have refuted the demand based on the fact that the promissory notes were invalid and forged.

The Board of Directors of Pharmaniaga, upon consultation with the solicitors is of the opinion that subsidiary companies' position is defensible and this amount has not been provided for in the financial statements as the Directors are of the opinion that the likelihood of the event to be in favour of Siemens is remote.

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

On 28 December 2004, Safri bin Nawawi ("Safri") and Hamimah binti Idrus ("Hamimah") have commenced an action by way of counterclaims against the Company and its subsidiary, Safire in a legal suit originally filed by Danaharta Urus Sdn Bhd ("Danaharta") against Safri and Hamimah. The Company and Safire are named as the 4th Defendant respectively in both Counterclaims and the Company had filed its Memorandum of Appearance in Court in respect of the said counterclaim.

In the original claim, Danaharta is claiming the sum of RM34,637,871 against Safri and Hamimah being the amount due and owing by them as guarantors for Safire under a non performing loan.

33 MATERIAL LITIGATION (CONTINUED)

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

By way of defence and Action by Counterclaim, Safri and Hamimah alleged that there was lack of transparency and accountability on Danaharta's part when the business of Safire was sold to the Company purportedly at an undervalued price. In this regards, Safri and Hamimah are seeking, amongst other things, an order that the sale of business and shares of Safire to the Company be set aside.

The Company and Safire both filed 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 Company's application to strike out the Counterclaim by Safri and Hamimah are pending in Court as there are other various interlocutory applications which have yet to be disposed of. The matter is currently fixed for hearing on 27 March 2006.

The Company has appointed solicitors to advise and represent the Company and Safire on the appropriate course of action and the Board of Directors, upon consultation with the solicitors are of the opinion that the Counterclaim is without merit and the possibility of the case to be not in favour of the Company and Safire is remote.

34 FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group has a written risk management framework which sets out their overall business strategies, their tolerance to risk and has established processes to monitor and control the risks. Such framework is approved by the Board of Directors and quarterly reviews are undertaken as required.

The main areas of financial risk faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:

(a) Foreign currency risk

The Group is exposed to foreign currency transactions as a result of its subsidiary companies' normal operating activities. The Group's policy is to minimise its foreign currency exposure by entering into contracts in Ringgit Malaysia or US Dollar denomination where possible. The exposure in Indonesian Rupiah arose from the subsidiary company's operations in that country.

The financial assets and liabilities of the Company are denominated in Ringgit Malaysia. The currency exposure of financial assets and financial liabilities of the Group that are not denominated in its functional currency is set out below:

	Currency exposure at 31.12.2005			
	US Dollar RM'000	Euro RM'000	Singapore Dollar RM'000	Others RM'000
Trade receivables	2,507	–	–	–
Deposits, bank and cash balances	555	–	–	–
Trade payables	(3,270)	(132)	(1)	–
Other payables	(4)	(6)	(12)	(71)*
	<u>(212)</u>	<u>(138)</u>	<u>(13)</u>	<u>(71)</u>

34 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(a) Foreign currency risk (continued)

	Currency exposure at 31.12.2004			
	US Dollar RM'000	Euro RM'000	Singapore Dollar RM'000	Others RM'000
Trade receivables	7,631	–	–	–
Deposits, bank and cash balances	28	–	–	–
Trade payables	(4,180)	(90)	–	–
Other payables	(2)	(106)	(269)	(28)*
	<u>3,477</u>	<u>(196)</u>	<u>(269)</u>	<u>(28)</u>

* Balances denominated in Sterling Pound and Australian Dollar

(b) Interest rate risk

The Group's policy is to borrow principally on fixed rate borrowings. This reduces the impact of an upward change in interest rates.

(c) Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Furthermore, sales to customers other than government institutions and related agencies are suspended when earlier amounts are overdue by more than 120 days. The Group considers the risk of material loss in the event of non-performance by customers to be unlikely.

The Group has a substantial concentration of credit risk with its customers under the concession contract. 67% (2004: 47%) of trade receivables at the balance sheet date was from Ministry of Health. However, majority of the amount has been paid since the end of the financial year to the date of this report.

(d) Market risk

For key product purchases, the Group establishes negotiated price levels that the Group considers acceptable and enters physical supply agreements to achieve these levels and secure contracts with suppliers for a fixed period of time. The Group does not face significant exposure to the risk in price level changes.

(e) Liquidity and cash flow risks

The Group seeks to achieve a balance between certainty of funding and a flexible, cost-effective borrowing structure even in difficult times for the markets or the Group. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance.

35 FAIR VALUE

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:

	2005		2004	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Group				
Financial liabilities				
Loans and borrowings	<u>86,654</u>	<u>81,038</u>	<u>887</u>	<u>653</u>
Company				
Financial asset				
Amount due from subsidiary company	<u>24,588</u>	<u>22,593</u>	<u>–</u>	<u>–</u>
Financial liabilities				
Loans and borrowings	<u>86,338</u>	<u>80,783</u>	<u>–</u>	<u>–</u>

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 February 2006.

Properties of the Group

Property list as at 31 December 2005

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 31/12/2005 (RM'000)	Date of Revaluation/ Acquisition
Lot PT 46016, H.S.(D)87359 Mukim of Kapar, Klang Selangor Darul Ehsan <i>Industrial Premises:</i> No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam Selangor Darul Ehsan	A parcel of industrial land with a detached industrial building comprising a 3-storey office annexed at the front, a single storey office building, automated storage retrieval system (ASRS) warehouse, a surau, a guard house and an inflammable store	23,594	Freehold	11	32,083	14 March 2005
Lot PT 46016, H.S. (D) 87359 Mukim of Kapar, Klang Selangor Darul Ehsan <i>Industrial Premises:</i> No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 40000 Shah Alam Selangor Darul Ehsan	A parcel of industrial land with a single storey laboratory building, a chiller plant building and a guard house	17,414	Freehold	8	16,189	14 March 2005
Geran 44309, Geran 44310 and Geran 44311 of Lots 7, 8 and 9 of Mukim Pekan Puchong Perdana and District of Petaling Selangor Darul Ehsan	3 parcels of contiguous freehold industrial land where a building is under construction on one parcel of land	71,298	Freehold	5	24,050	21 August 2001
Lot PT 1157, H.S (M) 9726 Mukim of Kajang Hulu Langat Selangor Darul Ehsan <i>Factory:</i> No 11A, Jalan P/1 Kawasan Perusahaan Bangi 43650 Bandar Baru Bangi Selangor Darul Ehsan	A parcel of industrial land with 3 industrial buildings, an office/workshop, a canteen, A TNB sub-station and a guard house	12,141	Leasehold of 99 years, expiring on 29 September 2086	20	37,963	28 August 1991
Lot 1024, Block 7, Muara Tebas Land District of Kuching Sarawak <i>Industrial Premises:</i> 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	9	7,767	3 November 2004

Properties of the Group (continued)

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 31/12/2005 (RM'000)	Date of Revaluation/ Acquisition
Country Lease 015377554 Kota Kinabalu, Sabah	A parcel of industrial land with a 2-storey office, warehouse and a guard house	6,111	Leasehold of 66 years expiring on 21 December 2033	3 / 32	4,971	21 January 2002
<i>Industrial Premises:</i> Lorong Kurma Kolombong Industrial Centre KM 9, Off Jalan Tuaran 88450 Kolombong Kota Kinabalu Sabah						
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	3 contiguous 1 1/2 semi detached warehouses with office	2,175	Freehold	8	1,369	11 November 1998
<i>Industrial Premises:</i> Nos. 1,3 & 5 Lorong IKS Juru 8 ,Taman Perindustrian Ringan Juru, Seberang Prai Pulau Pinang						
Flat Nos. 401-405 3rd Floor Block 5 Jalan Bandar 43650 Bandar Baru Bangi Selangor Darul Ehsan	5 units of 2-bedroom flat for staff lodging	296	Leasehold of 99 years, expiring on 31 March 2095	12	74	10 June 1993 and 19 July 1995
Flat Nos. 501,503 505 and 507 4th Floor Block 10 Jalan 6C/11 Section 16 Bandar Baru Bangi Selangor Darul Ehsan	4 units of 2-bedroom flat for staff lodging	262	Leasehold of 99 years, expiring on 31 March 2095	10	49	11 June 1993
Lot PT 10908, H.S. (M) 9124 Mukim of Kajang Hulu Langat Selangor Darul Ehsan	A 2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	19	34	4 September 1987
<i>House:</i> No 5 Jalan 4/4E, Section 4 Bandar Baru Bangi Selangor Darul Ehsan						

Properties of the Group (continued)

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 31/12/2005 (RM'000)	Date of Revaluation/ Acquisition
Lot PT 10911, H.S. (M) 9127 Mukim of Kajang Hulu Langat Selangor Darul Ehsan	A 2-storey intermediate house for staff lodging	128	Leasehold of 99 years, expiring on 3 September 2086	19	34	4 September 1987
House: No 11 Jalan 4/4E, Section 4 Bandar Baru Bangi Selangor Darul Ehsan						
PN 169249, Lot 278 Bandar Seri Iskandar Perak Tengah Perak Darul Ridzuan	A parcel of industrial land with a detached industry building comprising a 2-storey office building, a surau, a canteen, warehouses, penicillin and non-penicillin production plant buildings, a laboratory building, a chiller plant building, a boiler house, a TNB substation and a guardhouse	28,795	Leasehold of 99 years, expiring on 31 March 2100	5	10,464	14 March 2001
PN 169248, Lot 277 Bandar Seri Iskandar Perak Tengah Perak Darul Ridzuan		14,707	Leasehold of 99 years, expiring on 31 March 2100	5	5,344	14 March 2001
PN 169247, Lot 276 Bandar Seri Iskandar Perak Tengah Perak Darul Ridzuan		17,252	Leasehold of 99 years, expiring on 31 March 2100	5	6,269	14 March 2001
Industrial Premises: Lot 120, Taman Farmasiutikal 32600 Bandar Baru Seri Iskandar Perak Darul Ridzuan						
Blok D.20 & 21 Ruko Grand Mal Bekasi	Shop Lots	408/136	Leasehold 20 years to 24 September 2013	8	182,439	13 October 2003
Jalan Depsos 67-70 Bintaro Jaksel	Office and warehouse	1,138/2,432	Leasehold 30 years to 9 December 2027	13	1,463,158	14 January 1999
Apartmen Permata Eksekutif Jalan Pos Pengumben Raya Jak-Bar	Shop Lots	145/145	Leasehold 20 years to 2015	6	339,471	6 May 2004
Jalan Kalibokor Selatan 152 Surabaya	Office and warehouse	820/1,132	Leasehold 5 years to 30 June 2010 (in progress to extend)	20	63,863	4 November 1971

Analysis of Shareholdings as at 15 March 2006

SHARE CAPITAL

Authorised Share Capital	:	RM300,000,000 divided into 300,000,000 ordinary shares of RM1.00 each
Issued and Fully Paid-up Capital	:	RM106,951,988 divided into 106,951,988 ordinary shares of RM1.00 each
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	On a show of hands – One vote for every member present On a poll – One vote for every ordinary share held

SHAREHOLDINGS DISTRIBUTION

No. of Shareholders	Size of Shareholdings	No. of Shares Held	% of shares
21	Less than 100 shares	415	*1
227	100 to 1,000 shares	186,900	0.17
447	1,001 to 10,000 shares	1,567,400	1.47
53	10,001 to 100,000 shares	1,394,500	1.30
17	100,001 to less than 5% of issued shares	16,023,030	14.98
3	5% and above of the issued shares	87,779,743	82.07
768	TOTAL	106,951,988	100.00

Note *1 : Less than 0.01%

THIRTY LARGEST SECURITIES ACCOUNT HOLDERS as per the Register of Depositors

No.	Name of Shareholders	No. of Shares Held	Percentage (%)
1.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB For Trinity Saga Sdn Bhd (Banking)	46,611,277	43.58
2.	CIMSEC Nominees (Tempatan) Sdn Bhd - CIMB For UEM World Berhad (Banking)	30,980,466	28.97
3.	Employees Provident Fund Board	10,188,000	9.53
4.	Amanah Raya Nominees (Tempatan) Sdn Bhd - Skim Amanah Saham Bumiputera	4,304,400	4.02
5.	Align Industries Sdn Bhd	2,922,330	2.73
6.	Amanah Raya Nominees (Tempatan) Sdn Bhd - Amanah Saham Didik	2,494,200	2.33
7.	Rosley Bin Abdul Rahman	1,340,000	1.25
8.	Amanah Raya Nominees (Tempatan) Sdn Bhd - Amanah Saham Wawasan 2020	1,244,500	1.16
9.	Amanah Raya Nominees (Tempatan) Sdn Bhd - Sekim Amanah Saham Nasional	962,500	0.90
10.	Hong Leong Fund Management Sdn Bhd - Hong Leong Bank Berhad	599,700	0.56

THIRTY LARGEST SECURITIES ACCOUNT HOLDERS as per the Register of Depositors (continue)

No.	Name of Shareholders	No. of Shares Held	Percentage (%)
11.	MCIS Zurich Insurance Berhad	538,700	0.50
12.	A.A. Assets Nominees (Tempatan) Sdn Bhd - Avenue Invest Berhad For Kumpulan Wang Amanah Pencen	365,000	0.34
13.	Hong Leong Fund Management Sdn Bhd - Hong Leong Assurance Bhd (Life)	225,000	0.21
14.	MCIS Zurich Insurance Berhad	190,000	0.18
15.	HSBC Nominees (Asing) Sdn Bhd - HSBC-FS For Gavekal Asian Balanced Fund	170,000	0.16
16.	Hong Leong Fund Management Sdn Bhd - Hong Leong Assurance Bhd (Non-Life)	150,000	0.14
17.	MCIS Zurich Insurance Berhad	147,700	0.14
18.	Hong Leong Fund Management Sdn Bhd - Hong Leong Foundation	130,000	0.12
19.	Mayban Nominees (Tempatan) Sdn Bhd - Pledged Securities Account For Au Kwan Seng	123,000	0.12
20.	Teng Wee Eng	116,000	0.11
21.	Wong Nyet Lan	90,000	0.08
22.	RHB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account For Sleuths Holdings Sdn Bhd	80,000	0.07
23.	Royal & Sun Alliance Insurance (M) Bhd	80,000	0.07
24.	Malaysia Nominees (Tempatan) Sendirian Berhad - Pledged Securities Account For Melval Holdings Sdn Bhd	57,000	0.05
25.	Loh Kee Ming	50,700	0.05
26.	Amanah Raya Nominees (Tempatan) Sdn Bhd - Amanah Saham Gemilang For Amanah Saham Pendidikan	50,000	0.05
27.	Teng Wee Eng	48,000	0.04
28.	Pang Tee Chew	40,000	0.04
29.	Yap Ah Mooi	40,000	0.04
30.	HDM Nominees (Tempatan) Sdn Bhd - Pledged Securities Account For Goldinas Sdn Bhd	40,000	0.04
TOTAL		104,378,473	97.58

SUBSTANTIAL SHAREHOLDERS (As per the Register of Substantial Shareholders)

No.	Name of Substantial Shareholders	Direct	No. of shares held		%
			%	Indirect	
1.	United Engineers (Malaysia) Berhad	–	–	77,591,743 ¹	72.55
2.	Khazanah Nasional Berhad	–	–	77,591,743 ²	72.55
3.	Trinity Saga Sdn Bhd	46,611,277	43.58	–	–
4.	UEM World Berhad	30,980,466	28.97	46,611,277 ³	43.58
5.	Employees Provident Fund Board	10,188,000	9.53	–	–

Notes:

- 1 Deemed interested by virtue of being holding company of UEM World Berhad which in turn is a holding company of Trinity Saga Sdn Bhd
- 2 Deemed interested by virtue of being the holding company of United Engineers (Malaysia) Berhad
- 3 Deemed interested by virtue of being the holding company of Trinity Saga Sdn Bhd

168

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

Name of Directors	Direct	No. of shares held		%
		%	Indirect	
Dato' Mohamed Azman Bin Yahya	–	–	10,000 ¹	0.01
Dato' Ahmad Pardas Bin Senin	–	–	–	–
Datuk Sulaiman Bin Daud	–	–	–	–
Dato' Prof. Ir. Dr. Mohammad Noor Bin Salleh	–	–	–	–
Dato' Raja Nong Chik Bin Raja Zainal Abidin	27,000	0.03	2,000 ²	– ²
Azhar Bin Hussain	32,000	0.03	–	–
Ismael Fariz Bin Ali	–	–	–	–
Oh Kim Sun	–	–	177,000 ³	0.17

Notes:

- 1 Deemed interested by virtue of his spouse, Datin Normah Binti Tan Sri Hashim's shareholding in Pharmaniaga Berhad
- 2 Deemed interested by virtue of his sister in law, Nor Akmar Binti Mohd Jarjis's shareholding in Pharmaniaga Berhad – Less than 0.01%
- 3 Deemed interested by virtue of his associate companies' shareholding in Pharmaniaga Berhad. 80,000 ordinary shares were held through Sleuths Holdings Sdn Bhd, 57,000 ordinary shares were held through Melval Holdings Sdn Bhd and 40,000 ordinary shares were held through Goldinas Sdn Bhd

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of PHARMANIAGA BERHAD (467709-M) (“the Company”) will be held at the Ballroom, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail 50250 Kuala Lumpur on Thursday, 18 May 2006 at 3.00 p.m. for the purpose of transacting the following businesses:

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2005 together with the Reports of the Directors and the Auditors thereon. **(Resolution 1)**
2. To declare a Final Tax Exempt Dividend of 11.5 sen per ordinary share in respect of the financial year ended 31 December 2005 as recommended by the Directors. **(Resolution 2)**
3. To re-elect the following Directors who retire in accordance with Article 88 of the Company’s Articles of Association and, being eligible, offer themselves for re-election:
 - i) Datuk Sulaiman Bin Daud **(Resolution 3)**
 - ii) Encik Azhar Bin Hussain **(Resolution 4)**
4. To re-elect as Director, Mr Oh Kim Sun who retires pursuant to Article 94 of the Company’s Articles of Association and, being eligible, offer himself for re-election. **(Resolution 5)**
5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors for the ensuing year and to authorise the Directors to fix their remuneration. **(Resolution 6)**

AS SPECIAL BUSINESS

6. **PAYMENT OF DIRECTORS’ FEES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**
“**THAT**, the payment of the Directors’ Fees amounting to RM258,000 in respect of the financial year ended 31 December 2005 be approved.” **(Resolution 7)**
7. **AUTHORITY TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT 1965**
“**THAT**, pursuant to Section 132D of the Companies Act, 1965 and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue and allot shares of the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit, provided that the aggregate number of shares issued pursuant to this resolution shall not exceed ten per centum (10%) of the total issued capital of the Company and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.” **(Resolution 8)**

8. PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE AS SPECIFIED IN SECTION 2.2 OF THE CIRCULAR TO SHAREHOLDERS DATED 26 APRIL 2006

"THAT, subject always to the Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the Company and its subsidiaries ("Pharmaniaga Group") to enter into and give effect to specified recurrent transactions of a revenue or trading nature of the Group with specified classes of Related Parties (as defined in the Listing Requirements of Bursa Malaysia Securities Berhad and as specified in Section 2.2 of the Circular to Shareholders dated 26 April 2006) 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 detrimental 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:

- (i) 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
- (ii) 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
- (iii) 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 9)**

9. To transact any other business for which due notice shall have been given. **(Resolution 10)**

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS ALSO HEREBY GIVEN that subject to the approval of the shareholders at the forthcoming Eighth Annual General Meeting, a Final Tax Exempt Dividend of 11.5 sen per share will be paid on 28 June 2006 to the shareholders whose names appear in the Record of Depositors at the close of business on 6 June 2006.

A depositor shall qualify for entitlement only in respect of:-

- a) shares transferred to the depositor's securities account before 4.00 p.m. on 6 June 2006 in respect of ordinary transfers; and
- b) shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board
PHARMANIAGA BERHAD

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

26 April 2006
Kuala Lumpur

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 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 authorized 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 authorized 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 Registered Office of the Company at 1st Floor, Bangunan MCOBA, No. 42, Jalan Syed Putra, 50460 Kuala Lumpur at least forty eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise the person so named shall not be entitled to vote in respect thereof. The Annual Report and Form of Proxy are available for access and download at the Company's website at www.pharmaniaga.com

Explanatory Notes on Special Business

Ordinary Resolution 7

The proposed Ordinary Resolution 7, if passed, will authorise the payment of Directors' fees pursuant to Article 76 of the Articles of Association.

Ordinary Resolution 8

Resolution pursuant to Section 132D of the Companies Act, 1965

The proposed Ordinary Resolution 8, if passed, will empower the Directors of the company to issue and allot up to a maximum of 10% of the issued share capital of the Company from time to time as 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.

Ordinary Resolution 9

The proposed Ordinary Resolution 9, if passed, will authorise the Company and 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 of the Circular to Shareholders dated 26 April 2006 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.

Statement Accompanying Notice of Annual General Meeting

Statement Accompanying Notice of the Eighth Annual General Meeting pursuant to paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad – particulars of Directors seeking re-election at the Annual General Meeting.

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

(a) Directors retiring pursuant to Article 88 of the Articles of Association:-

- Datuk Sulaiman Bin Daud
- Azhar Bin Hussain

(b) Director retiring pursuant to Article 94 of the Articles of Association:

- Oh Kim Sun

2. BOARD MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

A total of (11) meetings were held during the financial year ended 31 December 2005 in which (8) were Ordinary Board meetings while the other three (3) were Special Board meetings.

Date	Time	Venue
19 January 2005	3.00 p.m.	Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
23 February 2005	9.30 a.m.	Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
14 March 2005	9.30 a.m.	Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
18 May 2005	3.00 p.m.	Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
28 June 2005	3.00 p.m.	Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
30 July 2005	9.30 a.m.	Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
18 August 2005	9.45 a.m.	Board Room, Pharmaniaga Manufacturing Berhad, 11A, Jalan P/1, Kawasan Perusahaan Bangi, 43650 Bandar Baru Bangi, Selangor Darul Ehsan
7 October 2005	9.00 a.m.	Dewan Putra Perdana 1, Level 1, Putrajaya Shangri-la, Taman Putra Perdana, Presint 1, 62000 Wilayah Persekutuan, Putrajaya

2. BOARD MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (Continued)

Date	Time	Venue
18 October 2005	2.00 p.m.	Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
21 November 2005	8.00 p.m.	Sentral Board Room, 6th Floor, Hilton Kuala Lumpur, 3, Jalan Stesen Sentral, 50470 Kuala Lumpur
12 December 2005	3.15 p.m.	Board Room, UEM World Berhad, Penthouse, MCOBA Building, No. 42, Jalan Syed Putra, 50460 Kuala Lumpur

3. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

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

Name of Director	Number of meetings attended	Percentage of attendance (%)
Dato' Mohamed Azman bin Yahya	11/11	100.00
Datuk Sulaiman bin Daud	11/11	100.00
Azhar bin Hussain	11/11	100.00
Dato' Ahmad Pardas bin Senin	9/11	81.82
Dato' Raja Nong Chik bin Raja Zainal Abidin	9/11	81.82
Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Salleh	11/11	100.00
Ismael Fariz bin Ali	11/11	100.00
Oh Kim Sun	1/1(a)	100.00

(a) Only one (1) board meeting held since his appointment on 12 December 2005.

4. DATE, TIME AND PLACE OF THE ANNUAL GENERAL MEETING

Date : Thursday, 18 May 2006

Time : 3.00 p.m.

Place : Ballroom, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur

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

Details of the Directors who are standing for re-election are set out in the Directors' Profile appearing on pages 18 to 23 of the Annual Report.

PHARMANIAGA BERHAD (467709-M)
(Incorporated in Malaysia)

FORM OF PROXY

No. of Shares	CDS Account Number

I/We, _____
(FULL NAME IN BLOCK LETTERS)

of _____

being a member/members of PHARMANIAGA BERHAD hereby appoint _____

(FULL NAME IN BLOCK LETTERS)

of _____

(ADDRESS)

or failing him/her, _____

(FULL NAME IN BLOCK LETTERS)

of _____

(ADDRESS)

or failing him/her the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Eighth Annual General Meeting of the Company to be held at the **Ballroom, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail 50250 Kuala Lumpur** on **Thursday, 18 May 2006 at 3.00 p.m.** and at any adjournment thereof.

I/We desire to vote as the Resolution set out in the Notice of Meeting and summarised below as indicated with an "X" in the appropriate space.

No.	Ordinary Resolution	For	Against
1.	To receive the Audited Financial Statements for the year ended 31 December 2005 together with the Report of the Directors and Auditors thereon.		
2.	Declaration of a Final Tax Exempt dividend of 11.5 sen per ordinary share in respect of the financial year ended 31 December 2005 as recommended by the Directors.		
3.	Re-election of Datuk Sulaiman Bin Daud as Director.		
4.	Re-election of Azhar Bin Hussain as Director.		
5.	Re-election of Oh Kim Sun as Director.		
6.	Re-appointment of Messrs. PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration.		
7.	Payment of Directors' Fees for the financial year ended 31 December 2005.		
8.	Authority to issue shares pursuant to Section 132D of the Companies Act, 1965.		
9.	Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature as specified in Section 2.2 of the Circular to Shareholders dated 26 April 2006.		

Dated this _____ day of _____ 2006.

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 the provision of Section 149(1)(b) of the Companies Act, 1965 need not be complied with.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if the appointor is a corporation, under its common seal or signed by its attorney or by an officer on behalf of the corporation.
3. Where a member of the Company is an authorised nominee as defined under the Central Depositories Act 1991, he may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited at the Registered Office of the Company at 1st Floor, Bangunan MCOBA No. 42, Jalan Syed Putra, 50460 Kuala Lumpur at least forty eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise the person so named shall not be entitled to vote in respect thereof. The Annual Report and Form of Proxy are available for access and download at the Company's website at www.pharmaniaga.com

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STAMP

The Company Secretary
PHARMANIAGA BERHAD (467709-M)

1st Floor, Bangunan MCOBA,
No 42, Jalan Syed Putra
50460 Kuala Lumpur

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