

2007
ANNUAL
REPORT



NAVIGATING ON A NEW DETERMINATION

pharmaniaga





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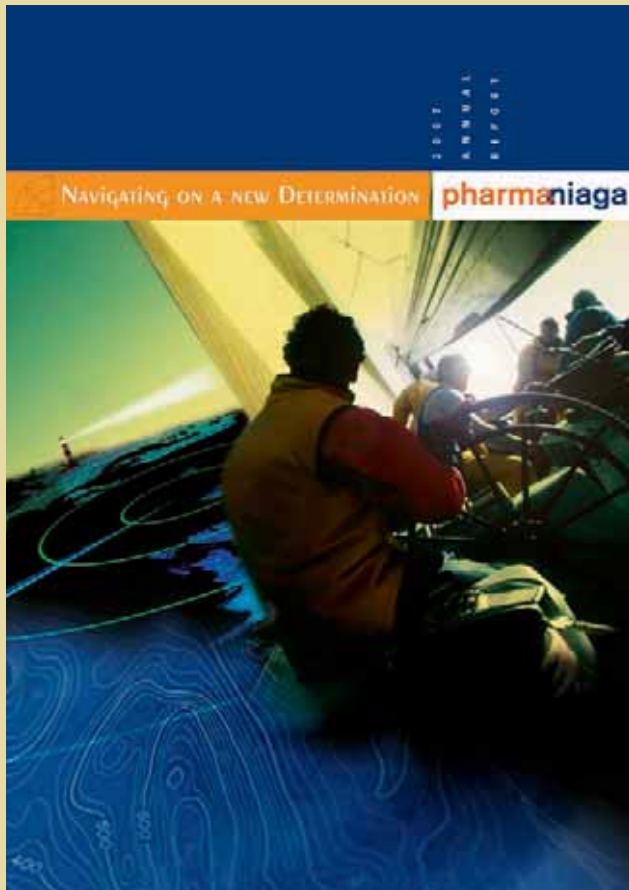
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COVER RATIONALE



Navigating on a New Determination

The cover depicts Pharmaniaga's intent to reset the parameters of its corporate mast to embark on a new voyage of possibilities. With renewed commitment, enhanced skills and a positive work culture, it aspires to be on the leading edge of the healthcare industry.

Steering along innovative routes and maintaining sustainable strategies, we are determined to achieve improved returns and make meaningful contributions to the wellbeing of the people around us.

CORPORATE FRAMEWORK



Vision, Mission AND Company Profile

VISION

Pharmaniaga to be the preferred brand in healthcare, in the markets we choose to serve.

MISSION

To deliver maximum value to our customers through superior quality products and services by committed, professional and caring employees.

PHARMANIAGA GROUP AT A GLANCE

Pharmaniaga, an investment holding company incorporated on 21 August 1998, was the first local healthcare company to be listed on Bursa Malaysia Securities Berhad (Bursa Malaysia). Pharmaniaga was listed on the Second Board of the Bursa Malaysia on 12 November 1999 with a paid up capital of RM50 million and migrated to the Bursa Malaysia's Main Board on 13 March 2003 with an increased paid up capital of RM100 million.

Pharmaniaga, one of the largest integrated local healthcare companies, is focused on pharmaceutical industry and its main principal activities include research and development and manufacturing of generic pharmaceuticals; logistics and distribution; sales and marketing; supply of medical products and services; and hospital equipping to the public and private sectors. Since its incorporation, Pharmaniaga has played a fundamental role in improving the quality of life of Malaysian citizens.

Pharmaniaga is also a member of the UEM Group, which gives it the status of a Government Linked Company (GLC). Its wholly owned subsidiary, Pharmaniaga Logistics Sdn Bhd holds a 15-year concession to supply and distribute pharmaceutical and medical products to hospitals and medical institutions under the Ministry of Health (MOH), Malaysia.

Pharmaniaga continues to remain focused in its core business of generic pharmaceutical and maintain its leadership mainly in the public sector and is

committed to its goal of being a one-stop healthcare centre in Malaysia. The Group's growth strategy remains unchanged and that is to continue to deliver value to its customers, increase its market share through organic growth and enhance shareholder value through strong and consistent financial performance and efficient capital management.

Pharmaniaga has also ventured beyond the local borders to capture the vast global opportunities. To take advantage of this, Pharmaniaga has acquired a 55% stake in an Indonesian distribution company, PT Millennium Pharmacon International Tbk (MPI) in December 2004. MPI currently handles 17 principals and this number is growing. To date, MPI has 25 branches, six sub distributors and nine sales stations. MPI is an independent distributor, with no affiliation to any pharmaceutical manufacturing company in Indonesia, unlike other distributors in Indonesia.

Apart from direct investments, Pharmaniaga has also set up a marketing office in Vietnam and a wide array of its products can also be found in countries such as Brunei, Indonesia, Singapore, Papua New Guinea, Fiji, Myanmar, Cambodia, Hong Kong, Philippines, Zimbabwe, Sudan, Sri Lanka, Kenya, Iraq and Macau.

The Group now has almost 2,000 well trained and committed employees who have the capability of delivering strong organic growth as experienced by the Group in the past few years.



Building HUMAN Capabilities

Broadening horizons of challenge and opportunity through human capital by sharpening skills; inculcating a positive work culture to enhance strength, teamwork and sustainability of its human resources towards catering to the insatiable demands of global corporate trends.



Optimising ASSETS

Enriching hardware to navigate corporate world landscapes by enhancing quality and durability of systems and equipment; capitalising on opportunities through innovation and empowerment.



Enhancing Competence

Opening channels of communication through the total commitment of all parties towards processes and procedures: Ownership, pride of place and dedication will harness efficiency and productivity, and augment competitiveness to weather varying climates of a challenging market place.



STRATEGISING PROGRESS

By gaining insights from the frontline, key leaders will navigate the organisation by plotting its route through intellectual exploration and strategic planning to ride the currents of corporate opportunity; ensuring profitability and maintaining responsibility to its stakeholders.

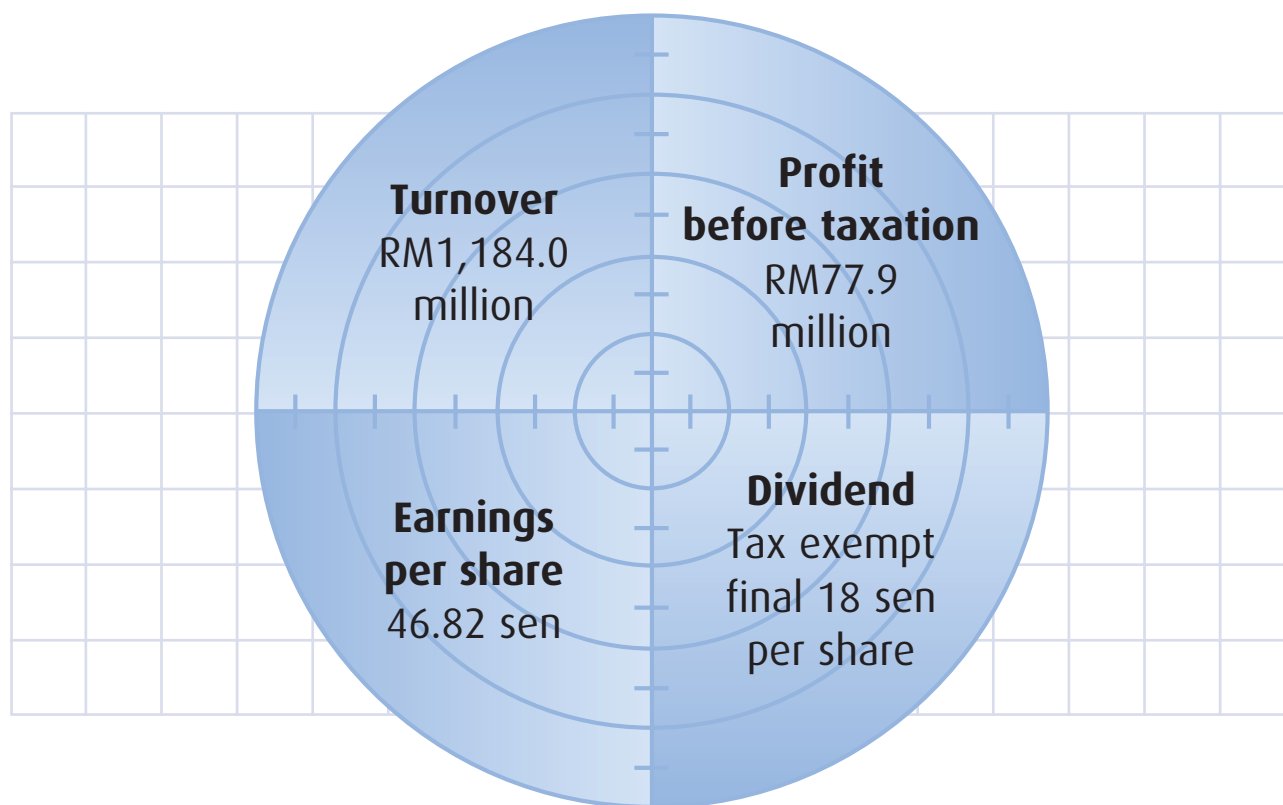


ENRICHING Life TOGETHER

**Setting sail beyond its corporate horizon,
the organisation's common framework of values
is indispensable in the healthcare value chain.
The well being of the community forms the
higher reason of its objectives and existence.**



2007 Financial Highlights



Enhancing Value to Shareholders

| | | 2007 | 2006 | 2005 | 2004 | 2003 |
|----------------------------|--------|------------------|-----------|---------|---------|---------|
| Turnover | RM'000 | 1,183,983 | 1,057,868 | 936,431 | 799,991 | 632,604 |
| Net profit for the year | RM'000 | 50,080 | 12,481 | 26,902 | 50,835 | 40,756 |
| EBITDA margin | % | 8.9 | 5.7 | 7.8 | 13.2 | 13.7 |
| Dividend rate (tax exempt) | % | 18.0 | 15.0 | 15.0 | 15.0 | 12.0 |
| Growth in turnover | % | 11.9 | 13.0 | 17.1 | 26.5 | 8.1 |
| Growth in net profit | % | 301.2 | (53.6) | (47.1) | 24.7 | 9.1 |
| Dividend payout | RM'000 | 19,254 | 16,045 | 16,043 | 15,312 | 12,097 |
| Year end share price | RM | 3.22 | 4.08 | 4.96 | 5.80 | 5.30 |

FINANCIAL CALENDAR



FINANCIAL YEAR END

31 December 2007

ANNOUNCEMENT OF RESULTS

| | |
|----------------|------------------|
| First quarter | 25 May 2007 |
| Second quarter | 17 August 2007 |
| Third quarter | 22 November 2007 |
| Fourth quarter | 27 February 2008 |

DIVIDEND

Final

| | |
|------------------|------------------|
| - Recommendation | 27 February 2008 |
| - Record date | 9 June 2008 |
| - Payment date | 2 July 2008 |

Headline Key Performance Indicators (%)

| | 2007 Target | 2007 Achieved |
|--------------------|--------------------|----------------------|
| - Revenue Growth | 35% | 12% |
| - Return on Equity | 14% | 15% |



NOTICE of ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Tenth Annual General Meeting of **PHARMANIAGA BERHAD (467709-M)** (“the Company”) will be held at Concorde 1 (Level 2), Concorde Hotel Shah Alam, 3 Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Thursday, 22 May 2008 at 10.30 a.m. for the purpose of transacting the following businesses :

AGENDA

- 1 To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2007 together with the Reports of the Directors and the Auditors thereon.

AS ORDINARY BUSINESS

- 2 To declare a Final Tax Exempt Dividend of 18 sen per ordinary share in respect of the financial year ended 31 December 2007 as recommended by the Directors. **(Ordinary Resolution 1)**
- 3 To re-elect the following Directors retiring in accordance with Article 88 of the Company’s Articles of Association and, who being eligible, offer themselves for re-election :
 - i) Dato’ Mohamed Azman bin Yahya **(Ordinary Resolution 2)**
 - ii) Dato’ Ahmad Pardas bin Senin **(Ordinary Resolution 3)**
 - iii) YM Dato’ Raja Nong Chik bin Dato’ Raja Zainal Abidin **(Ordinary Resolution 4)**
- 4 To approve the payment of Directors’ Fees in respect of the financial year ended 31 December 2007. **(Ordinary Resolution 5)**
- 5 To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 6)**



AS SPECIAL BUSINESS

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

6 AUTHORITY TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT 1965

(Ordinary Resolution 7)

“**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 for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.”

7 PROPOSED RENEWAL OF SHAREHOLDERS’ MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

(Ordinary Resolution 8)

“**THAT** subject to the Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given for the renewal of the shareholders’ mandate for the Company and/or its subsidiaries (“Pharmaniaga Group”) to enter into and give effect to specified recurrent transactions of a revenue or trading nature with specified classes of Related Parties (as defined in the Listing Requirements of Bursa Malaysia Securities Berhad and as specified in Section 2.2 of the Circular to Shareholders dated 30 April 2008) which are necessary for the day to day operations of the Pharmaniaga Group and the transactions are in the ordinary course of business, at arms’ length basis and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the Shareholders’ Mandate during the financial year and such approval conferred shall continue to be in force until :



NOTICE of ANNUAL GENERAL MEETING

- (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.”

8 **PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY (“PROPOSED AMENDMENTS”)**

“THAT the proposed amendments to the Articles of Association of the Company as set out in the Circular to Shareholders dated 30 April 2008 (“Proposed Amendments”) be and are hereby approved and adopted.

AND THAT the Directors of the Company be and are hereby authorised to do all such acts, deeds and things as are necessary and/or expedient in order to give full effect to the Proposed Amendments with full powers to assent to any conditions, modifications and/or amendments as may be required by the relevant authorities.”

(Special Resolution 1)

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



NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN that subject to the approval of the shareholders at the forthcoming Tenth Annual General Meeting to be held on 22 May 2008, a Final Tax Exempt Dividend of 18 sen per ordinary share for the financial year ended 31 December 2007 will be paid on 2 July 2008 to the Depositors whose names appear in the Company's Register of Members and/or Record of Depositors at the close of business on 9 June 2008.

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

- a) securities transferred to the Depositor's securities account before 4.00 p.m. on 9 June 2008 in respect of ordinary transfers; and
- b) securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

WONG LEE LOO (MAICSA 7001219)

NORHANA BINTI OTHMAN (LS 0008547)

Company Secretaries

Kuala Lumpur

30 April 2008



NOTICE of ANNUAL GENERAL MEETING

EXPLANATORY NOTES ON SPECIAL BUSINESS

Ordinary Resolution 7

The proposed Ordinary Resolution 7, if passed, will empower the Directors of the Company to issue and allot shares from time to time up to a maximum of 10% of the issued share capital of the Company as at the date of this Annual General Meeting and for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

Ordinary Resolution 8

The proposed Ordinary Resolution 8, if passed, will authorise the Company and/or its subsidiaries to continue entering into the specified recurrent related party transactions of a revenue or trading nature with related parties, particulars of which are set out in Section 2.2.1 of the Circular to Shareholders dated 30 April 2008 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.

Special Resolution 1

The proposed Special Resolution 1, if passed, will allow the Company to incorporate the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad to ensure compliance. Details on the Proposed Amendments to the Articles of Association are set out in the Circular to Shareholders dated 30 April 2008.

NOTES

Registration of Members/Proxies

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

Proxy

- 1 A member of the Company entitled to be present and vote at the Meeting may appoint a proxy to vote instead of him. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act 1965 need not be complied with.
- 2 The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if the appointor is a corporation, under its common seal or signed by its attorney or by an officer on behalf of the corporation.
- 3 Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act 1991, he may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
- 4 The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited at the Registered Office of the Company at 1st Floor, Bangunan MCOBA, 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 Proxy Form are available for access and download at the Company's website at www.pharmaniaga.com.

STATEMENT ACCOMPANYING NOTICE of AGM



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

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

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

- Dato' Mohamed Azman bin Yahya
- Dato' Ahmad Pardas bin Senin
- YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin

2 BOARD MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

A total of six (6) meetings were held during the financial year ended 31 December 2007 in which five (5) were Ordinary Board Meetings while another one (1) was Special Board Meeting (*).

| Date | Time | Venue |
|------------------|-----------|--|
| 13 February 2007 | 3.30 p.m. | Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan |
| 18 April 2007 | 9.35 a.m. | Board Room, Pharmaniaga Berhad, No 7, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan |
| 25 May 2007 | 3.15 p.m. | Meeting Room, Pharmaniaga LifeScience Sdn Bhd, Lot 7, Jalan PPU 3, Taman Perindustrian Puchong Utama, 47100 Puchong, Selangor Darul Ehsan |
| 17 August 2007 | 3.30 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 2007 | 3.00 p.m. | Meeting Room, UEM Leadership Center, No 5 Jalan 217, Off Jalan Templer, 46050 Petaling Jaya, Selangor Darul Ehsan |
| *4 December 2007 | 3.45 p.m. | Board Room, Pharmaniaga Manufacturing Berhad, 11A Jalan P/1, Kawasan Perusahaan Bangi, 43650 Bandar Baru Bangi, Selangor Darul Ehsan |



STATEMENT ACCOMPANYING NOTICE of AGM

3 DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

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

4 DATE, TIME AND PLACE OF THE ANNUAL GENERAL MEETING

Date : Thursday, 22 May 2008
 Time : 10:30 a.m.
 Place : Concorde 1 (Level 2), Concorde Hotel Shah Alam,
 3 Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam,
 Selangor Darul Ehsan.

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

The details of the three (3) Directors seeking re-election are set out in their respective profiles which appear in the profile of Directors on pages 30 to 34 of the Annual Report. The details of their interest in the securities of the Company are set out in the Analysis of Shareholdings on page 190 of this Annual Report.

CORPORATE INFORMATION



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

■ Chairman ■ Member

COMPANY SECRETARIES

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

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad,
Main Board Trading/Services

REGISTERED ADDRESS

Pharmaniaga Berhad (467709-M)
1st Floor, MCOBA Building
No. 42, Jalan Syed Putra
50460 Kuala Lumpur
Tel: +603-2718 6868 Fax: +603-2718 6856

AUDITORS

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

SHARE REGISTRAR

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

SOLICITORS

Zaid Ibrahim & Co.
Abu Talib Shahrom
Shahrizat Rashid & Lee
Sreenevasan Advocates & Solicitors
Bodipalar Ponnudurai Nathan
Zahir Razak & Co.
R. V. Lingam & Co. Advocates & Solicitors
Hing & Alvin Advocates & Solicitors

PRINCIPAL BANKERS

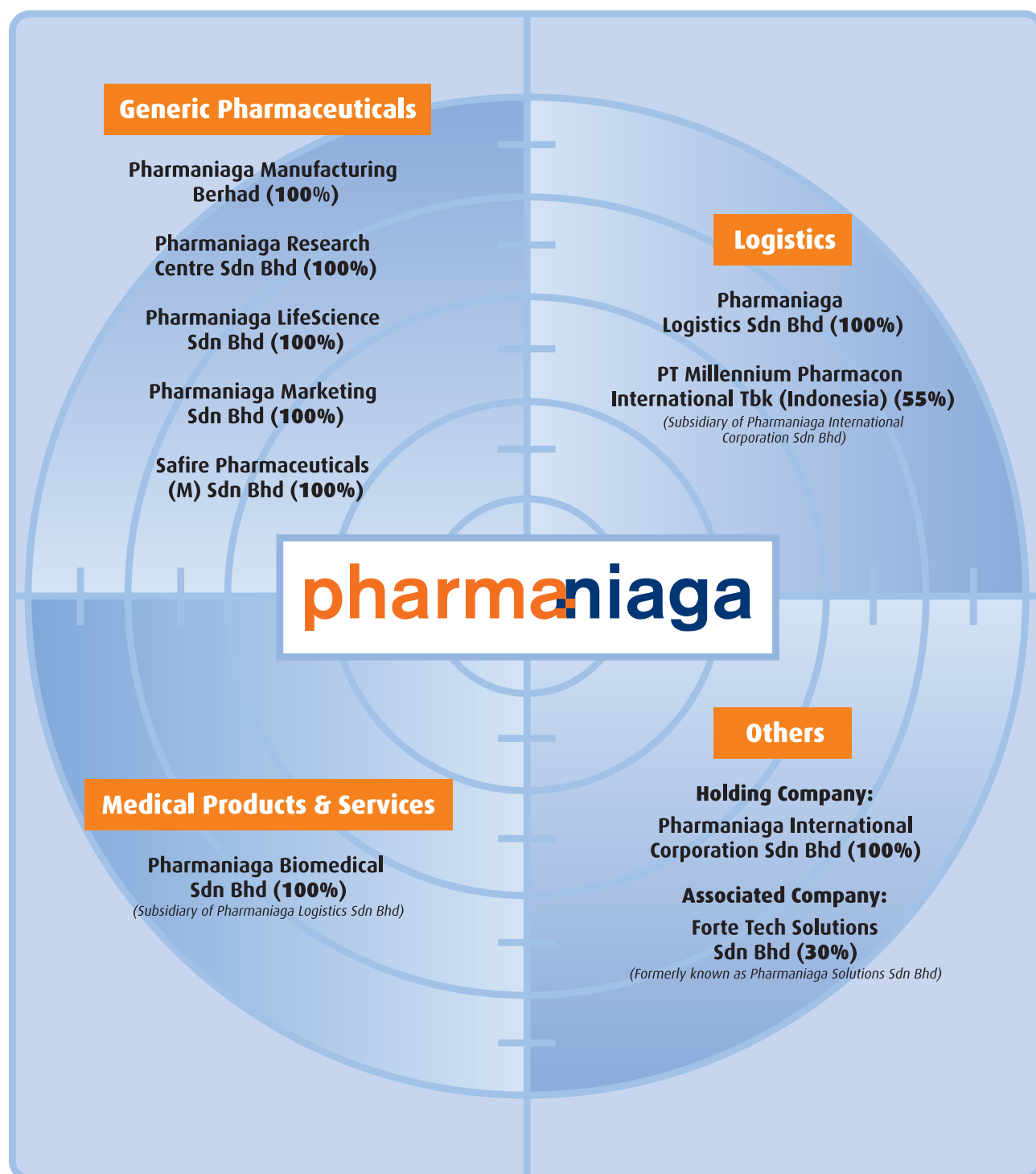
CIMB Bank Berhad
Standard Chartered Bank Malaysia Berhad
HSBC Bank Malaysia Berhad

BUSINESS ADDRESS

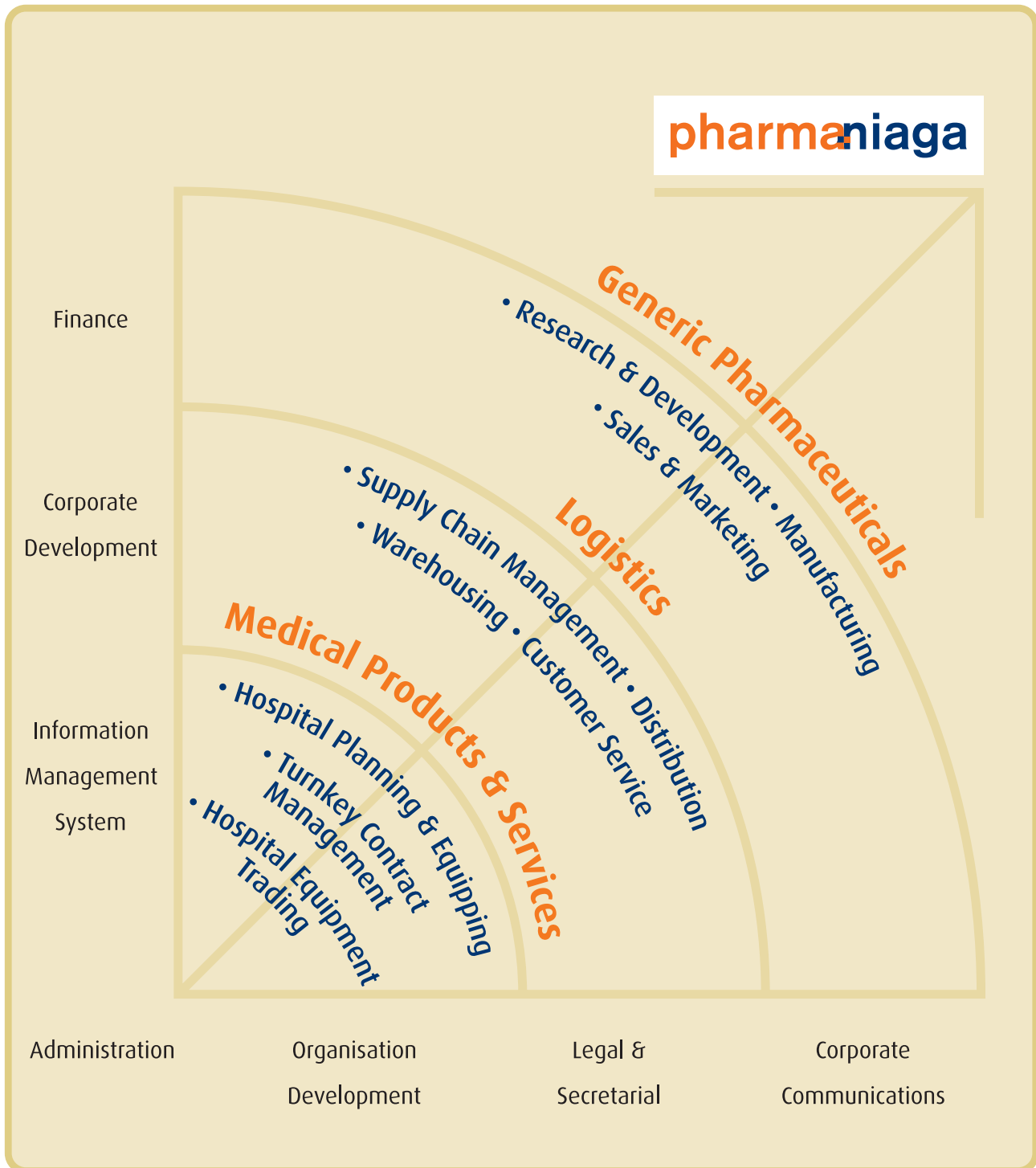
No. 7, Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7
40000 Shah Alam
Selangor Darul Ehsan
Tel: +603-3342 9999 Fax: +603-3341 7777



CORPORATE STRUCTURE



OPERATIONS STRUCTURE



VALUE CREATION

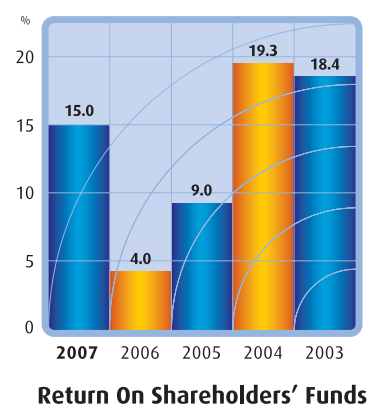
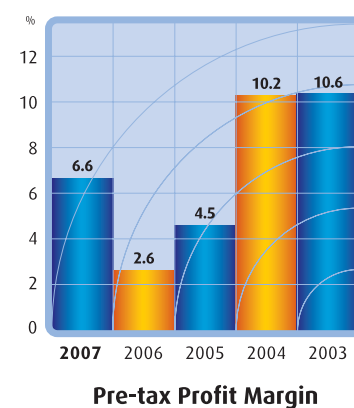
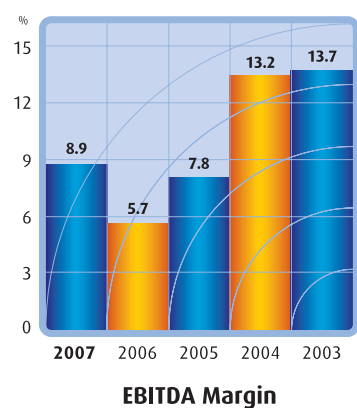
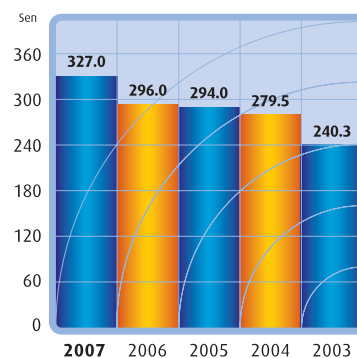
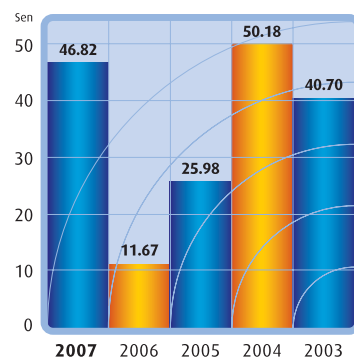
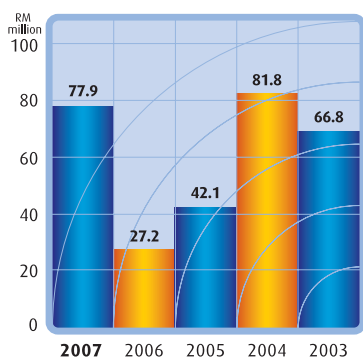
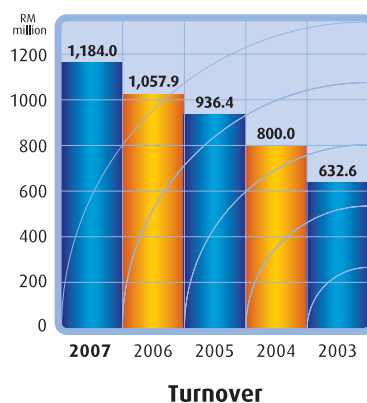


GROUP 5-YEAR FINANCIAL SUMMARY

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|------------------|-----------|----------|----------|----------|
| RM'000 | | | | | |
| Turnover | 1,183,983 | 1,057,868 | 936,431 | 799,991 | 632,604 |
| Earnings before interest, taxation, depreciation and amortisation | 105,179 | 60,218 | 72,868 | 105,766 | 86,358 |
| Profit before taxation | 77,898 | 27,195 | 42,072 | 81,778 | 66,841 |
| Taxation | (26,180) | (13,111) | (12,938) | (18,705) | (19,371) |
| Profit after taxation | 51,718 | 14,084 | 29,134 | 63,073 | 47,470 |
| Minority interest | (1,638) | (1,603) | (2,232) | (12,238) | (6,714) |
| Profit attributable to shareholders | 50,080 | 12,481 | 26,902 | 50,835 | 40,756 |
| Dividend | 16,044 | 12,300 | 14,483 | 13,163 | 9,506 |
| Retained profit for the year | 34,036 | 181 | 12,419 | 37,672 | 31,250 |
| Per Share Statistics | sen | | | | |
| Net earnings per share | 46.82 | 11.67 | 25.98 | 50.18 | 40.70 |
| Net assets per share | 327.0 | 296.0 | 294.0 | 279.5 | 240.3 |
| Dividend per share | 18.0 | 15.0 | 15.0 | 15.0 | 12.0 |
| Profitability/Return ratio | % | | | | |
| EBITDA margin | 8.9 | 5.7 | 7.8 | 13.2 | 13.7 |
| Profit before taxation on turnover | 6.6 | 2.6 | 4.5 | 10.2 | 10.6 |
| Profit after taxation and minority interest on shareholders' funds | 15.0 | 4.0 | 9.0 | 19.3 | 18.4 |

GROUP 5-YEAR FINANCIAL SUMMARY





Group Financial Performance Highlights

FOR THREE YEARS ENDED 31 DECEMBER

| | | | | % change from prior year | |
|---|------------------|--------------|---------|--------------------------|--------------|
| | | | | 2007 vs 2006 | 2006 vs 2005 |
| | 2007 | 2006 | 2005 | | |
| | RM'000 | | | | |
| Turnover | 1,183,983 | 1,057,868 | 936,431 | 11.9% | 13.0% |
| Earnings before interest, taxation, depreciation and amortisation | 105,179 | 60,218 | 72,868 | 74.7% | -17.4% |
| Profit before taxation | 77,898 | 27,195 | 42,072 | 186.4% | -35.4% |
| Profit attributable to shareholders | 50,080 | 12,481 | 26,902 | 301.2% | -53.6% |
| Total assets | 884,849 | 827,785 | 797,878 | 6.9% | 3.7% |
| Total borrowings | 224,935 | 255,576 | 192,785 | -12.0% | 32.6% |
| Total shareholders' funds | 349,671 | 316,240 | 314,557 | 10.6% | 0.5% |
| | % | | | | |
| EBITDA margin | 8.9% | 5.7% | 7.8% | 3.2% | -2.1% |
| Pre-tax profit on total assets | 8.8% | 3.3% | 5.3% | 5.5% | -2.0% |
| Pre-tax profit on shareholders' funds | 22.3% | 8.6% | 13.4% | 13.7% | -4.8% |
| Profit attributable to shareholders on shareholders' funds | 15.0% | 4.0% | 9.0% | 11.0% | -5.0% |
| Total borrowings to shareholders' funds | 64.3% | 80.8% | 61.3% | -16.5% | 19.5% |
| | sen | | | | |
| Net earnings per share | 46.82 | 11.67 | 25.98 | 301.2% | -55.1% |
| Dividend per share | | | | | |
| - interim | - | - | 3.5 | - | -100.0% |
| - final | 18.0 | 15.0 | 11.5 | 20.0% | 30.4% |
| Dividend cover | times | 0.8 | 1.7 | 225.0% | -52.9% |
| Net assets per share | RM | 2.96 | 2.94 | 10.5% | 0.7% |
| Turnover per RM of employment cost | RM | 20.5 | 22.1 | -6.9% | 18.8% |
| Turnover per employee | RM'000 | 618.3 | 527.1 | 17.3% | 8.4% |

GROUP QUARTERLY PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2007



BY INDUSTRY SEGMENT

| | 1st | 2nd | 3rd | 4th | Total |
|--|----------------|----------------|----------------|----------------|------------------|
| Turnover | RM'000 | | | | |
| Pharmaceutical Manufacturing | 26,917 | 41,677 | 44,661 | 39,498 | 152,753 |
| Pharmaceutical Trading, Marketing, and Distribution | 256,779 | 296,535 | 335,668 | 289,702 | 1,178,684 |
| Medical Products and Services | 785 | 5,236 | 509 | 1,851 | 8,381 |
| Other Operations | – | – | – | 71,300 | 71,300 |
| Sub-total | 284,481 | 343,448 | 380,838 | 402,351 | 1,411,118 |
| Less: Intersegment Sales | (28,246) | (43,217) | (46,138) | (109,534) | (227,135) |
| Total | 256,235 | 300,231 | 334,700 | 292,817 | 1,183,983 |

| | | | | | |
|--|---------------|---------------|---------------|---------------|----------------|
| Profit before tax | RM'000 | | | | |
| Pharmaceutical Manufacturing | 5,049 | 9,890 | 8,955 | 11,423 | 35,317 |
| Pharmaceutical Trading, Marketing, and Distribution | 5,077 | 5,556 | 27,242 | 14,696 | 52,571 |
| Medical Products and Services | 352 | (800) | 1,126 | (598) | 80 |
| Other Operations | (1,353) | (1,866) | (905) | 69,795 | 65,671 |
| Sub-total | 9,125 | 12,780 | 36,418 | 95,316 | 153,639 |
| Less: Intersegment Profits | 1,377 | (1,048) | (4,252) | (72,028) | (75,951) |
| Share of Results from Associated Company | (272) | 449 | (251) | 284 | 210 |
| Total | 10,230 | 12,181 | 31,915 | 23,572 | 77,898 |

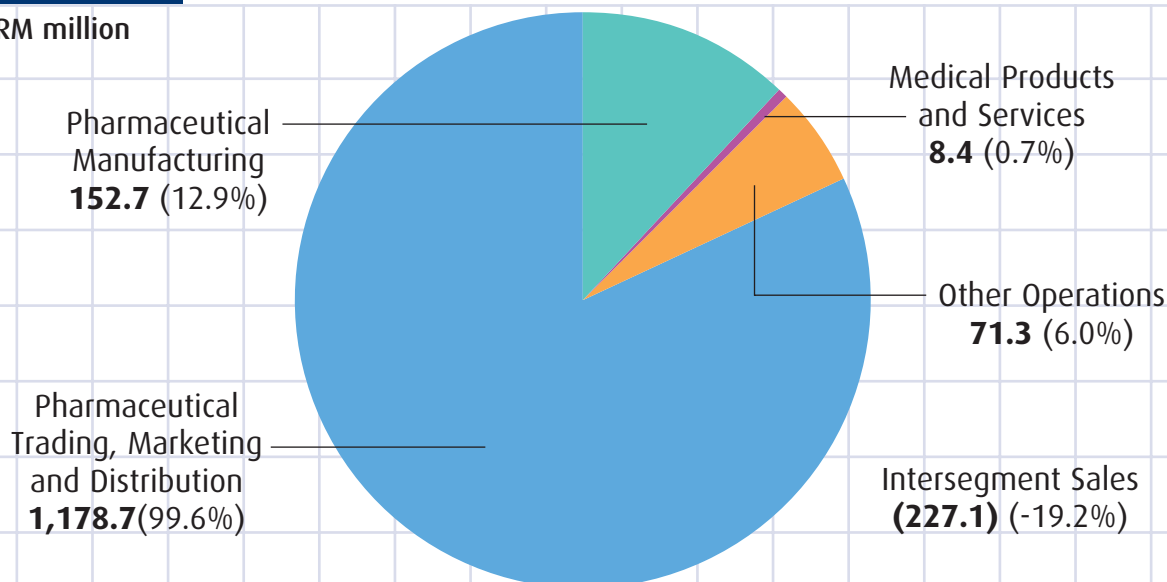


Group 2007 Segmental Report

TURNOVER

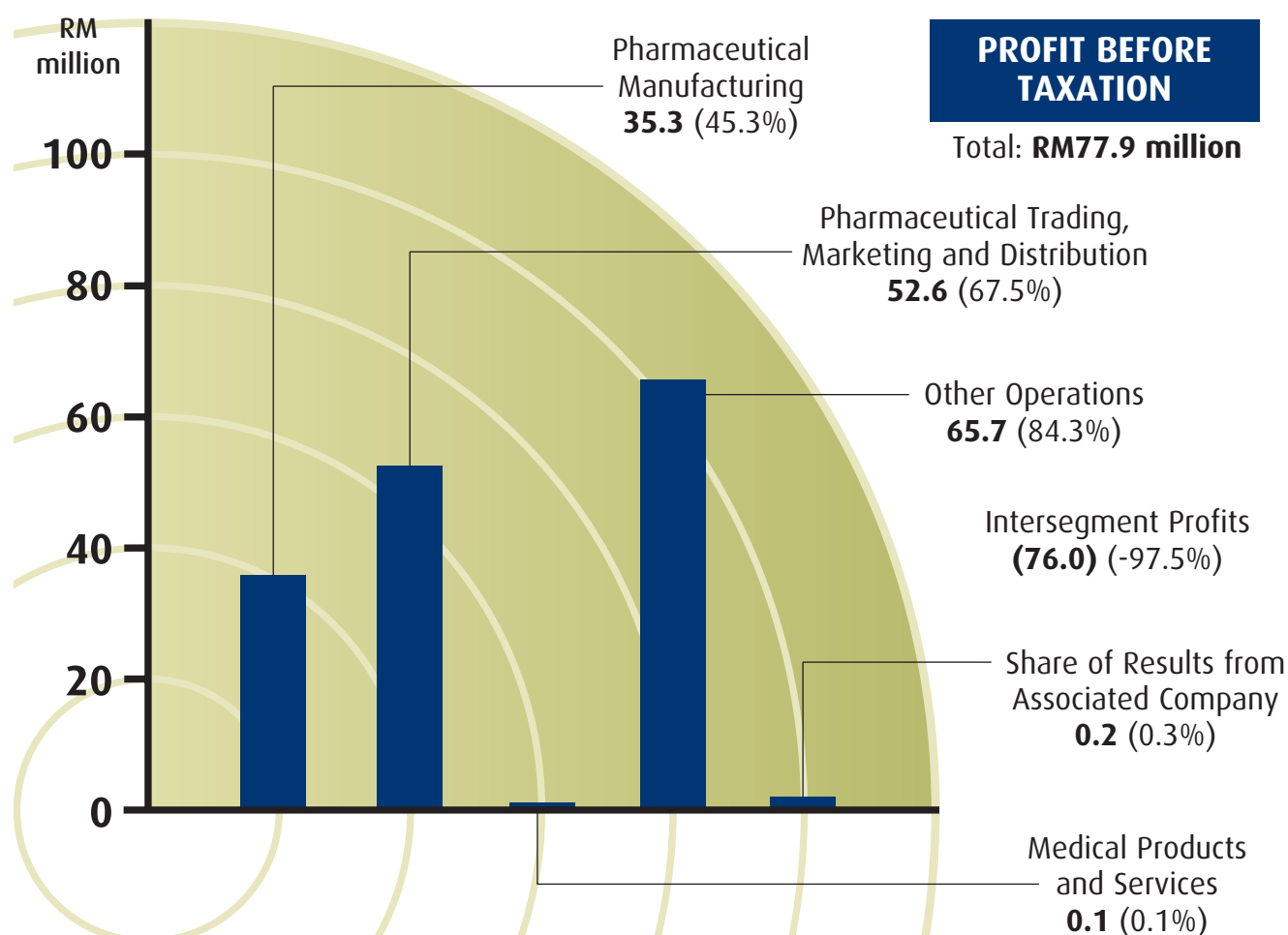
Total: **RM1,184.0 million**

RM million



PROFIT BEFORE TAXATION

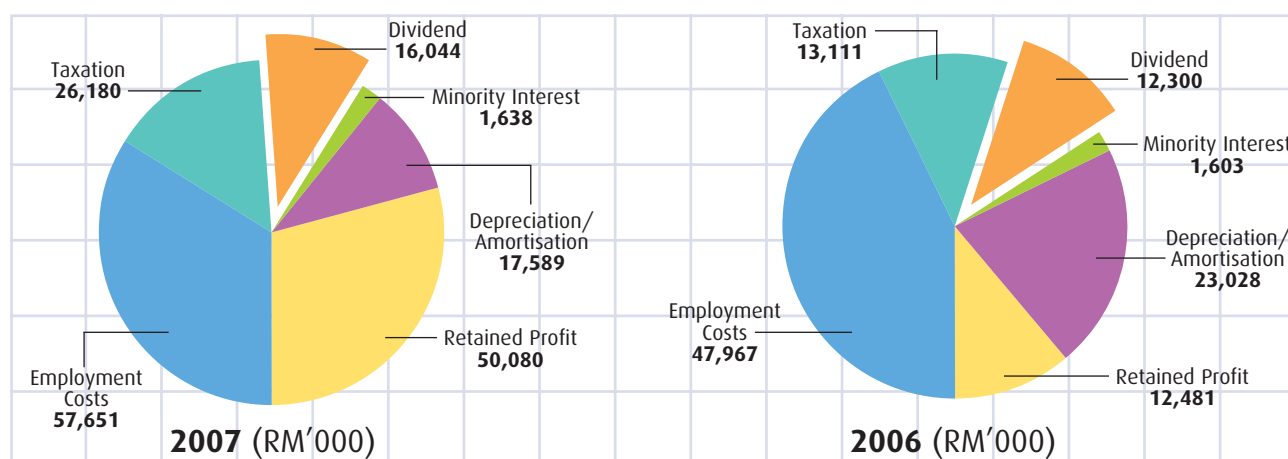
Total: **RM77.9 million**



STATEMENT of VALUE Added



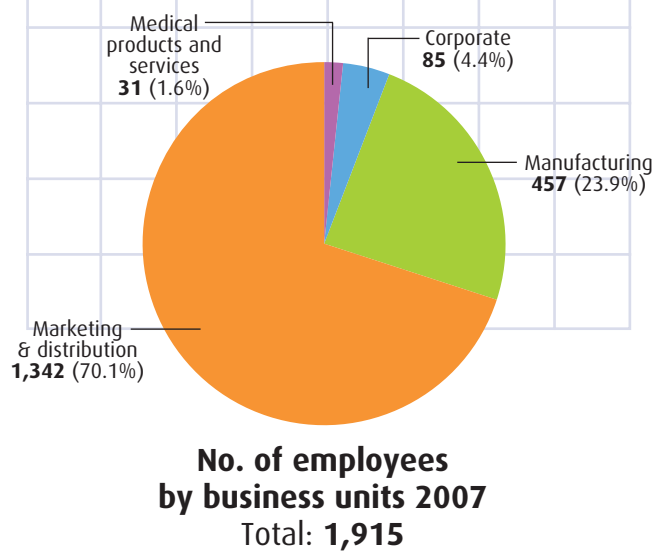
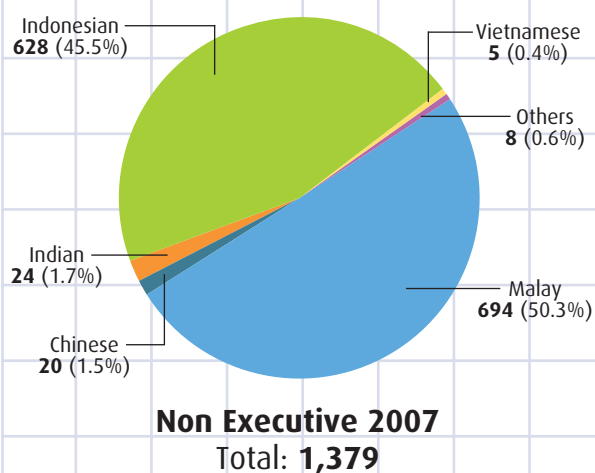
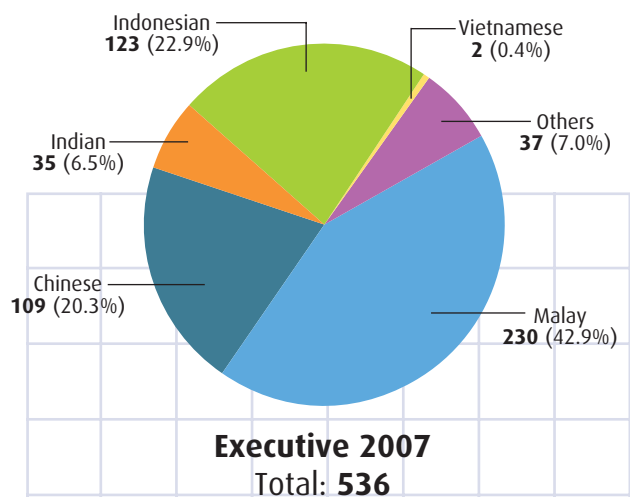
| | 2007 RM'000 | 2006 RM'000 |
|--|--------------------|----------------|
| Turnover | 1,183,983 | 1,057,868 |
| Purchase of goods and services | (1,005,697) | (923,589) |
| Value added by the Group of companies | 178,286 | 134,279 |
| Finance expenses (net) | (9,104) | (9,612) |
| Provision for impairment in China investment | - | (21,513) |
| Gain on disposal of 70% equity in Forte Tech Solutions Sdn. Bhd. (formerly known as Pharmaniaga Solutions Sdn. Bhd.) | - | 7,336 |
| Value added available for distribution | 169,182 | 110,490 |



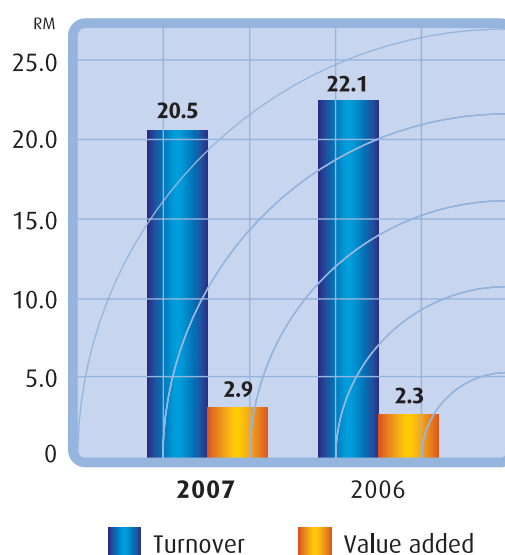
| | 2007 RM'000 | 2006 RM'000 |
|--|--------------------------------|------------------|
| To employees - Employment costs | 57,651 | 47,967 |
| To government - Taxation | 26,180 | 13,111 |
| To capital contributors - Dividend - Minority interest | 16,044 1,638 | 12,300 1,603 |
| Retained for re-investment and future growth - Depreciation/Amortisation - Retained profit | 17,589 50,080 | 23,028 12,481 |
| | 169,182 | 110,490 |



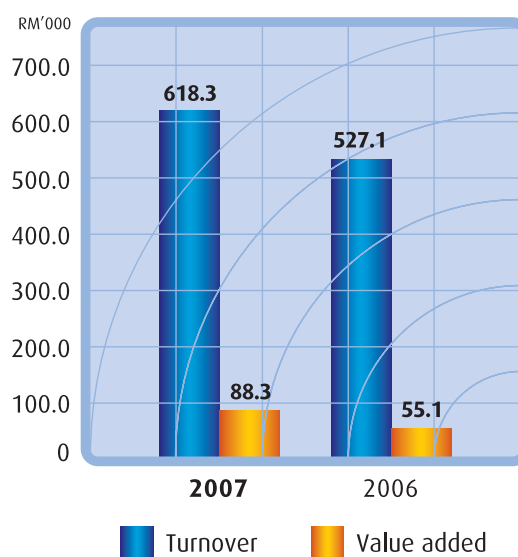
Employees & Productivity



Per RM employment cost



Per employee



Group Achievements

■ NACRA Award

Pharmaniaga Berhad was awarded the Silver Award by NACRA - National Annual Corporate Report Awards for Best Annual Report in Environmental Reporting for 2007.

The Environmental Reporting Award is one of the five categories of awards given by NACRA. The Award is presented to Pharmaniaga in recognition of their efforts towards conservation of the environment.

This Award emphasises the need for reporting on environmental issues which are of strategic value and importance to stakeholders and the public.

The NACRA programme, which started in 1990, recognises and honours commercial entities that have gone the extra mile to show a commendable degree of excellence in corporate reporting.



■ Hibiscus Award

Pharmaniaga Berhad's subsidiary, Pharmaniaga Manufacturing Berhad was awarded the Notable Achievement Award in the Prime Minister's Hibiscus Award (PMHA) for Environmental Performance.

The award reflects the Group's commitment in the area of environment protection and sustainable development.

The award is jointly organised by Business Council for Sustainable Development in Malaysia (BCSDM), Malaysian International Chamber of Commerce and Industry (MICCI), Environmental Management and Research Association of Malaysia (ENSEARCH), and Federation of Malaysian Manufacturers (FMM).

The PMHA is endorsed by the Ministry of Natural Resources and Environment, Malaysia (MNRE) and is supported by the Department of Environment (DOE) and the private sector.

NAVIGATING FORWARD



BOARD of DIRECTORS



From left to right:

Dato' Ahmad Pardas bin Senin Non-Independent Non-Executive Director, **Oh Kim Sun** Non-Independent Non-Executive Director, **Ismael Fariz bin Ali** Non-Independent Non-Executive Director, **YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin** Independent Non-Executive Director, **Datuk Sulaiman bin Daud** Senior Independent Non-Executive Director, **Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh** Independent Non-Executive Director, **Dato' Mohamed Azman bin Yahya** Non-Independent Non-Executive Chairman & **Mohamad bin Abdullah** Managing Director.

BOARD of DIRECTORS





Profile of Directors



Dato' Mohamed Azman bin Yahya

Non-Independent Non-Executive Chairman

Dato' Azman, 44, a Malaysian, has been the Non-Independent Non-Executive Chairman of Pharmaniaga Berhad since 15 November 2001. He is the founder and Group Chief Executive of Symphony House Berhad, a listed outsourcing group. Prior to this, Dato' Azman was appointed by the Government of Malaysia in 1998 to set-up and head Danaharta, the national asset management company; and subsequently became its chairman until 2003. He was also the Chairman of the Corporate Debt Restructuring Committee (CDRC), which was set-up by Bank Negara Malaysia to mediate and assist in the debt restructuring of viable companies until its closure in 2002. His previous career includes auditing with KPMG in London, finance with the Island & Peninsular Group and investment banking with Bumiputera Merchant Bankers and Amanah Merchant Bank; the latter as the Chief Executive.

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

Dato' Azman is also a Director of Symphony House Berhad, Scomi Group Berhad, Bolton Berhad, Kuala Lumpur Business Club and the Chairman of the Motorsports Commission of Malaysia. He graduated with a first class honours degree in Economics from the London School of Economics and Political Science, and is a Member of the Institute of Chartered Accountants in England and Wales (ICAEW), the Malaysian Institute of Accountants (MIA) and a Fellow of the Malaysian Institute of Banks.



Mohamad bin Abdullah

Managing Director

Mohamad, 47, a Malaysian, was appointed as the Managing Director of Pharmaniaga Berhad on 1 January 2007. Prior to this appointment, Mohamad was the Chief Financial Officer of UEM Land Sdn Bhd since 1 December 2004, and was promoted to Chief Operating Officer on 1 January 2005. Mohamad graduated from the University of Bath, United Kingdom with a Masters of Business Administration. He had his early exposure in investment banking when he was working with Arab Malaysian Merchant Bank from 1988-1991. Prior to that, he was with Azman, Wong, Salleh & Co., an audit firm. In 1992, Mohamad moved to Kejora Holdings Sdn Bhd, the commercial arm of Kejora Group as the Group's Corporate Finance and Audit Manager where he served for 4 years, then joined Park May Berhad as its Financial Controller in March 1996; and subsequently promoted to General Manager, Corporate Affairs. He was then transferred to Faber Group Berhad, an associate company of UEM Group Berhad, and upon being promoted; assumed the position of Senior General Manager, Finance. In early 2004, he was promoted to Chief Financial Officer of Faber Group Berhad. Having played a key role in Faber Group's Corporate and Debt Restructuring, he was transferred to UEM Land on 1 December 2004.



Datuk Sulaiman bin Daud

Senior Independent Non-Executive Director

Datuk Sulaiman, 61, a Malaysian, is the Senior Independent Non-Executive Director of Pharmaniaga Berhad. He is also the Chairman of the Investment Committee, Nomination Committee, Risk Management Committee and member of the Audit Committee. He had an illustrious career with Malaysian Tobacco Company Berhad (MTC) where he ascended the corporate ladder to be its Deputy Chief Executive/Executive Director. He has been the Chairman of Bank Pertanian Malaysia for four terms; from 1998 to 2006. He has also been a Director of Malaysia National Insurance Berhad and Chairman of Ranhill Power Berhad. He currently holds directorships in Konsortium Transnasional Berhad, Malaysia Packaging Industry Berhad and Silverlake Axis Limited in Singapore. Datuk Sulaiman has a Masters of Business Administration from International Management Centres, Buckingham, UK and is a graduate of the Stanford-Insead Advanced Management Programme. He is also currently the Chairman of the Malaysia/Syria Business Council.



Profile of DIRECTORS



Dato' Ahmad Pardas bin Senin

Non-Independent Non-Executive Director

Dato' Ahmad Pardas, 55, a Malaysian, is a Non-Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed on 1 July 2004 and is a member of the Nomination Committee, Remuneration Committee and ESOS Committee of Pharmaniaga Berhad. He is currently the Managing Director/Chief Executive Officer of UEM Group Berhad and UEM World Berhad. He is also the Deputy Chairman of PLUS Expressways Berhad, Projek Lebuhraya Utara-Selatan Berhad and UEM Builders Berhad. He currently holds directorships in Opus Group Berhad (formerly known as Opus International Group Berhad, Opus International Sdn Bhd and CAE-Tech Sdn Bhd), UEM Land Berhad and UEM Environment Sdn Bhd, and is also the Chairman of Expressway Lingkaran Tengah Sdn Bhd (ELITE) and Linkedua (Malaysia) Berhad. He is also a director of Universiti Teknologi MARA (UiTM). Dato' Ahmad Pardas is a Fellow of The Chartered Institute of Management Accountants (FCMA), a Chartered Member of the Malaysian Institute of Accountants (MIA) and a Member of the Institute of Internal Auditors (IIA) and the Financial Reporting Foundation (FRF). He has been with the UEM Group for more than fifteen years since 1992. During this period, he had served in various other positions in the UEM group, including as the Managing Director of TIME Engineering Berhad, Executive Director/CEO of TIME dotCom Berhad, Group Managing Director of Renong Berhad, and Managing Director of Time Telekom Sdn Bhd. He was also Chief Operating Officer and Managing Director of EPE Power Corporation Berhad (now renamed Ranhill Power Berhad). He has also served on the boards of Faber Group Berhad, The Malaysian Industry-Government Group for High Technology (MIGHT) and Costain Group plc. Prior to joining the UEM group, Dato' Ahmad Pardas had more than 17 years' service with the British-American Tobacco Group.

YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin

Independent Non-Executive Director

YM Dato' Raja Nong Chik, 55, a Malaysian, is a Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 2 September 1999. He started his career at FELCRA (Federal Land Consolidation and Rehabilitation Authority) in 1978. A year later, he became Manager in Corporate Planning and Finance at Kumpulan Fima Bhd. In 1982, he joined OYL Industries as Executive Director, leading to the formation of a joint-venture company named Razatec Sdn Bhd which pioneered a local brand of electrical products called Acson; now recognised in Malaysia, as well as, internationally. After nine years, he left to start Rasma Corporation Sdn Bhd, a Class-A mechanical and electrical contractor as Managing Director and major shareholder. Presently, he is the President of the Bumiputra Manufacturers' and Service Industry Association of Malaysia. He is also a Member of Malaysia Innovation Council (Majlis Inovasi Negara) - chaired by the Prime Minister, and also a member of Chartered Institute of Management Accountants, Malaysian Institute of Accountants and Malaysian Institute of Chartered Secretaries and Administrators. YM Dato' Raja Nong Chik is also the Chairman of the Audit Committee and an Independent Director of icapital.biz Berhad. He holds a degree in Economics (Hons) from the University of Wales, UK. He was appointed as the Chairman of the Audit Committee on 21 November 2007.



Profile of DIRECTORS



Ismael Fariz bin Ali

Non-Independent Non-Executive Director

Ismael Fariz, 46, a Malaysian, is a Non-Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 15 November 2001. He is currently Executive Director of Investments at Khazanah Nasional Berhad. Prior to this, he was the Managing Director of FirstFloor Capital Sdn Bhd, a venture capital firm, and previously attached with a domestic merchant bank where he was with the Corporate Finance Department for 16 years. He also holds directorships in Technology Resources Industries Berhad, Celcom (Malaysia) Berhad, RHB Islamic Bank Berhad and TM International Berhad. He is a member of the Remuneration Committee and Investment Committee and he holds a Masters of Business Administration (Finance) from University of Iowa, USA.



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

Independent Non-Executive Director

Dato' Wira Prof. Ir. Dr. Mohammad Noor, 60, a Malaysian, is an Independent Non-Executive Director of Pharmaniaga Berhad. Dato' Wira Prof. Ir. Dr. Mohammad Noor was appointed to the Board on 15 November 2001. Prior to his present position as President of Kuala Lumpur Infrastructure University College, he was the Vice President of Open University Malaysia. He held the position of Vice Chancellor of Universiti Pendidikan Sultan Idris and a similar position in Universiti Utara Malaysia and was the Deputy Vice Chancellor in Universiti Teknologi Malaysia before that. Dato' Wira Prof. Ir. Dr. Mohammad Noor chairs Remuneration Committee and ESOS Committee and sits in the Audit Committee, Nomination Committee and Risk Management Committee. Dato' Wira Prof. Ir. Dr. Mohammad Noor has a Ph.D. in Civil Engineering from the University of Strathclyde, Glasgow, UK. He is currently a Fellow of the Academy of Science Malaysia, Fellow Member of Institution of Engineers Malaysia and a Member of the Malaysian Institute of Management.



Profile of DIRECTORS



OH KIM SUN

Non-Independent Non-Executive Director

Oh Kim Sun, 59, a Malaysian, is a Non-Independent Non-Executive Director of Pharmaniaga Berhad. He was appointed to the Board on 12 December 2005 and is a member of the Investment Committee. Oh is a Member of the Malaysian Institute of Certified Public Accountants (MICPA).

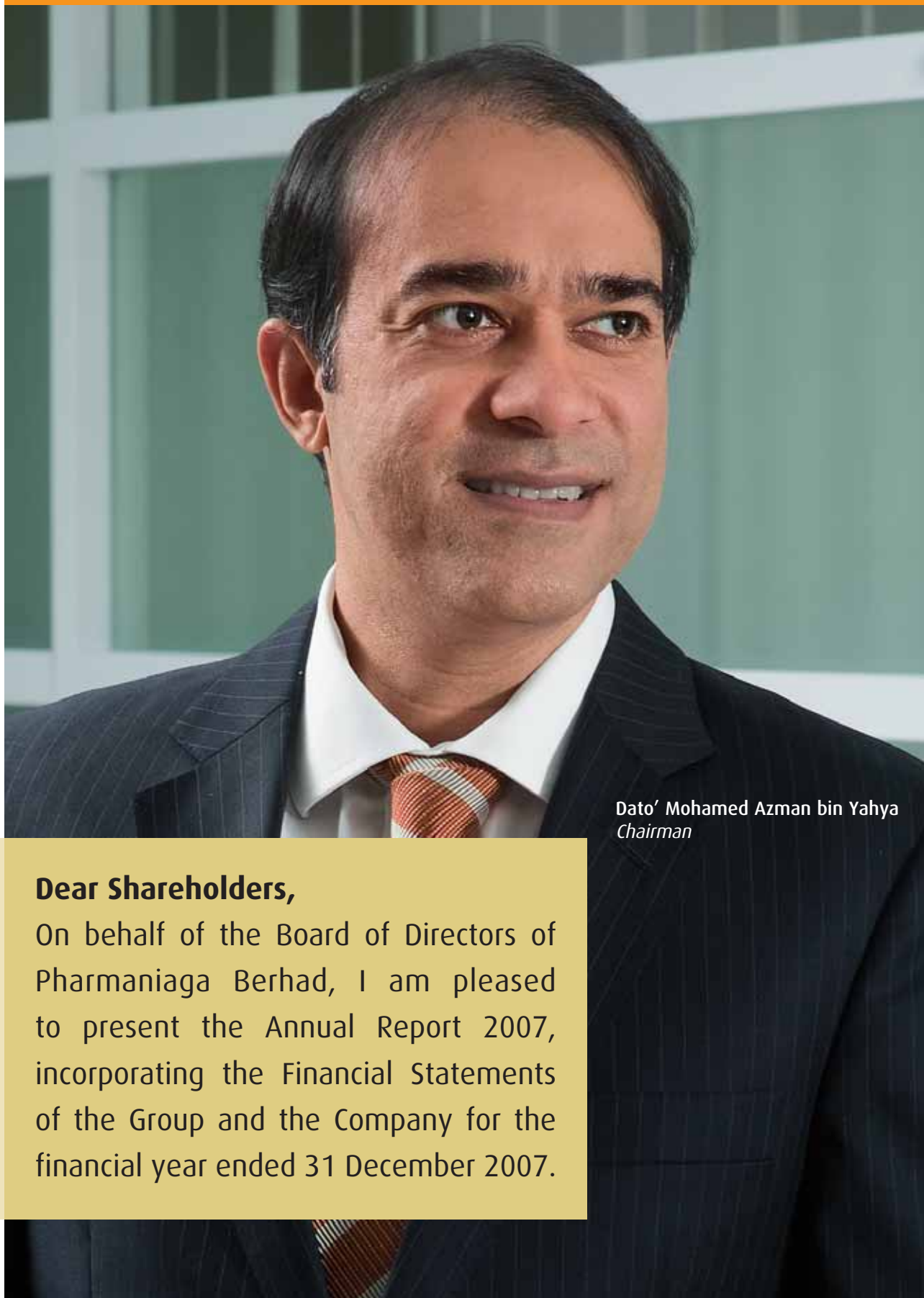
An accountant by training, he began his career in 1972 with Coopers & Lybrand in London. He has over 35 years of experience in finance and has held various positions such as Finance Director of Taiko Plantations Sdn Bhd, Financial Controller of ICI Malaysia and Finance Manager (Secondment) of ICI Headquarters in London; responsible for Northern Europe. Oh led a successful management buyout of ICI's Malaysian operations in 1994 and was appointed Group Executive Director of Chemical Company of Malaysia Berhad until 2003.

His directorships in other public companies include UEM World Berhad, Faber Group Berhad, Linkedua (Malaysia) Berhad and Nikko Electronics Berhad. He is also a Director of IMPAX Laboratories Inc., a company listed on National Association of Securities Dealers Automated Quotations (NASDAQ).

Note:

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

CHAIRMAN'S STATEMENT



Dato' Mohamed Azman bin Yahya
Chairman

Dear Shareholders,

On behalf of the Board of Directors of Pharmaniaga Berhad, I am pleased to present the Annual Report 2007, incorporating the Financial Statements of the Group and the Company for the financial year ended 31 December 2007.



CHAIRMAN'S STATEMENT

The theme of the annual report for this year, "Navigating on a New Determination" reflects that the Group is not only forging ahead, but it is moving forward with focused direction, which we strive to achieve by building human capabilities, optimising assets, enhancing competence, strategising progress and ultimately sharing our wealth with the rest of the community.

Improved Performance

The year 2007 was indeed an exciting year for us as we managed to stage an improved performance due to our continuous improvement in operational efficiencies. These were achieved through our transformation initiatives and programmes which were undertaken beginning middle of 2007.

These programmes and initiatives with the objectives to change our employees' mindset and improve their skills and knowledge were successfully implemented and were reflected in the Group's performance for the year under review.

I am happy to report that the Group's pre-tax profit had surged 186.4% to RM77.9 million for the year under review compared to RM27.2 million for the previous year. The significant rise in profit was due to higher revenue, improvement in gross profit margin as a result of an improvement in operational efficiencies and cost containment in all areas of operations, and lower depreciation charges.

The Group's revenue for the year under review rose 11.9% to RM1.184 billion from RM1.058 billion for the previous year. The increase in revenue was mainly contributed by higher concession sales to Government hospitals and private sector sales, as well as an increase in revenue from the Group's Indonesian subsidiary, PT Millenium Pharmacon International Tbk (MPI).

During the year under review, the Group also achieved its main headline Key Performance Indicators ("KPIs") of return on equity ("ROE") by registering 15% against its KPI of 14%. However, the KPI on revenue growth of 35% was not met due to lesser than expected growth in Government sales, non-materialisation of new hospital equipping projects and distributorship business, coupled with adverse foreign currency translation impact from the weakening of Indonesian Rupiah.

Enhancing Shareholder Value

In line with the Group's sound performance, the Board is recommending the payment of a final tax exempt dividend of 18 sen per share for the financial year ended 31 December 2007; compared with 15 sen per share in the previous year.





2007 Achievements

Awards

During the year under review, Pharmaniaga Berhad was awarded the Silver Award in the National Annual Corporate Report Awards (NACRA) for Best Annual Report in Environmental Reporting for 2007. The Environmental Reporting Award is one of the five categories of awards under the NACRA competition. The award, which emphasises the needs for reporting on environmental issues, that are of strategic value and importance to the stakeholders and the public, was presented to Pharmaniaga Berhad in recognition of its efforts towards conservation of the environment.

In addition, Pharmaniaga Berhad's unit, Pharmaniaga Manufacturing Berhad was selected for the Notable Achievement in the Prime Minister's Hibiscus Award (PMHA) for Environmental Performance. The award indicates the Group's commitment in the area of environmental protection and sustainable development.

Pharmaniaga Manufacturing Berhad is also the Winner for Category 3 in the Quality Management Excellence Award (QMEA), organised by the National Productivity Corporation. Category 3 is for a local company with an annual sales turnover of between RM25 million and RM100 million. The QMEA Award gives recognition to an organisation that enhances quality awareness and management excellence. It also encourages the production of quality products or services. As the winner, the Group is required to share information of its successful performance and quality strategies with other Malaysian organisations.

Expanding Aggressively in the International and Local Markets

International

During the year under review, the Group's listed unit in Indonesia, PT Millennium Pharmacon International Tbk (MPI) had successfully secured one new principal, proving its expertise in handling deliveries of pharmaceutical products, especially in the ethical segment.

MPI's operation which covers Jawa, Sumatera, Kalimantan, Sulawesi and Bali in Indonesia is backed by a total of 17 principals. During the year, MPI opened its 25th branch in Purwokerto, Jawa Tengah and increased its distribution points to 40; including six sub distributors and nine sales stations.

MPI is the platform for Pharmaniaga to explore more growth opportunities in Indonesia, which is the largest pharmaceutical market in South East Asia. Moving forward, Pharmaniaga plans to introduce its own disposable products to the market.

The Group continues with its effort to expand in the international market. With its existing presence in Vietnam, Papua New Guinea, Myanmar, Sri Lanka and several countries in the African continent, it is now eyeing South East Asia, the Middle East and some other Organisation of Islamic Conference (OIC) member countries as its key markets for penetration.

It will continue to use the multiple entry strategy for this expansion programme.



CHAIRMAN'S STATEMENT

Domestic

The Group continues to strengthen its domestic market by increasing its penetration in the non MOH sector. The non MOH market grew by 7% in 2007, increasing its contribution to the Group's revenue to RM334.4 million in 2007 compared to RM312.4 million in 2006.

The Group has also indicated its intention to continue to provide the logistics and distribution services to the Government under the concession which will expire in November 2009. In line with this, the renewal proposal has been submitted to the Government as provided under the agreement.

Transforming Our People towards Achieving Our Goals

In its journey to become a world class company, the Group realises that its people must be equipped with the relevant knowledge, skills and attitude for success. A transformation programme was initiated towards achieving this objective.

The High Performance Culture programme helps the employees to prepare themselves for the journey by addressing their weaknesses, as well as moulding them into employees with the right culture, mindset, skills and knowledge.

All heads of divisions/departments, line managers and supervisors are jointly responsible for the performance of their staff and for identifying the type of training needed by them.

The Group also holds on to the principle that in order to prepare the Company for future growth and challenges, there is a need to develop middle level managers to be competent business leaders in order to drive and compete in future competitive business environments.

In view of this, it is of utmost importance for the company to embark on a Masters of Business Administration programme (MBA) to equip managers with business leadership skills and knowledge. The MBA program should complement the current development programmes offered by UEM Leadership Centre and UEM Academy.

In 2007, Pharmaniaga invested about RM1.27 million for employees' training and development; compared to RM816,000 in 2006.

Ensuring Greater Efficiency and Higher Standards of Services

The Group continues to enhance its operations to ensure it maintains its leadership role in the market.

The year under review saw the setting up of a new unit, the Pre-clinical and Clinical department at Pharmaniaga Research Centre in May 2007. This unit is involved in the main areas of Bio Equivalence (BE) studies, Adverse Drug Reaction (ADR), Product Efficacy Complaints, and Herbal and Biotechnology projects. It emphasises the importance of quality, safety and efficacy of products developed to safeguard the public.

Apart from that, the Group is also in the midst of upgrading the connectivity of Pharma*net from dial up lines to Streamyx for all health offices; and is expected to be completed by the middle of the second quarter of 2008.





With the IT infrastructure foundation already in place, we have started initiatives to upgrade the current Hospital Inventory System (HIS) into Integrated Hospital Inventory System (IHIS), which enables effective monitoring and management of drug inventory; not just from our warehouse to the hospital, but also within the hospital itself. The IHIS facilitates the setting up of a centralised data base at the Ministry of Health, allowing the Government to monitor drug consumption patterns more effectively. The Klang Hospital and the Kota Bharu Hospital are the first two to be upgraded with this new innovative system. Two more hospitals are planned for IHIS in 2008.

Creating Technology Transfer in Product Development

During the year under review, Pharmaniaga Research Centre had successfully carried out technology transfer of 5 new products to Pharmaniaga Manufacturing Berhad. The five products are Covinace Tablet, Ameride Tablet, Glumet Forte Tablet, Pharmaniaga Meloxicam Tablet and Russedyl Plus Linctus.

The product development pipeline is now focusing on Small Volume Injectables (SVI), off-patent generic products and transforming local scientific research into enhanced products.

Exploring New Areas to Enhance Corporate Social Responsibility (CSR) Portfolio

At Pharmaniaga, we take great pride in our CSR initiatives and continue to explore new areas to enhance our portfolio to benefit the public.

During the year under review, the Group launched "Skuad Operasi Sihat", a Mobile Clinic programme to add to its already widespread "Mesti Ambil Tahu" on 2 November 2007.

The mobile clinic, a converted ambulance that is equipped with basic facilities, is manned by volunteer doctors and nurses from MERCY, with the assistance from Pharmaniaga volunteers, and endorsed by the MOH. It does not only perform health screening, but also provides resources and establishes education and awareness for rural populations in promoting a healthy lifestyle.

The Group also supported Ministry of Health campaigns by participating in "Kempen Kenali Ubat Anda" and "Karnival Sihat Sepanjang Hayat" throughout Malaysia.





CHAIRMAN'S STATEMENT

Strong prospects for 2008

Malaysia's economy is expected to expand by 5.5% in 2008, which is lower than what was experienced in 2007 due to the shaky outlook for the United States and the global economy.

However, the Government's planned spending in its Ninth Malaysia Plan will continue to provide impetus for growth of the healthcare and pharmaceuticals industry. The primary goals of the health sector under the Ninth Malaysia Plan, which are to further prevent and reduce the disease burden, as well as to enhance the health care delivery system, augurs well with the Group's businesses.

The Group will continue its agenda to penetrate the international market, especially the key markets that we have identified. Despite competitive market conditions, we will enhance our efforts in implementing aggressive strategies to support our expansion plan overseas.

Apart from that, the Group will continue to improve its production capabilities and efficiencies in order to achieve better economies of scale, as well as further improvement in product quality, cost containment and operational efficiencies.

Pharmaniaga is clearly focused on its business expansion, improving profitability, productivity and efficiency, and ultimately enhancing value to shareholders and stakeholders.

In sync with that, the Group has set its KPIs for 2008; a revenue growth and return on equity of 20% and 18% respectively. With the Government's concession still intact, the Board of Directors is confident that the Group will stage another sound performance for 2008.



Appreciation

Firstly, I would also like to express my sincere appreciation to all my esteemed colleagues on the Board for their valuable counsel and guidance throughout the year.

My sincere appreciation also goes to the Government and regulatory authorities, our business partners, clients, bankers and suppliers for their undying support to the Group. We look forward to your continued cooperation.

My appreciation also goes to all our management and employees for their dedication and valuable contributions towards the continued growth of the company.

And finally, on behalf of the Board of Directors, I wish to extend my heartfelt gratitude to all our shareholders for their support and confidence in the Group. I can assure you that Pharmaniaga will continue to deliver value to all of you.

AZMAN YAHYA

Chairman



The Code on Corporate Governance

Corporate governance in Pharmaniaga adheres to the principles and best practices of corporate governance as prescribed in the Malaysian Code on Corporate Governance (Revised 2007) ("the Code"). The Code sets out principles and best practices on structure and processes that companies may use in their operations towards achieving the optimal governance framework. It is also high on the agenda of the Government Linked Companies Transformation Programme ("GLCT"). Pharmaniaga has embarked on several initiatives as set out in the Guidelines to Enhance Board Effectiveness which are published in the Green Book.

Pharmaniaga Berhad Board ("the Board") has consistently throughout the year, instituted appropriate framework and structure to develop good corporate governance in the Group. The Directors have been unequivocal in their commitment to ensuring robust governance system and responsible corporate conduct, founded on core values, such as accountability, transparency, integrity and efficiency.

The Board of Directors, Management and staff of Pharmaniaga are extremely encouraged and delighted that the Company's corporate governance has been adjudged as leading that of other corporations in the country, as testified by the award received in 2007, i.e. the Silver Award for the Environmental Reporting section in the National Annual Corporate Report Awards ("NACRA") 2007.

BOARD OF DIRECTORS

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

The Board is pleased to present the following report on the application of principles and compliance with best practices as set out in the Code throughout the year ended 31 December 2007.

Board Structure, Composition and Balance

In terms of Board structure, composition and processes, Pharmaniaga has an explicit design that is consistent with requirements mandated by the Bursa Securities Listing Requirements and as prescribed by the principles and best practices of the Code.

The present size and composition of the Board is optimum and well balanced. As presently constituted, the Board has the stability, continuity and commitment as well as capacity to discharge its responsibilities effectively.

The Board currently has eight (8) Directors comprising one (1) Executive Director and seven (7) Non-Executive Directors, three (3) of whom are Independent Directors. The Independent Directors comply with the criteria on Independent Directors as set out in the Bursa Securities Listing Requirements and the Code.

The Board continued to be well balanced, in which the substantial shareholders are adequately represented, whilst the interest of the minority shareholders are represented by the Independent Directors. The diverse professional expertise of the Directors, spanning various fields including business, industry, financial, technical, corporate, management, legal and government relations, provide the Board with the requisite depth and quality in its deliberation and decision-making. In addition, the Board recently has set up a Board Advisory Panel/Council in order to enhance the Board in providing an independent view and advice with regards to the pharmaceutical and biotechnology industry.



STATEMENT ON CORPORATE GOVERNANCE

Together, the Directors with their wide experience in both the public and private sectors and diverse academic backgrounds provide a collective range of skills, expertise and experience which is vital to provide the direction for the Group.

A brief profile of each Director is presented on pages 30 to 34 of this Annual Report.

The Independent Directors provide considerable depth of knowledge collectively gained from experience in a variety of public and private companies. The Independent 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 Bursa Securities Listing Requirements. 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 conducts its business.

The presence of Independent Directors fulfill a pivotal role in corporate accountability. Although all the Directors have equal responsibility for the Group's operations, the role of these Independent Directors is particularly important as they provide unbiased and independent views, advice and judgment to take account of the interests, not only the Group, but also shareholders, employees, customers, suppliers and the many communities in which the Group conducts business.

Duties and Responsibilities of the Board

The Board is first and foremost responsible for ensuring the strategic guidance of the Company, the effective monitoring of management, and accountability to the Company and shareholders. In discharging their duties, the Board members act on well-informed basis, in good

faith, with due diligence and care, and in the best interests of the Company and stakeholders.

The Board members are mindful to apply high ethical standards, taking into account the interests of all stakeholders, in their decision making.

The Directors, in discharging their duties and responsibilities, are constantly mindful of the public interests and concerns of the business community, particularly those of customers, shareholders and all other stakeholders.

The key duties of the Board in discharging its stewardship include the following :

- Review and adopt a strategic plan
- Oversee and evaluate the conduct of the Company's business
- Identify and manage principal risks
- Succession planning
- Maintaining effective communication with shareholders and investors
- Review adequacy and integrity of the Company's internal controls

Apart from the above specific responsibilities, the Board also takes full, independent, responsibilities and accountability for the smooth functioning of core processes, involving board governance, business value and ethical oversight.

To facilitate effective discharge of responsibilities, dedicated Board committees were established, guided by clear terms of references with membership of Directors who has committed time and effort as required, and chaired by Non-Executive Directors exercising skillful leadership with in-depth knowledge of the relevant industry.

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



The terms of reference of the Chairman are different and distinct from the Managing Director, separated with clear distinction of duties and responsibilities between them; thus ensuring balance of power and authority. The Chairman is responsible for ensuring Board effectiveness and conduct whilst the Managing Director has overall responsibilities over the operating units, organisational effectiveness and implementation of Board policies approved by the Board and its decisions. The Managing Director is also obliged to report and discuss at Board meetings all material matters currently or potentially affecting the Group and its performance, including all strategic projects and regulatory developments.

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

Datuk Sulaiman bin Daud is the Senior Independent Non-Executive Director, to whom concerns relating to the Group's activities may be conveyed by employees, shareholders, the public and other stakeholders.

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 full report on the Nomination Committee is set out on page 49 of this Annual Report.

Re-election

In accordance with the Bursa Securities Listing Requirements 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. Particulars of Directors submitted to shareholders for re-election are enumerated in the Statement accompanying the Notice of Annual General Meeting (AGM).

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 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 30 to 34 of this Annual Report.

Training and Development of Directors

The Directors possess the commitment to quality and to create value by being relevant at all times, consistent with evolving changes and challenges in the pharmaceutical environment, domestically, regionally and also globally. The Directors, in this connection, have participated in and benefited from numerous conferences, seminars and training programmes on areas pertinent to the enhancement of their roles and responsibilities as Directors of a GLC specified in pharmaceutical and public listed company.

These provide the platforms to disseminate emergent strategic directions and ideas as well as intellectual innovations which enhance the knowledge and relevance of the Directors.



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of each listed issuer has a duty to evaluate and determine the training needs of its Directors on a continuous basis. The training must be one that aids the Director in the discharge of his duties as a Director of a listed GLC.

UEM Group, 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.

During the year, the Directors have also attended various seminars and international conventions to gain insight into the state of the economy as well as latest regulatory and pharmaceutical industry developments in relation to the Group's business.

Amongst the conferences, seminars and training programmes attended by Directors in 2007 are as follows :

Pharmacology/Manufacturing Operations

- APAC Pharma Congress 2007 (Indonesia)

Biotechnology

- Seminar on Biotechnology and its latest trends
- EU-Malaysia Biotechnology Business Partnership 2007

Statutory & Compliance

- Mandatory Accreditation Program ("MAP") for Directors of Public Listed Companies
- Amendments to the Companies Act 1965 and its impact on the GLCs
- Seminars organised by Bursa Malaysia Securities Berhad

Legal & Audit

- Audit Committee - Crucial Updates 2007

Leadership Management

- 2nd ASEAN Senior Management Development Programme

At least two (2) of the Board meetings include a visit by Directors to key operational locations and interactions with Senior Management of subsidiaries. On 25 May 2007, the Board members visited the Company's Small Volume Parenterals ("SVP") plant in Puchong, Selangor Darul Ehsan. Subsequently on 4 December 2007, the Board members also visited the Company's manufacturing plant in Bangi, Selangor Darul Ehsan.

Board Meetings and Supply of Information to the Board

Board meetings for the ensuing financial year are scheduled in advance before the end of each financial year so as to enable Directors to plan ahead and fit the year's Board meetings into their respective schedules. The Board meetings were convened to deliberate and consider a variety of significant matters including review of strategy plan, annual operating plan, quarterly financial statements, risk assessment, major investments, acquisitions and other corporate proposals, operational activities, strategic and corporate initiatives as well as matters specifically reserved for the Board's decision. When the need arises, Special Board Meetings are also convened.

The Board meetings are held regularly. The Board also meets on an ad-hoc basis to deliberate urgent issues concerning corporate proposals or matters that require the expeditious direction of the Board.

The Board may obtain independent professional advice from external consultants as deemed necessary for the effective discharge of their duties.

The Chairman of the Audit Committee would inform the Directors at Board meetings, of any salient matters noted by the Audit Committee and which require to be highlighted to the Board for implementation.



Dato' Mohamed Azman bin Yahya, the Chairman, chairs all the Board meetings.

Board meetings are conducted in accordance with a structured agenda. The agenda for each Board meeting and Board papers relating to the agenda items are forwarded to all Directors at least 4 days before the Board meeting. This is to facilitate the Directors to peruse the Board papers and review the issues to be deliberated at the Board meeting well ahead of the meeting date.

The Board meeting papers are presented in a comprehensive and concise manner. Board meeting papers furnished to Directors include progress reports on business operations, detailed information on business propositions and corporate proposals including where relevant, supporting documents such as professional advice from solicitors or advisers; new policies and guidelines issued by Bursa Malaysia and reports for updating the Board on the Company's business. In order to maintain confidentiality, issues or corporate proposals which are material information and price-sensitive, would be discussed at Board meetings with written papers being tabled at the meeting.

The Directors will make a declaration to that effect at the Board meeting in the event that they have interest in proposals considered by the Board. The interested Directors will thereupon abstain from deliberations and decisions of the Board on the subject proposal.

Minutes of each Board meeting are circulated to all Directors within a month after the meeting, for their

perusal prior to confirmation of the minutes before the commencement of the following Board meeting. The Directors may request for clarification or raise comments on the minutes prior to the confirmation of the minutes.

The Board has direct access to Senior Management and has full and unrestricted access to information relating to information of the Company's business and affairs in the discharge of their duties. The Directors may request further insights or clarifications on matters tabled at Board meetings. The Chief Operating Officer and Senior Management are invited to attend the Board meetings to update the Board on their respective areas of business, and also to brief and provide details to the Directors on proposals submitted for the Board's consideration.

Every member of the Board has ready and unrestricted access to the advice and services of the Joint Company Secretaries. The Directors are regularly updated and advised by the Joint Company Secretaries on new statutory and regulatory requirements and the impact and implication to the Company and Directors in carrying out their fiduciary duties and responsibilities. The Joint Company Secretaries organise and attend all Board meetings and ensure that accurate and proper records of the proceedings of Board meetings and resolutions passed are recorded and kept in the statutory register at the registered office of the Company.



STATEMENT ON CORPORATE GOVERNANCE

The commitment and dedication of the Board of Directors are reflected from the attendance record which well surpassed the 50% attendance requirements of the Bursa Securities Listing Requirements, as tabulated below :

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

DIRECTORS' REMUNERATION PROCEDURE

The Nomination and Remuneration Committees recommend to the Board the framework and the remuneration package for the Executive Director and Senior Management. In determining the framework, the Committees have 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 Employees Provident Fund) for the Managing 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 Directors after considering comparable industry rates and the level of responsibilities undertaken by Non-Executive Directors.

(c) Bonus Scheme

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

(d) Benefits-in-kind and other perquisites

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

(e) Retirement Plan

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

(f) Service Contract

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

(g) Director's Share Options

During the year ended 31 December 2007, the Managing Director was not entitled to any share as stated under the ESOS Bye-Laws. The entitlement for EES is shown on page 48.

Disclosure on Directors' Remuneration, ESOS & EES

The details of the remuneration received by each category of Directors for the financial year ended 31 December 2007 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 | 503,736 | - | 321,039 | 824,775 | 7,800 | 832,575 |
| Non-Executive Directors | - | 355,200 | 112,600 | 467,800 | 7,200 | 475,000 |
| Total | 503,736 | 355,200 | 433,639 | 1,292,575 | 15,000 | 1,307,575 |



STATEMENT ON CORPORATE GOVERNANCE

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

| Remuneration Band | No of Directors | |
|-----------------------|-----------------|---------------|
| | Executive | Non-Executive |
| RM50,000 and below | - | 2 |
| RM50,001 - RM100,000 | - | 4 |
| RM100,001 - RM150,000 | - | 1 |
| RM800,001 - RM850,000 | 1 | - |

Note : None of the Directors whose total remuneration falls within the RM150,001 to RM800,000 band.

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

| Name | Status | Type of Options | No of Shares | |
|------------------------------|------------------------|-----------------|------------------|------------------|
| | | | 31 December 2007 | 31 December 2006 |
| Mohamad bin Abdullah | Managing Director | EES | 667,900 | 653,900 |
| Dato' Ahmad Pardas bin Senin | Non-Executive Director | EES | 5,240,000 | 8,062,000 |

*EES - Employee Equity Scheme of UEM World Berhad, the immediate holding company of Pharmaniaga Berhad.

Further details on the above options are set out on pages 114 to 117 of this Annual Report.

BOARD COMMITTEES

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

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

Full report on the above Committees are set out on pages 67 to 72 and 49 to 53 of this Annual Report.



NOMINATION COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud
(Senior Independent Non-Executive Director)

MEMBERS

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

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

TERMS OF REFERENCE

Functions

- 1 To annually examine the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness.
- 2 To assist the Board in annually reviewing the required mix of skills, experience and other qualities, including core competencies, which Non-Executive Directors should bring to the Board and disclose the same in the Annual Report.
- 3 To annually carry out the process to be implemented for evaluating the effectiveness of the Board as a whole, the Committees of the Board and the performance and contribution of each individual Director based on the process implemented by the Board, and to identify areas for improvement.
- 4 To recommend suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.
- 5 To ensure that the appointment of any Executive Director or Managing Director shall be for a fixed term not exceeding three (3) years at any one time with power to reappoint, remove or dismiss thereafter.
- 6 To identify and recommend new nominees to the Board of Pharmaniaga Berhad and its subsidiaries and associated companies, whether to be filled by Board members, shareholders or executives. It is also to identify and recommend for all directorships proposed by the Managing Director, any Director or shareholder to fill the seats on the Audit, Nomination, Remuneration or other Committees. A description/

specification for the new Directors should be drafted before identifying possible candidates. Candidates shall be evaluated against this specification.

- 7 To identify and recommend Senior Management position e.g. Chief Operating Officer, Chief Financial Officer, Operational Directors position and its terms and conditions for the Board's approval.

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

Meetings and Procedures

Meetings are to be held as and when necessary. The quorum for each meeting shall be two (2). The Committee will decide its own procedures and other administrative arrangements. Minutes of each meeting shall be kept by the Company Secretaries as evidence that the Committee has discharged its functions. The Chairman of the Committee will report to the Board after each Nomination Committee Meeting.

The Committee met twice during the year ended 31 December 2007 and all three (3) members attended both meetings.

Summary of Activities (2007)

- Discussed on the results of the Board Effectiveness Assessment (BEA) for the 2nd Half of 2007.
- Discussed on the status of the progress of Actionable Improvement Program of the Board, following the BEA.
- Discussed on the appointment of the new President Commissioner (Chairman) of the Board of Commissioners of PT Millennium Pharmacon International Tbk.



STATEMENT ON CORPORATE GOVERNANCE

REMUNERATION COMMITTEE

CHAIRMAN

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

MEMBERS

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

Ismael Fariz bin Ali
(Non-Independent Non-Executive Director)

TERMS OF REFERENCE

Functions

- 1 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.
- 2 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 the Senior Management staff (Grade UT2 and above).
- 3 Represent the public interest and avoid any inappropriate use of public funds when considering severance payments for senior staff.
- 4 Review the history of and proposals for the remuneration package of each of the Company's committees.

The Remuneration Committee carries out the annual review of the overall performance of the Executive Director and other selected Senior Management positions (Grade UT2 and above) whereupon recommendations are submitted to the Board for approval; on the overall remuneration policy such as terms of employment, reward structure and fringe benefits with the aim to attract, retain and motivate individuals of the highest quality. The Committee and the Board ensure that the Group's remuneration policy remains supportive of the Group's corporate objectives

and is aligned with the interest of shareholders, and further that the remuneration packages of Directors, Managing Director and key Senior Management Officers are sufficiently attractive to draw in and to retain persons of high calibre.

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

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

Meetings and Procedures

Meetings are held as and when necessary or required, and at least once a year. The quorum for each meeting shall be two (2). The Managing Director shall attend and make presentations at meetings, whenever business is not related to his own remuneration. The Committee will decide its own procedures and other administrative arrangements. Minutes of each meeting shall be kept by the Company Secretaries as evidence that the Committee had discharged its functions. The Chairman of the Committee will report to the Board after each Remuneration Committee meeting.

The Committee met once during the year ended 31 December 2007 and all three (3) members attended the meeting.



RISK MANAGEMENT COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud
(Senior Independent Non-Executive Director)

MEMBERS

Mohamad bin Abdullah
(Managing Director)

Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh
(Independent Non-Executive Director)
(Appointed w.e.f 27 February 2008)

Stephen Sze Kwong Yew
(Chief Operating Officer)
(Appointed w.e.f 1 March 2008)

Roshidah binti Abdullah
(Chief Operating Officer)
(Resigned w.e.f 1 March 2008)

Abd Rahman bin Abdullah Thani
(Director, Indonesia Operations)

Ramlan bin Abdul Rahman
(Senior General Manager,
Group Corporate Services)

Izhar bin Shaari
(Senior General Manager,
Organisational Development)
(Resigned w.e.f 1 February 2008)

TERMS OF REFERENCE

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

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

Functions

- 1 To provide oversight, direction and counsel to the risk management process.
- 2 To establish risk management guidelines.

- 3 To evaluate the structure for the Group risk management, risk management processes and support system.
- 4 To consider the quarterly report on risks, major findings and management responses thereto on material issues, highly significant risks, changing environments and required urgent changes in the risk management programmes.
- 5 To carry out risk evaluation on :
 - All capital expenditure proposals by the Company and its subsidiaries exceeding a certain limit.
 - Any business ventures into new areas of business and any investment outside of Malaysia.
 - Any transaction which carries exceptional terms, conditions or obligations including contingent obligations.
- 6 To review and approve action and contingency plans developed to mitigate key significant risks.
- 7 To advise the Board on risk related issues and recommend strategies, policies and risk tolerance for Board approval.

Meetings

Meetings are held as and when necessary and/or required to review specific matters, and at least twice a year. The members registered full attendance at the two (2) meetings held by the RMC in 2007.



INVESTMENT COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud
(Senior Independent Non-Executive Director)

MEMBERS

Ismael Fariz bin Ali
(Non-Independent Non-Executive Director)

Oh Kim Sun
(Non-Independent Non-Executive Director)

Mohamad bin Abdullah
(Managing Director)

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

Functions

- 1 To review and recommend to the Board the investment policies and strategies.
- 2 To receive quarterly reports, deliberate and decide on the compliance with the overall investment policies and strategies. Subsequently to report the findings to the Board.
- 3 At the Initial Investment Initiation stage :
 - To review and approve for the Company to proceed with the investment initiation activities, if the Committee is satisfied that the investment is viable and for overseas ventures, is in line with the overall Expansion Strategy adopted by the Group.

- The Committee is given the power to authorise the Company to enter into any agreements, understanding and/or contracts with potential partners initiation stage and approve such terms in relation to the said agreement, understanding and/or contracts which may include equity participation of the Company.

4 Following the Detailed Appraisal/Evaluation :

- To review and recommend to the Board for final decision, the investment proposals to review the terms of reference of the Committee and recommend the changes to the Board.
- To review other investment matters as the Board deems appropriate and in the best interest of the Company.

Meetings

Meetings are held as and when necessary and/or required to review specific matters. During the financial year, six (6) meetings were held in which two (2) of them were Special Investment Committee Meetings. Except for one special meeting, all members attended the meetings held by the Committee in 2007.



ESOS COMMITTEE

CHAIRMAN

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

MEMBERS

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

Mohamad bin Abdullah
(Managing Director)

Stephen Sze Kwong Yew
(Chief Operating Officer)
(Appointed w.e.f 1 March 2008)

Roshidah binti Abdullah
(Chief Operating Officer)
(Resigned w.e.f 1 March 2008)

The ESOS Committee 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.

On 4 July 2003, the Company implemented the ESOS after approvals were obtained from the relevant authorities. The ESOS Scheme is governed by the bye-laws which were approved by the Company's shareholders at the Extraordinary General Meeting held on 19 June 2003, and administered by ESOS Committee appointed by the Board.

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.

Functions

- 1 To administer the ESOS 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.

- 2 To review and amend, at any time and from time to time, any provisions of the Scheme and the ESOS Bye-Laws, provided that the 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, shareholders and other relevant authorities.

Summary of Activities (2007)

- To approve the ESOS Offer #6 to all newly eligible staffs as at 31 August 2007.
- To approve the ESOS Offer #6 to staffs in Grade E6 and above based on performance ratings for 2006.
- To approve the ESOS Offer #6 to all promoters in 2007 of Adjusted ESOS.
- To review the purpose of the current ESOS Scheme as to whether it serves its objective in recognising the contribution of the performed employees of the Company whose services are valued and to encourage them to remain with the Company for the continued growth and expansion of the Group.

Meetings

During the financial year, two (2) meetings were held and all four (4) members were present.



STATEMENT ON CORPORATE GOVERNANCE

ACCOUNTABILITY AND AUDIT

Financial reporting

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

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

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

The Statement of Responsibility by Directors in respect of the preparation of the annual audited financial statements of the Group is set out on page 66 of this Annual Report.

Related Party Transactions

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

Details of these transactions are set out under Note 33 to the Financial Statements on page 179 of this Annual Report.

Statement on Internal Controls

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

The Group's Statement on Internal Controls, pursuant to paragraph 15.27(b) of the Bursa Malaysia Listing Requirements is set out on page 56 to 65.

Relationship with Auditors

An appropriate relationship is maintained with the Auditors through the Audit Committee. The Audit Committee has been explicitly accorded the power to communicate directly with both the external and internal Auditors. The role of the Audit Committee in relation to the Auditors is stated in pages 71 to 72 in the Audit Committee Report.

RELATIONSHIP WITH SHAREHOLDERS/INVESTORS

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

Annual Report

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

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

Annual General Meetings

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



The AGM provides an open forum at which shareholders and investors are informed of current developments and where ample time is allowed for questions to be raised to Board members and the Chairman. The Company supports the Code's principle to encourage shareholder participation. The Company's Articles of Association allows a member who is entitled to attend and vote to appoint a proxy who need not be a member of the Company to attend and vote on his/her behalf. A press conference is held immediately after the AGM where the Chairman, senior management and auditors are present to clarify and explain issues raised by the media.

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

Briefing to Analysts

The Board of Directors acknowledged the importance of communication with shareholders/investors and conduct regular dialogues and briefings with financial analyst, brokers and institutional fund managers and investors on the Group's financial results, performance and business strategies. Such plan will be included in Pharmaniaga's schedule throughout the year of 2008.

Other Communications

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

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 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 2007 are as follows :

| External Auditor | Total Paid (RM) |
|---------------------------------------|-----------------|
| PricewaterhouseCoopers | 32,760 |
| Ernst & Young Tax Consultants Sdn Bhd | 1,470 |
| Total | 34,230 |

2 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 2007.

3 Material Contracts

Save for the Memorandum of Understanding ("MOU") dated 5 February 2008 entered into between Pharmaniaga Berhad and Visor Holding LLP for Collaboration and Participation in Healthcare Projects in the Republic of Kazakhstan, there are 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.

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 Malaysian Code on Corporate Governance (Revised 2007), except for disclosure on Directors' remuneration that complies with Appendix 9C Part A (10)(a) and (b) Chapter 9 of the Listing Requirements.

Reports on Corporate Social Responsibility and Environment, Safety and Health are disclosed on pages 101 to 109 of this Annual Report.



STATEMENT ON INTERNAL CONTROL

BOARD RESPONSIBILITY

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

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board via the Audit Committee and accords with the guidelines for directors on internal control, the *Statement on Internal Control: Guidance for Directors of Public Listed Companies*.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the financial statements is sound and sufficient to safeguard the shareholders' investment, the interest of customers, regulators and employees and the Group's assets.

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

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

KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

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

1 MANAGEMENT CONTROL

- **Risk Management**

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

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



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

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

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

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

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

In line with the Group's focus to expand its business activities, the RMC had undertaken a more detailed

approach towards assessing risks relating to doing business locally and overseas. As a result, the Investment Committee ("Committee") was set up in 2006 to assist the Board in reviewing, evaluating, monitoring and making recommendations in respect of any investment or divestment prior to Board's approval.

• **Policies, Procedures and Discretionary Authority Limits**

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

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



STATEMENT ON INTERNAL CONTROL

- **Performance Management**

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

- **P**roductivity of resources
- **E**xpansion and growth of business
- **P**eople and organisational development
- **S**ystems and processes improvements
- **I**mage and perception management

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

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

- **Standard of Ethical Code of Conduct**

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

employees to ensure that they are immediately aware of the accepted code of ethical conduct and employee's obligations and responsibilities under the Safety and Health policies.

- **Strategic Business Planning, Budgeting and Reporting**

The Board plays an active role in strategic planning sessions held with management to discuss and review the plans, strategies, performance and risks faced by the Group. During the year, two strategic planning sessions were conducted. Strategic options and thrusts were deliberated and action plans were then reviewed and finally, mandates were given to management by the Board.

Business plans, budgets and KPIs are aligned to the Group's Five-Year Strategic Plan, which guides the Group in achieving its vision of becoming the preferred brand in healthcare. Monitoring results of actual achievements of financial and non-financial indicators against the approved budget and explanations are provided for significant variances at monthly operations meetings and quarterly Board meetings.

Based on strategies identified in the Strategic Plan, Five-Year Business Plans 2008-2012 and Annual Operation Plan together with KPIs are drawn up and approved by the Board on 4 December 2007. This is to ensure accountability and achievement of the Group's objectives and strategies. Strategies are also reviewed if there are changes in business and operating environments.

- **Regular Monthly Reporting**

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



- **Tender Award System**

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

- **Insurance**

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

2 GROUP INTERNAL AUDIT

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

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

3 AUDIT COMMITTEE

The Audit Committee is responsible for monitoring, overseeing and evaluating the duties and responsibilities of the Management, the Internal Audit function and the external auditors as those duties and responsibilities relate to the organisation's processes for controlling its operations.

The Audit Committee is also responsible for determining that all major issues reported by the Internal Audit function, the external auditors and other outside advisors have been satisfactorily resolved by the Management.

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

MONITORING AND REVIEW OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

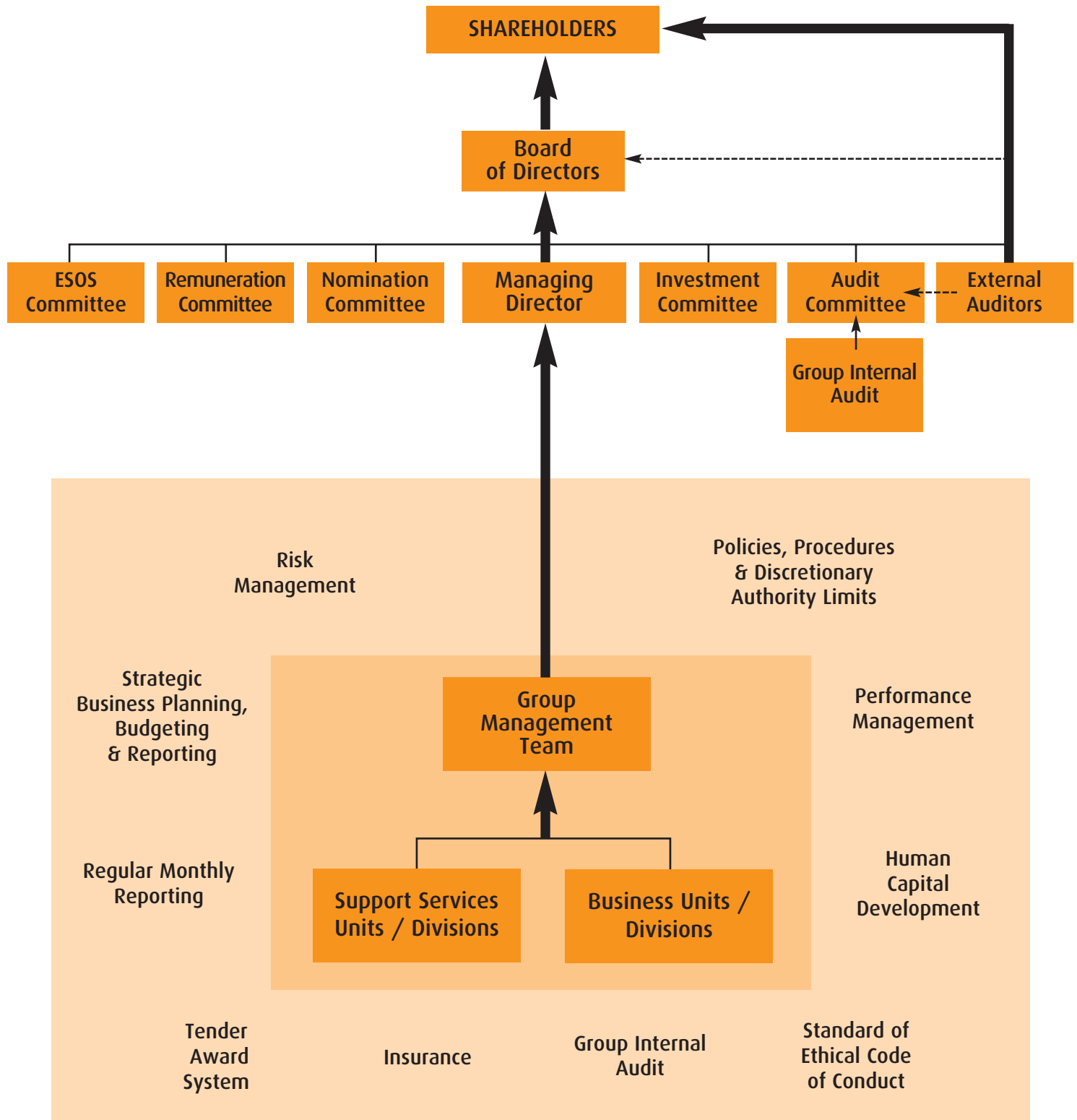
The external auditors have reviewed this Statement on Internal Control for the inclusion in the annual report of the Company for the year ended 31 December 2007 and reported to the Board that the Statement appropriately reflects the process undertaken by the Company and the Group in ensuring the adequacy and integrity of the system of internal controls.

This statement is made in accordance with the resolution of the Board of Directors dated 4 April 2008.



STATEMENT ON INTERNAL CONTROL

INTERNAL CONTROL FRAMEWORK OF PHARMANIAGA BERHAD GROUP





REPORT ON CORPORATE RISK MANAGEMENT

MEMBERSHIP

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

- Datuk Sulaiman bin Daud (Chairman/Senior Independent Non-Executive Director)
- Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh (Independent Non-Executive Director, appointed on 27 February 2008)
- Mohamad bin Abdullah (Managing Director)
- Stephen Sze Kwong Yew (Chief Operating Officer, appointed on 1 March 2008)
- Roshidah binti Abdullah (Chief Operating Officer, resigned on 1 March 2008)
- Abd Rahman bin Abdullah Thani (Director, Indonesia Operations)
- Ramlan bin Abdul Rahman (Senior General Manager, Group Corporate Services)
- Izhar bin Shaari (Senior General Manager, Organisational Development, resigned on 1 February 2008)

The RMC reports directly to the Board of Directors.

MEETINGS

The RMC has had two meetings during the financial year ended 31 December 2007. Representatives from the Group Internal Audit from UEM Group Management Sdn Bhd also attended the meeting upon invitation.

For Pharmaniaga Group, the practice of risk management is not designed to stop employees from taking risks but rather to create value by enhancing the chances of achieving corporate success and enabling managers and shareholders to understand the level of

risks undertaken and to manage the risk profile accordingly. Risk management is firmly embedded in the Group's management system and is every employee's responsibilities.

RISK MANAGEMENT FRAMEWORK

Compliance and Performance Objectives

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

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

The Group RMF has the following key attributes :

Risk Governance and Strategy

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

- (i) Day-to-day risk management residing at the business units and divisions
- (ii) Group Risk Management Work Group Committee ("RMWGC") taskforce headed by the Managing Director, Heads of Business Units and Divisions is entrusted to drive the Risk Management of the Group. The RMWGC responsibilities are to :
 - Conduct quarterly review of the business risks
 - Coordinate the development of risk mitigation action plans
 - Update Business Continuity Plan for key business risks
 - Monitor the results of key performance indicators
 - Ensure good corporate governance
- (iii) The RMC retains the overall risk governance responsibility and risk oversight for the Group and its subsidiaries
- (iv) The secretariat for the RMWGC is Corporate Development Unit



STATEMENT ON INTERNAL CONTROL

Risk Management Portfolio

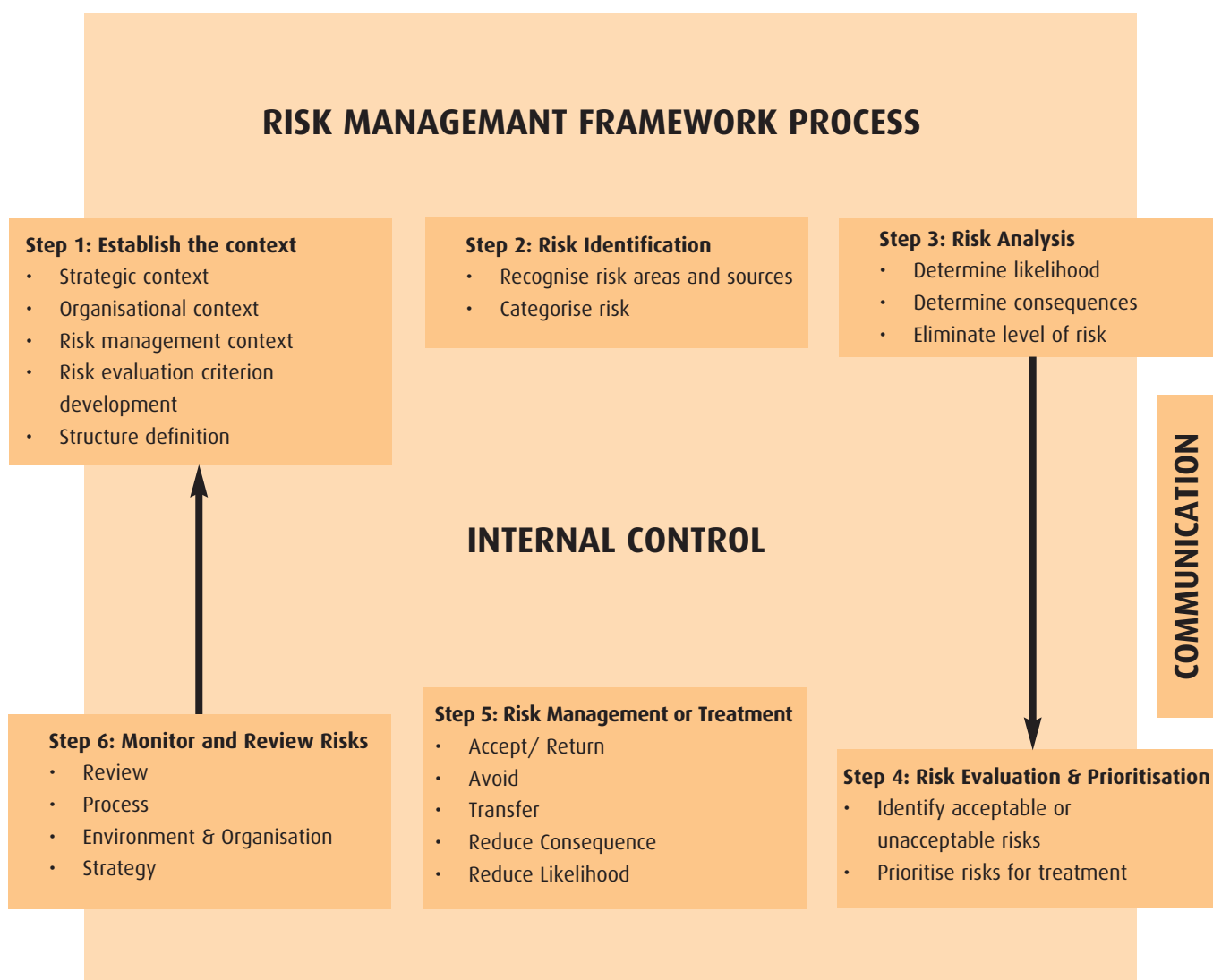
Based on its nature and characteristic, identified risks are broadly categorised into major risk types such as strategic, operational, financial, legal and regulatory, human capital, reputation and environmental. Risks are further classified, measured and prioritized using a “5 x 5” risk matrix methodology.

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



Risk Management Process

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





STATEMENT ON INTERNAL CONTROL

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

Likelihood of the risk crystallising

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

Severity or impact of the consequence

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

Degree of internal control and risk management measures in place.

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

The key elements of the process are :

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

Performance Monitoring

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

Risk Control Assurance

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



REVIEW OF THE GROUP'S RISK MANAGEMENT PROFILE

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

In July, August and December 2007, the RMWGC and management jointly updated the risk register and risk management action plans.

The RMC met twice during the year in August 2007 and January 2008 to review the Group's risk profile and progress of the action plans for 2007. The RMC tabled its report to the Board of Directors in May 2007, August 2007 and February 2008.

Summary of risks for the year:

| | |
|----------------------|-----------|
| Total existing risks | 75 |
| New risks identified | 6 |
| Total risks | 81 |

Risk Rating:

| | |
|--------------------|-----------|
| Significant | 21 |
| Moderate | 37 |
| Medium Low | 21 |
| Low | 2 |
| Total risks | 81 |

Group Risk Profile

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

Logistics Business Risks

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

Manufacturing and Marketing Business Risks

In this sector, the Group is exposed to the economic conditions of the global economy, impact of competition from other pharmaceutical players, market demand, shortage of raw materials and changes in the regulatory environment.

Other Risks

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



STATEMENT of DIRECTORS' Responsibility

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 been 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.

Audit Committee Report



CHAIRMAN

YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin

(Independent Non-Executive Director)

(Appointed w.e.f 21 November 2007)

Ismael Fariz bin Ali

(Non-Independent Non-Executive Director)

(Resigned w.e.f 21 November 2007)

MEMBERS

Datuk Sulaiman bin Daud

(Senior Independent Non-Executive Director)

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

(Independent Non-Executive Director)

The Board of Directors of Pharmaniaga Berhad is pleased to present the report of the Audit Committee of the Board ("Committee") for the year ended 31 December 2007.

Composition/Membership

- The Audit Committee was established and appointed by the Board of Directors, to assist them to carry out their responsibilities and with the primary objective of assessing the Board of Pharmaniaga Berhad in fulfilling its fiduciary responsibilities relating to corporate accounting, system of internal controls and risk management processes, and management and financial reporting practices of the Group. The Audit Committee comprises three (3) Independent Non-Executive Directors of the Board.
- All members of the Committee must be non-executive directors, a majority of whom must be independent directors.
- Chairman of the Committee shall be approved by the Board of Directors and shall be an independent non-executive director and shall be a member of the Malaysian Institute of Accountants (MIA).

- On 21 November 2007, YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin was appointed as the Chairman of the Committee replacing Encik Ismael Fariz bin Ali who resigned following his appointment as an Executive Director, Investments at Khazanah Nasional Berhad.
- YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin's professional accounting qualification meets the requirement of Chapter 15.10 of the Bursa Malaysia Listing Requirements. He is a member of Chartered Institute of Management Accountants (CIMA), Malaysian Institute of Accountants (MIA) and Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).

Meetings

- Attendance of Meetings

The details of attendance of each member at the five (5) Audit Committee meetings held during the year of 2007 are tabulated as follows :



Audit Committee Report

| | 1/2007 12.02.2007 | 2/2007 18.04.2007 | 3/2007 24.05.2007 | 4/2007 15.08.2007 | 5/2007 19.11.2007 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin | ■ | ■ | ■ | ■ | ■ |
| Datuk Sulaiman bin Daud | ■ | | ■ | ■ | ■ |
| Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh | ■ | ■ | ■ | ■ | ■ |
| Ismael Fariz bin Ali | ■ | ■ | ■ | ■ | ■ |

Frequency of Meetings/Quorum

The Committee's Terms of Reference state that the Committee shall convene meetings as and when required at the discretion of Chairman, and at least 4 times during the financial year. The quorum shall be two (2) members, a majority of whom must be independent directors.

Attendees/Invitees

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

At least twice a year, the Committee shall meet the external auditors without any executive and management presence except the Company Secretaries.

Venue

The Committee met 5 times, and all of the meetings were held at the station offices. The meetings at the station offices enabled the Audit Committee members and operating management to interact and facilitated feedback to improve systems and performance.

Reports/Minutes

Minutes of the meeting shall be distributed to each member of the Committee and of the Board. The Secretary to the Committee shall be the Company Secretaries, or in their absence, any person appointed by the Audit Committee.

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



SUMMARY OF ACTIVITIES (2007)

1 Financial Results

- Reviewed the Quarterly and Annual Financial statements of the Company and Group including announcements, prior to recommending them for Board's 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.

Release of Quarterly Financial Results in 2007

| | Date of Issue/Release | No of Days before the Deadline | Bursa Securities Deadline |
|-------------------------------|-----------------------|--------------------------------|---------------------------|
| Annual Report 2006 | 30 April 2007 | 61 | 30 June 2007 |
| 2007 Quarterly Results | | | |
| 1Q2007 | 25 May 2007 | 6 | 31 May 2007 |
| 2Q2007 | 17 August 2007 | 14 | 31 August 2007 |
| 3Q2007 | 22 November 2007 | 8 | 30 November 2007 |
| 4Q2007 | 28 February 2008 | 1 | 29 February 2008 |

2 Internal Audit

- Reviewed and approved Group Internal Audit (GIA)'s Budget and Annual Audit Plan to ensure adequacy of resources and coverage on auditable entities with significant high risks.
- Reviewed internal audit reports issued by GIA and external parties, covering the performance of companies/branches audited in regards to the effectiveness and adequacy of risk management, operational, compliance and governance processes, whereafter discussed the management's actions taken to improve the system of internal control and any outstanding matters.
- Reviewed the adequacy and effectiveness of corrective actions taken by management on all significant matters raised.

- Reviewed the results of ad-hoc investigations performed and confirmed that appropriate actions are taken to correct the weaknesses.
- Reviewed the Group's 2006 objectives/plans/budgets and enterprise risk management framework.

3 External Audit

- Reviewed the External Audit Plan and the scope for the annual audit as prepared by the external auditors.
- Deliberated and reported the results of the annual audit to the Board.
- Recommended to the Board the appointment and remuneration of the Group External Auditor.
- Met with the Group External Auditor without the presence of management to discuss any matters that they wish to present.



4 Related Party Transactions

- Reviewed the system for identifying, monitoring and disclosing related party transactions entered into by Pharmaniaga Group and/or its group of companies with related parties, which were thereafter, as deemed fit, recommended to the Board for consideration and approval.
- Reviewed the Circular to Shareholders relating to shareholders' mandate for recurrent related party transactions of a revenue or trading nature prior to recommending it for Board approval.

5 Annual Reporting

- Reviewed and recommended the Statement on Corporate Governance, Statement on Internal Control, Audit Committee Report and Circular to Shareholders on Related Party Transactions to the Board for approval, and thereafter for disclosure in Annual Report 2006.

The meetings were appropriately structured through the medium 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 any equivalent qualifications recognised by the MIA; and
- d No alternate director shall be appointed as a member of the Audit Committee.

The members of the Audit Committee shall elect a Chairman from among themselves who 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 Secretaries or in their absence, 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 auditors before the audit commences, the nature and scope of the audit, the audit plan and ensure co-ordination where more than one audit firm is involved.
- 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 Function which is outsourced to UEM Group Management Sdn Bhd (UEMGM), is adequately resourced and has appropriate standing within the Company and its subsidiaries to undertake its activities.
- 4.07 Consider the major findings of internal investigations and management's response independently and objectively, including but not limited to the following.

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

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

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

4.12 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, free and unrestricted access to any information, records, properties and personnel of the Company and of any other companies within the Group;
- d Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);



Audit Committee Report

- 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

In the discharge of its duties, the Audit Committee is strongly supported by the Internal Auditors which was undertaken by UEMGM. UEMGM's role is to evaluate and report on the adequacy, integrity and effectiveness of the Group's overall system of internal control.

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

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

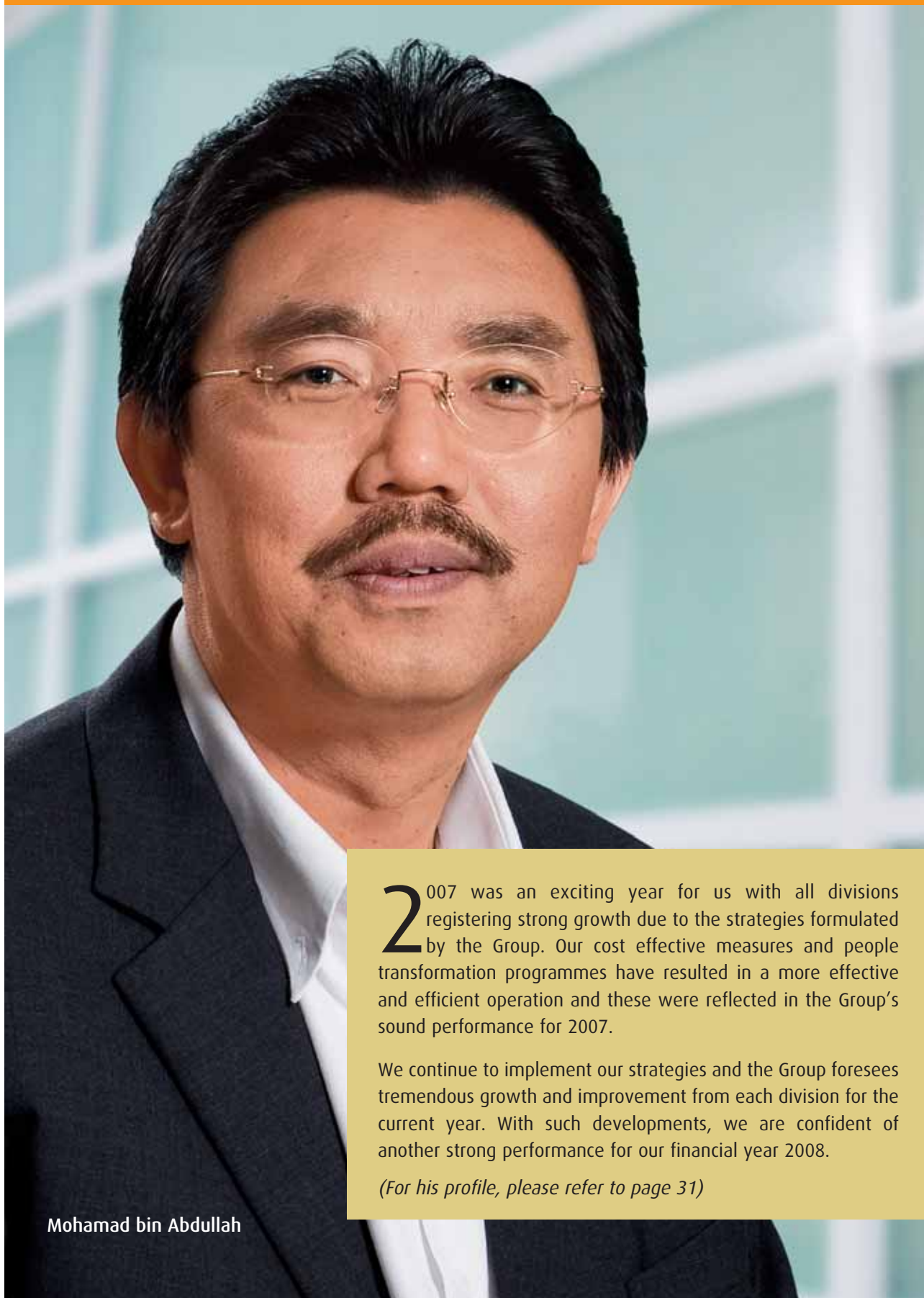
Further details of the activities of the internal audit are set out in the Statement on Internal Control on pages 58 to 60.

Statement on Employees' Share Option Scheme (ESOS)

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

PERFORMANCE DRIVERS

MANAGING DIRECTOR



Mohamad bin Abdullah

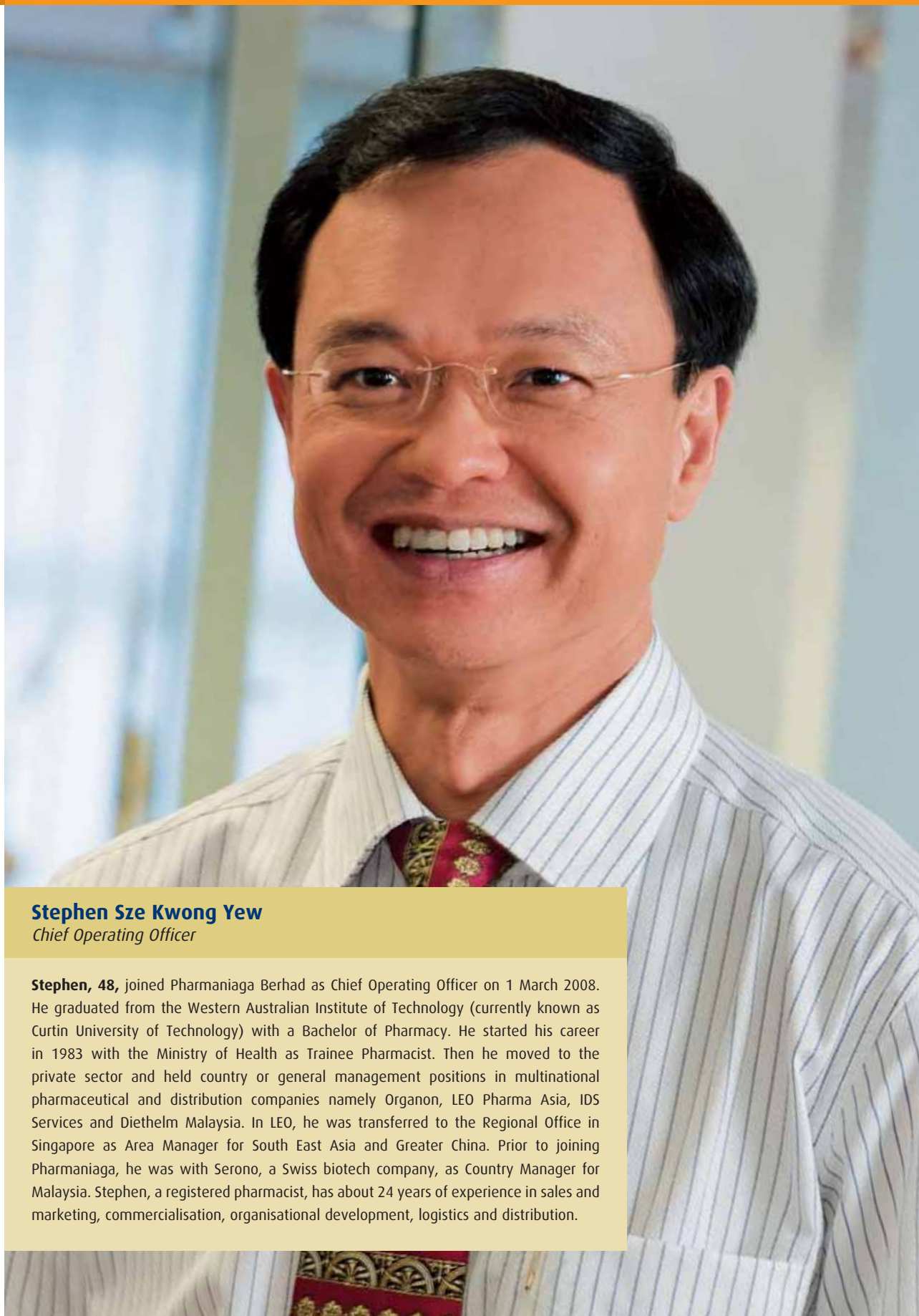
2007 was an exciting year for us with all divisions registering strong growth due to the strategies formulated by the Group. Our cost effective measures and people transformation programmes have resulted in a more effective and efficient operation and these were reflected in the Group's sound performance for 2007.

We continue to implement our strategies and the Group foresees tremendous growth and improvement from each division for the current year. With such developments, we are confident of another strong performance for our financial year 2008.

(For his profile, please refer to page 31)



Chief Operating Officer



Stephen Sze Kwong Yew

Chief Operating Officer

Stephen, 48, joined Pharmedia Berhad as Chief Operating Officer on 1 March 2008. He graduated from the Western Australian Institute of Technology (currently known as Curtin University of Technology) with a Bachelor of Pharmacy. He started his career in 1983 with the Ministry of Health as Trainee Pharmacist. Then he moved to the private sector and held country or general management positions in multinational pharmaceutical and distribution companies namely Organon, LEO Pharma Asia, IDS Services and Diethelm Malaysia. In LEO, he was transferred to the Regional Office in Singapore as Area Manager for South East Asia and Greater China. Prior to joining Pharmedia, he was with Serono, a Swiss biotech company, as Country Manager for Malaysia. Stephen, a registered pharmacist, has about 24 years of experience in sales and marketing, commercialisation, organisational development, logistics and distribution.

Group Corporate Services



Ramlan bin Abdul Rahman

Senior General Manager, Group Corporate Services

Ramlan, 42, joined Pharmaniaga in June 2006. A Chartered Accountant, Ramlan is a member of the Malaysian Institute of Accountants and Institute of Chartered Accountants New Zealand. He holds a Masters Degree in Business Administration from Ohio University. He has over 20 years of experience in the field of accounting and finance. Prior to joining the Group, Ramlan served as General Manager, Corporate Reporting and Treasury in UEM World Berhad and worked for MMC Corporation Group for 13 years holding various positions. Ramlan joined Ernst & Young, New Zealand in 1987 before returning to Malaysia when he joined the local firm in 1990.



Chen Yoke Ming

Deputy General Manager, Corporate Reporting

Chen, 46, is the Deputy General Manager of Corporate Reporting Department. She possesses a Bachelor of Economics degree (majoring in accounting) from Monash University, Australia and is a Certified Practising Accountant of CPA Australia as well as a Chartered Accountant with the Malaysian Institute of Accountants. She joined Pharmaniaga in May 1995 as Assistant Manager in Operations Finance Department and was promoted to the current position in 2006. Prior to joining Pharmaniaga, she was an accountant with one of the subsidiaries in TIME Engineering Berhad. She was also attached to Ernst & Young, a Chartered/Public Accounting firm previously.



Fahrul Ariffin bin Wan Mansor

Senior Manager, Corporate Communications

Fahrul Ariffin, 39, is the Senior Manager, Corporate Communications Department. He joined Pharmaniaga in February 2006 as Senior Manager of Marketing after spending 10 years at four multinational pharmaceutical companies. His past exposure was mainly in neurology and psychiatry, which he finds insightful when dealing with employees at Pharmaniaga. Fahrul holds a degree in Health Science (University of Adelaide) and has an in-depth understanding and appreciation of medicine & healthcare. His past experiences in customer-driven sales-marketing activities eventually shaped his interest in corporate communications.





Group Corporate Services



Mohamad Fazlin bin Mohamad

Senior Manager, Middle East Operations

Mohamad Fazlin, 35, started his Business Development career with Pharmaniaga in 2004. His knowledge and expertise led him to the office of Director, Indonesia Operations, where he was made in charge of business development. Currently, Mohamad Fazlin heads the business development activities for the Middle East region. He graduated with a LLB (Hons) from the University of Huddersfield in 1995 and joined KPMG Recovery & Restructuring upon graduation.

Andrew Loke

Senior Manager, Corporate Development

Andrew, 37, has been with the Pharmaniaga Group since 2003 and he currently heads the Corporate Development Unit which oversees Strategic Planning and Business Development. Prior to heading this unit, Andrew helmed the Business Development department of Pharmaniaga Solutions, the previous Information Technology subsidiary of Pharmaniaga Berhad. Andrew is trained in Econometrics and specialises in Supply Chain Management. His work experience includes being a Senior Consultant with a major international consulting group based out of Boston as well as regional Sales & Marketing experience in the automotive industry. Andrew holds a Bachelors of Science in Business Administration, a Masters of Science in International Business and an MBA.



Norhana binti Othman

Manager, Legal & Secretarial

Norhana, 39, is the Manager, Legal and Secretarial of Pharmaniaga Berhad. She is also the Joint Company Secretary of Pharmaniaga Berhad and its subsidiaries. She holds a Bachelor of Laws (LLB) from International Islamic University. She joined Pharmaniaga in 2001 as Assistant Manager, Legal and Secretarial and was promoted to the current position in 2005. Prior to that, she held a similar position in Credit Corporation Malaysia Berhad, a finance company under DRB-Hicom Group.



Jamaludin bin Elis

Senior General Manager, Manufacturing

Jamaludin, 44, is the Senior General Manager, Manufacturing. He received his Diploma in Civil Engineering from Universiti Teknologi Malaysia before proceeding to Brighton Polytechnic, UK, for his Bachelor of Science in Mechanical Engineering. He is also a holder of an MBA degree from Southern Cross University, Australia. Jamaludin has had wide-ranging work experience from his days at Delta Switchgear Sdn Bhd, a British manufacturer of switchboards and electrical switching components, to Popular Profile Group, a PUNB investee company with diverse business ventures from disk drives to automotive, electronics and telephony components. His last assignment was at Meditop Corporation Sdn Bhd, a Japanese multinational company producing medical devices, before joining Pharmedia on 1 April 2004.



GENERIC PHARMACEUTICALS

Chuang Kwang Ch'ng

Senior General Manager, Small Volume Injectables

Chuang, 49, the Senior General Manager of Small Volume Injectables (SVI) plant in Puchong, joined Pharmaniaga in May 2006. Prior to this, Chuang was the Corporate Productivity Head of B-Braun Asia Pacific companies from 1993 to 1996. Chuang was in the United States for 13 years where he served various manufacturing operations management and held consulting positions with premier companies which included IBM-Rolm and Puritan Bennett. He was also the CEO of Strategy for the Silicon Valley Group. He holds a degree in Industrial and Systems Engineering from University of Southern California, Los Angeles and a post graduate study in Operations Management. Chuang is also a member of the American Institute of Management (AIM) and Shenyang China Pharmaceutical Association.



Zarina binti Noordin

Senior Manager, Manufacturing Strategy & Regulatory Affairs

Zarina, 45, is the Senior Manager, Manufacturing Strategy & Regulatory Affairs. A registered pharmacist, she graduated with a B. Pharmacy & M. Pharmaceutical Studies from University Queensland, Australia in 1988. Zarina started her career as a Clinical Pharmacist with Gold Coast Hospital in 1985 and later moved to Dumex where she was the Production Pharmacist for a year until 1990. She joined Asia Pharmaceutical Products for a year and left in 1991 for Pharmaniaga. She held various positions at Pharmaniaga since she joined the Group. Prior to her current position, Zarina started as a Production Pharmacist, subsequently assumed the positions of QA Manager, Product Development & Regulatory Affairs Manager and Head of R&D. Zarina is a member of the Malaysian Pharmaceutical Society, International Society of Pharmaceutical Engineers, Parental Drug Association, USA, and American Association of Pharmaceutical Scientist and Drug Information Association, USA. She is also actively involved in numerous industry/regulators work groups at the national and regional level and is currently the Secretary-General for the ASEAN Pharmaceutical Industry Club.



Ramlan bin Ibrahim

Senior Manager, Sales & Marketing

Ramlan, 39, is the Senior Manager of Sales & Marketing Department for the Ethical product range for Pharmaniaga Manufacturing Berhad. A B.Sc graduate from University of Tasmania, Australia, he joined Pharmaniaga in March 2006 as Senior Manager for Institutional/Government sales before his redesignation to his current post recently. Prior to that, Ramlan was attached to the Pharmaceutical Sales of a French multinational company, Servier for 10 years. During his tenure at Servier, Ramlan had acquired vast experience in managing sales teams in all sectors, both in Private & Government market.





Manufacturing

The Manufacturing division succeeded in its first phase of transformation into an efficient manufacturing outfit when it posted an increase of 33.1% in its pre-tax profit to RM36.7 million from RM27.6 million in the previous year. Revenue grew by 22.8% to RM149.7 from RM121.8 million in the previous year. The review in the purchases of raw material and prices had contributed to the improvement in margins which saw the overall material costs savings of RM2.0 million.

The initiatives to achieve higher productivity margins were also supported by Lean Six Sigma initiatives, 5S, revamping of Production Planning and Inventory Control ("PPIC") and productivity driven programmes. The Lean Six Sigma initiatives also saw 14 projects being initiated with possible total savings of RM8 million per annum.



The division also implemented "Project 55", a challenge for Pharmaniaga Manufacturing Berhad ("PMB") to push gross profit margin to 55%.

In April 2007, the Division also saw the final product rationalisation between Safire & PMB which involved the transfer of all galenicals and cream products to PMB. The final phase of this product rationalisation process is in line with the manufacturing strategy of optimising plant capacity, as well as maximising productivity and enhancing revenue growth.

The division also had its Quality and Environmental, Safety and Health ("ESH") week from 3 September 2007 to 10 September 2007. The programme saw all employees participating in various activities lined up to create awareness on health and safety, as well as the environment.

During the year under review, PMB was awarded the Notable Achievement in the Prime Minister's Hibiscus Award ("PMHA") for Environmental Performance. *More on PMHA is covered in Group Achievement section on page 27 and in Environment, Safety & Health section on page 107.*

In November 2007, PMB successfully went through triple ISO audits, mainly ISO 9001, ISO 14001 & ISO 18001. A month later, PMB successfully retained the IEC 17025 Lab certification.



PMB has also been confirmed to receive the Prime Minister's Quality Management Excellence Award (QMEA) when the awarding committee visited and audited the unit on 26 December 2007.

During the year under review, PMB introduced several new products to the market; especially its range of herbal products. The introduction of the Ayurvedic Indian herbals complements Innoherb's western herbal product range.

A collaboration agreement with the government was signed in April 2007 in Putrajaya for the purpose of commercialising a popular Malay herbal product.

SVI plant ready to commence production

Meanwhile, Pharmaniaga LifeScience Sdn Bhd is in the midst of preparing the Group's Small Volume Injectables (SVI) plant in Puchong, targeted to commence production in quarter four 2008. The plant had a tight schedule, mainly in obtaining the cGMP certification, qualification and validation activities.

Apart from that, the plant has been successfully installed with several major machines and equipments, such as, the OLSA Solution Preparation Line, Bausch and Strobel Ampoule Filling Line, Fedegari Terminal & Parts Autoclave, Seideneder External Washer & Inspection Machine, and the Bonfiglioli Leak Tester Machine after completing the Factory Acceptance Test (FAT) for all these machines.

The Initial Qualification and Operational Qualification (IQ/OQ) for the Purified Water System (PWS) was successfully completed in October 2007, and that is a welcome sign because the qualification is vital before the plant can proceed with the Process Qualification (PQ) stage. The plant has completed the first phase of the PQ in November 2007 and is now moving to phases 2 and 3.

In June 2007, the management had invited some Senior Officers from the National Pharmaceutical Control Bureau (NPCB) for a site visit to the plant to provide them the opportunity to have a closer look at the



facility prior to the commencement of its operation. The NPCB officers had given their views and recommendations on several issues that should be taken into account to ensure the success of the project.

Future Outlook

The Manufacturing division will continue to focus on initiatives in reducing cost and maximising resource utilisation, as well as enhancing efficiency.

In sync with that, the division has started looking into streamlining its core activities and outsourcing its non-core activities. The outsourcing of cleaning and laundry services, for example, will see savings of more than RM115,000 per annum.

The outsourcing of Heating and Ventilation Air Conditioning System, Boiler and Waste Water Treatment Plant plants would make PMB the first pharmaceutical manufacturing company to adopt such strategy, whereby its facilities will be kept and maintained by a reputable multinational company. This exercise would see PMB unlocking its assets, and freeing it from overheads, thus, reducing its costs; an estimated gain of RM14 million.



Research and Development

Product Development Division

Pharmaniaga Research Centre ("PRC") continues with its strong emphasis on new product development with comprehensive programmes to support the Group's business goals and objectives. Complex projects are developed from conceptual stage to fully operational status by managing the creation of new products and steering the execution of developmental programmes. With the new product development methodology of Stage-Gate, new product design and development plans are executed with integrated marketing initiatives and strategies.

The product development department at PRC has been excelling in the development of generic products using state of the art technology for more than 10 years. This encompasses most of the drug classification categories, such as, anti-diabetic, cardiovascular drugs, anti-infective, analgesics, and dosage forms, such as, tablet, capsule, oral liquid, cream, ointment, injectable and others.

A new product development programme requires a robust scientific approach of development in formulation, analytical method and manufacturing process to identify product specifications and manufacturing controls. These scientific understanding will ensure the product is delivered in a reproducible manner over a wide range of material attributes, processing options and process parameters.

In 2007, PRC had successfully carried out the technology transfer of 5 new products to Pharmaniaga Manufacturing Berhad. The five products, namely, Covinace Tablet, Ameride Tablet, Glumet Forte Tablet, Pharmaniaga Meloxicam Tablet and Russedyl Plus Linctus were launched in the market with immediate availability.

Today, the product development pipeline focuses on Small Volume Injectables ("SVI"), off-patent generic products and transforming local scientific research into enhanced products.

Currently, PRC is working on some 30 projects of SVI and another 4 on off-patent generic products. It is also working with a local scientific centre on a herbal project.

12 of the SVI products are in the midst of formulation and analytical development that includes method validation. These developmental projects are expected to be completed in 2008 for process validation and new product registration.

Pre-clinical and Clinical Division

The Pre-clinical and Clinical department is a newly set up division at PRC. Established in May 2007, this division involves the main areas of Bio-Equivalence ("BE") studies, Adverse Drug Reaction ("ADR"), Product Efficacy Complaints, Herbal and Biotechnology projects.

The division emphasises the importance of quality, safety and efficacy of products developed to safeguard the public. With increasing availability of generic products in the Malaysian market, it is imperative to ensure that the generic products are equivalent to the innovator's products and are clinically interchangeable. Thus, the division is committed to conduct BE studies for products developed by Pharmaniaga.





ADR Division

This Division investigates ADR complaints related to Pharmaniaga products and provide reports to the Malaysia Adverse Drug Reaction Advisory Committee (“MADRAC”).

In the event of product efficacy complaints, the Pre-clinical and Clinical division will investigate the clinical aspects of the drug efficacy product complaint together with other investigation team members, such as Quality Control, Quality Assurance and Production division. Actions will be taken to investigate the safety, efficacy and quality of the affected product and appropriate recommendations will be made based on the final investigation findings.

Regulatory Affairs Division

The Division witnessed a year of continued success with more products registered not only at home but also in the overseas markets. A total of 22 products were registered in Malaysia during the year, mainly traditional herbal medicines for our new range of consumer healthcare products. Furthermore, with the approval of 8 new products across the various markets particularly in ASEAN region, the Group now has 165 products registered in the export markets.

LOCAL - PRODUCT REGISTERED 2007

| NO. | PRODUCT NAME | NO. | PRODUCT NAME |
|-----|---------------------------------------|-----|---|
| 1 | Pharmaniaga Cefotaxime Injection 1 g | 12 | InnoHerb Asoka Capsule |
| 2 | Pharmaniaga Ceftazidime Injection 1 g | 13 | InnoHerb Amalaki Capsule |
| 3 | InnoHerb Aswagandha Capsule | 14 | InnoHerb Mencare Capsule |
| 4 | InnoHerb Neem Capsule | 15 | InnoHerb Tulsi Capsule |
| 5 | InnoHerb Tumeric Capsule | 16 | InnoHerb Vasaka Capsule |
| 6 | InnoHerb Triphala Capsule | 17 | Pharmaniaga Terbinafine Cream |
| 7 | InnoHerb Brahmi Capsule | 18 | InnoHerb Circu Plus Capsule |
| 8 | InnoHerb Guggulu Capsule | 19 | Pharmaniaga Celadrin Capsule |
| 9 | InnoHerb MenoRelief Capsule | 20 | Pharmaniaga Calamine Lotion BP |
| 10 | Pharmaniaga Orlistat Capsule 120 mg | 21 | Pharmaniaga Ensarfe 2 mg, sublingual tablet |
| 11 | InnoHerb Ayurchol Tablet | 22 | Pharmaniaga Ensarfe 8 mg, sublingual tablet |



Regulatory Affairs Division OVERSEAS - PRODUCT REGISTERED 2007

| NO. | COUNTRY | PRODUCT NAME | ACTIVE INGREDIENTS | REGISTRATION NUMBER |
|-----|-----------|--|-------------------------------|-------------------------------------|
| 1 | Hong Kong | 1) Pharmaniaga Hyoscine Tablet 10 mg | Hyoscine | Approved (01/07) HK-55156 |
| | | 2) Pharmaniaga Ketoconazole Shampoo 2% w/w | Ketoconazole | Approved (09/07) HK-55839 |
| 2 | Vietnam | 1) Pharmaniaga Atenolol Tablet 50 mg | Atenolol 50 mg | Approved (02/07) VN 3150-07 |
| | | 2) Phamitrole Capsule 100 mg | Itraconazole 100 mg | Approved (02/07) VN 3151-07 |
| | | 3) Ziconal Tablet 200 mg | Ziconal 200 mg | Approved (09/07) VN 4555-07 |
| | | 4) Pharmaclav Tablet 625 mg | Amoxicillin + Clavulanic acid | Approved (09/07) VN 4556-07 |
| 3 | Sri Lanka | 1) Pharmathrocin Tablet 500 mg | Clarithromycin 500 mg | FR-029808 (09th August 2007) |
| 4 | Myanmar | 1) Pharmaniaga Iodine Solution | Iodine Solution | DRN(Myanmar)1205A9670 (May 2007) |

To date, the division has obtained 30 BE products, of which two products (Perindopril Tablet 4mg and Naproxen Sodium tablet 550mg) were approved in 2007.

BE products approved in 2007

| No. | Pharmaniaga Product | Active Ingredient | Therapeutic class | Innovator Product | Manufacturer |
|-----|------------------------------|-------------------|--------------------------------|----------------------|--------------------------|
| 1 | Perindopril tablet (4mg) | Perindopril | Antihypertensive | Coversyl tablet 4mg | Les Lab Servier, France |
| 2 | Naproxen Sodium tablet 550mg | Naproxen Sodium | Anti-inflammatory & painkiller | Synflex Tablet 550mg | Roche Pharma S.A., Spain |

Future Outlook

In line with the Government's focus on Biotechnology, the Division will continue its effort to develop and strengthen its capabilities and participation in herbal and biotechnology projects, and the Malaysian herbal remedy industry. PRC is currently collaborating with the Government on Malay herbal projects with the aim to develop and commercialise popular herbs as phytomedicine. There will be other upcoming herbal and biotechnology projects in the pipeline.



Marketing

The Pharamiaga Marketing Division continued to register another strong growth during the year under review driven by higher demand for cost-effective medication, particularly, the generic products as a result of growing health awareness.

Based on IMS Quarter Four Report 2007 ("IMS"), the Malaysian pharmaceutical industry grew by 11.6% whilst the Malaysian generic market registered an increase of 16.1%.

In sync with that, the Division registered an impressive growth of 20.6%, making it the third ranking generic company in the private sector after Ranbaxy (Malaysia) Sdn Bhd and Xepa Soul Pattinson (M) Sdn Bhd. The Division continued to be the key player in the public sector during the year under review.

Sales of in-house manufactured products posted a growth of 11.1%, whilst third party items closed the year at an impressive growth of 51.1%. The commendable growth was due to major contribution from several key products namely Codesic (Dihydrocodeine), Co-Amoxiclav (Amoxycillin-Clavulanic Acid) and Penbaccin (Bacampicillin) that reined at the top 20 products in generic list with total revenue reaching RM10 million.

The core that roars - therapeutic performance

Based on sales of the therapeutics groups, the Chronic range grew the fastest at 24.6% to close at RM9 million compared to 2006. The growth was achieved through the Respiratory range with a contribution of 28.4%, apart from the contribution of other key products of Simvastatin maintaining the fort at 22%. New cough syrup and anti-diabetic ranges contributed 11.1% to the performance of chronic therapeutic group.

Meanwhile, Acute range closed the year with sales of RM9.5 million, mainly driven by contribution of 18.2% from Painkillers and Dermatologicals ranges that grew at 44.5% and 22.5%, respectively.

The Anti-infectives range strongly anchored the business with main contribution made via both Co-Amoxyclav and Bacampicillin at 26.7%; and a double-fold sales of Ciprofloxacin compared to 2006.

Apart from the hospitals under the Ministry of Health, sales to the institutional customers had shown positive impact against the previous years as more in-house products which included Ticlopidine, Simvastatin and Metoprolol entered this segment.

Due to the competitiveness of the business, the Division is in the midst of expanding its range of products. Many are in the pipeline and the Division expects to launch several key products in the current year and many more in the future which comprises various therapeutics groups.





Conquering the new base

The Over-The-Counter range created a tremendous growth of 65.5% from that of 2006.

This was made possible by establishing products namely Citrex Multivitamin + Ginseng; and Citrex Vitamin C range that cumulatively contributed RM0.5 million to the total sales of 2007.

The Division also introduced two more Citrex products namely, D-EPA and EPO Femme. The former enhances immune system and protects against Alzheimer's Disease and the latter is a perfect way to treat premenstrual syndrome.



The English herbs range via the Innoherb brand had made its way through the RM0.7 million sales in the same year. Innoherb Ayurveda which has 13 various items in its range, was launched in November 2007.



Future Outlook

With many plans and initiatives in progress and several products in the pipeline planned for launch in the years to come, the division is confident to deliver higher returns to its shareholders. With its strategy of leveraging its strength in cost of innovation and manufacturing, strong technical skills as well as marketing abilities, the Division is ready for the avalanche of the new era.

The Division has adopted a new structure and business approach to garner the maximum impact on its bottomline which includes focusing on the therapeutic range for the business and public awareness with a stronger foundation of Pharmaniaga brand.



Logistics – Malaysia Operations

Norai'ni Mohamed Ali

Deputy General Manager, Operations Finance

Norai'ni Mohamed Ali, 41, is the Deputy General Manager, Operations Finance of Pharmaniaga Logistics Sdn Bhd. A graduate from Liverpool John Moores University, United Kingdom with a Bachelor of Honours in Accounting and Finance, she has been with UEM Group for almost 16 years and has served Opus Group Berhad, one of the subsidiaries of UEM Group before joining Pharmaniaga in 2001. She has vast experience in the field of accounting and finance in various industries.



Abdul Rahim Feroze

Senior Manager, Compliance

Abdul Rahim, 54, has been with Pharmaniaga Logistics Sdn Bhd since its inception in 1994 when the Government Medical Store, Ministry Of Health, underwent the privatisation exercise. He had about 14 years experience as a pharmacist in the government setup and this has been an essential tool for him in Pharmaniaga, whose core business is with the Ministry of Health. In the early years, Abdul Rahim was entrusted with the task of directly managing and overseeing the day-to-day operations of the Customer Service Order Management Department and the Warehouse. In year 2000, he was appointed as the company's Quality Management Representative (QMR) to oversee the success of the ISO 9001:2000 certification project. In the same year he became a certified ISO 9001 Lead Auditor and was further assigned to take up two more certification projects, namely certification to OHSAS 18001:1999 and ISO 14001:2004. Abdul Rahim is entrusted to manage the Compliance Department by setting and managing the policies, the standard operating procedures and guidelines and assigning work to team members to ensure highest level of efficiency and productivity in line with the company's aspiration to cultivate a high performance culture through its shared values.



Zulhazri Razali

Senior Manager, LPO Tender

Zulhazri, 41, is the Senior Manager, LPO Tender. He oversees the day-to-day tender and LPO business, ensuring the company competes in as many tenders and local quotations as possible in the Government Institutions and other ministries. Zulhazri has 17 years Pharmaceutical Industry experience. He started his career in Pharmaniaga as one of the pioneers in the Renong - privatisation of Government Medical Store in 1994. He was involved in setting up the International Department in 1998. He spent 10 years in International Business, servicing various countries in the export of pharmaceutical and medical products. Prior to joining Pharmaniaga, Zulhazri was in Guardian Pharmacy for two years and in Zuellig Pharma for a short stint as an Inventory Executive. Graduated from Manchester School of Pharmacy in 1991, Zulhazri is a qualified Pharmacist and currently pursuing an MBA from Manchester Business School.



Logistics – Malaysia Operations



Abdul Malik Mohamed
Senior Manager, IT Support

Abdul Malik, 43, is the Senior Manager, IT Support. He oversees the day-to-day IT operations ensuring the applications of Pharmaniaga computer systems are smooth running. With over 17 years of Information Technology experience, Abdul Malik is directly involved in all major IT projects of Pharmaniaga, playing a Project Manager role. Among the projects that he has worked on are the Pharmaniaga Integrated Resource Systems, Hospital Inventory System for the Malaysian Government Hospitals, Clinic Procurement Systems for Malaysian Government Health Clinics, Sales Force Automation and Customer Relationship Management System, e-procurement and e-tender. Prior to joining Pharmaniaga, Abdul Malik served a few prominent IT firms in the country and specialised in Logistics and Supply Chain Management System. More significantly, he was involved in designing the system architecture for Total Hospital Information System under the 8th Malaysian Plan. Abdul Malik is also a certified BS7799 Auditor upon completing the Lead Auditor Course last year. Given his extensive technical background, Abdul Malik plays an advisory role in the technical areas needed for the smooth running of the company.



Azlynawati binti Hanapy
Senior Manager, Supply Chain Management

Azlynawati, 36, is the Senior Manager, Supply Chain Management. She started her career in UEM in 1995 as an Executive Internal Auditor in the Internal Audit Department. She has been with the UEM Group for 13 years serving under various departments. Her experience in Internal Auditing led her to join Pharmaniaga in 2001 as Deputy Senior Manager, Compliance, where she helped develop the Policy and Procedure of the company's operations. Azlynawati holds a Degree in Accounting & Finance, which she obtained from University of Wales, Aberystwyth.



Nicole Lee Lai Im
Manager, Customer Service

Nicole, 34, is the Manager of Customer Service, Pharmaniaga Logistics Sdn Bhd. She has vast experience spanning from customer service, quality assurance, training & development to sales & marketing. Nicole started her customer service career in Singapore Airlines Ltd. before returning to Malaysia to join the Quality Service Excellence Unit, Branch Operations, Hong Leong Bank Berhad. She then ventured into the leisure industry and served as the Customer Care Manager in Tanco Resorts Berhad. Prior to joining Pharmaniaga, she was the Head of Sales & Marketing (Local & International) and part-time lecturer in a leading hospitality management college in Malaysia. Nicole holds a Masters of Business Administration (Marketing) from Charles Sturt University, Australia.





Logistics and Distribution in Malaysia

The Logistics Division experienced an exciting year with robust growth as it recorded an increase in the volume of products sold, particularly to the Government sector. Apart from that, the division has secured rights for distribution of influenza vaccines to Government hospitals for Ranbaxy (Malaysia) Sdn Bhd worth approximately RM13.1 million during the year under review.

With such development, the Logistics Division's after-tax profit surged more than 250% to RM37.0 million from RM10.4 million in the previous year. This exceptional growth was mainly driven by the strong increase in the volume and product mix sold to the Government sector.

The improved financial performance was also due to focused efforts on improving productivity and optimising its cost structure. The ongoing efforts and actions on these two critical parameters would continue to further strengthen the Division's business fundamentals.

Warehousing and Distribution

The Division currently has a 95,000 square feet central warehouse that is strategically located in Bukit Raja, Klang which is within easy access to major highways. It is also within a short traveling distance to the country's main entry and exit points, the Kuala Lumpur

International Airport, Sepang and Port Klang. This central warehouse is supported by three satellite warehouses located in Juru, Kota Kinabalu and Kuching, which primarily serve as trans-shipment points with supporting customer service and ordering functions.

With the objective to build a significant logistics division for the Group, the Division has developed skills across the full spectrum of the supply chain management with focus on the more intellectual aspects of logistics planning, management and integration; followed by excellent execution.



Warehouse Capacity

| Location | Size (sq ft) | Capacity (pallets) | Spare capacity |
|---------------|----------------|--------------------|----------------|
| Bukit Raja | 95,000 | 10,000 | 15% |
| Juru | 13,000 | 300 | - |
| Kuching | 23,774 | 1,368 | 2% |
| Kota Kinabalu | 24,000 | 936 | 13% |
| Total | 155,774 | 12,604 | 30% |



Order and Inventory Management at Hospitals and Clinics

In its strive towards greater efficiency and higher standards of service, the Division adopted a customer-focused strategy through the use of advanced information technology since its first day of operations.

The Division has set up the first pharmaceutical on-line wide area network in Malaysia; known as Pharma*Net. This network links all Government hospitals in Malaysia from health clinics, several semi-Government and private hospitals in the country to Pharmaniaga warehouses and provides these hospitals with direct on-line ordering and order status inquiry facilities.

The upgrade of Streamyx to the Health Office is in progress and is expected to be completed by the second quarter of 2008.

• IHIS and CPS

With the IT infrastructure foundation already in place, the Division has started initiatives to upgrade the current Hospital Inventory System (HIS) into Integrated Hospital Inventory System (IHIS), which enables effective monitoring and management of drug inventory; not just from the warehouse to the hospital, but also within the hospital itself. The IHIS facilitates the setting up of a centralised data base at the Ministry of Health, allowing the Government to monitor drug consumption patterns more effectively. The Klang Hospital and the Kota Bharu Hospital are the first two hospitals to be upgraded with

this new innovative system. Two more hospitals are planned for IHIS in 2008.

In line with this, the Division has also trained pharmacy staff to enable them to use the system effectively.

The Clinic Procurement System ("CPS") introduced to the government clinics complements the HIS and IHIS as it provides similar capabilities for the clinics to submit orders electronically and to manage the stocks in their clinics. To date, a total of 650 clinics have been installed with CPS.

• e-tender

Besides providing an on-line and real-time order and inventory management, the Division also introduced e-tender, an electronic tender system for selecting the suppliers. As tender documents are submitted on-line, e-tender ensures transparency in the tendering process. The system also allows for faster processing of submitted tenders, whereby, it can be done within an hour.

As a result of all these initiatives, customer expectations, which include clear communication, pro-activeness, speed in response and delivery had not been compromised, as indicated in the table below :

Average Delivery Performance 2007 vs. 2006

| Years | 2007 | 2006 |
|-------------------|------|------|
| 1 - 60 days | 97% | 96% |
| More Than 60 days | 3% | 4% |



Standards in Quality Systems and Processes

Pharmaniaga's commitment to quality service and excellence has driven all its operations to be ISO certified.

The operations in Bukit Raja has been certified under the Integrated Certification Programme for ISO 9001, ISO 14001 and OHSAS 18001; while the branches have been certified for ISO 9001 and OHSAS 18001 separately. The Group targets to extend ISO 14001 certification to all branches in quarter one 2008.

Future Outlook

The Logistics Division is pursuing a well strategised plan to strengthen and develop its business. Several initiatives aligned to its objectives are currently underway. Given that its operating environment in the future will progressively become more complex and dynamic, the Division's success critically depends on its ability to constantly pre-empt competition and

proactively address opportunities. Today, the Division is well positioned and fully geared to strive towards its aspirations for 2012. Its actions and decisions will continue to be most centrally guided by the objective of value creation for its shareholders.



Logistics – Indonesia Operations



Abd. Rahman bin Abdullah Thani

Director, Indonesia Operations

Abd. Rahman, 43, is the Director of Indonesia Operations. He possesses a Bachelor of Commerce degree; majoring in Accounting and Finance, from the University of Tasmania, Australia and is a Fellow of Certified Practising Accountant (CPA) Australia and as well as, a Chartered Accountant with the Malaysian Institute of Accountants. He was attached to PriceWaterhouse from 1988 to 1991 as an Audit Senior. He then joined Petronas Trading Corporation Sdn Bhd (PETCO) and was subsequently seconded to Subic Bay Petroleum Products Ltd., a joint-venture company between PETCO and Coastal Corporation, USA as its Financial Controller in 1994. Following this, he joined Pharmaniaga Manufacturing in May 1995 as the General Manager of Finance and Administration. He was appointed to his current position in 2001 to explore opportunities with regard to expanding Pharmaniaga's business, both locally and internationally. He holds directorship in PT Millennium Pharmacon International Tbk (MPI).



Sukismo

President Director, MPI

Sukismo, 54, is President Director of PT Millennium Pharmacon International Tbk (MPI). He began his career in MPI in 1974 as a member of the administrative staff. From 1975 to 1980 he was assigned to various positions; as a Salesman, a Supervisor in Jakarta, Assistant Branch Manager in Medan, and as Branch Manager in Makassar. In 1981, he was transferred to the Jogjakarta office as its Branch Manager until 1984 when he was assigned as Branch Manager in Jakarta. In 1988, after garnering wide experience in various branches, he was promoted to Assistant General Manager, and then as General Manager from 1990 until 1996. At the 1996 Annual General Shareholders' Meeting, he was appointed Director of the company. In 2003, he took on the role of President Director of MPI. He has developed much of his skills through the MBA programme (Marketing & Finance) he completed in Institute Management Prasetya Mulya, Jakarta.

Zaki Abdul Aziz bin M. H. Daud

Executive Director, MPI

Zaki Abdul Aziz, 40, graduated in 1991 with a Masters of Science Degree in Accountancy from Case Western Reserve University, Cleveland, Ohio, USA. He has more than 16 years of professional experience in a number of industries. In 2004 Zaki moved to UEM Group Berhad and served in the Group Business Development Department. In 2006, he was made in charge of the implementation of the Southern Industrial and Logistics Clusters ("SILC"), a unique industrial property development project in Nusajaya, under UEM Land Sdn Bhd, a major component of the Iskandar Development Region. In May 2007, he was transferred to Pharmaniaga Group with a focus to enhance the operations in Indonesia.



Darmawan Subekti

Finance Director, MPI

Darmawan, 44, has been the Finance Director of PT Millennium Pharmacon International Tbk (MPI) since early 2003. Following his graduation in 1986, he started his career as an assistant lecturer; moving on to become a lecturer of Food Process Engineering in the Faculty of Agriculture Technology, Bogor Agriculture University. He then ventured into the banking industry in 1989; joining the Accounting Division of Pan Indonesia Bank. Following his graduation from the Officer Development Programme, a programme for management trainees at Pan Indonesia Bank, he was appointed Director of PT Pan LND from 1991 to 1992, and thereon from 1992 to 1995 as Director of PT Pan Amcolindo. In 1995, he returned to Pan Indonesia Bank and became its Assistant Vice President in its Investment Department. Throughout his career, Darmawan has continued to develop his knowledge of Accounting and Finance through seminars and courses. He received his post-graduate diploma in Business Administration from Queensland University of Technology, Australia in 2002.



Indonesia Operations

P*T Millennium Pharmacon International Tbk ("MPI"), the Group's listed unit in Indonesia which distributes and trades pharmaceutical, food supplement and diagnostic products has been growing steadily since it was taken over by Pharmaniaga at the end of 2004.*

Sales had more than doubled from IDR 302 billion (RM135.5 million) in 2003 to IDR 705 billion (RM249.2 million) in 2007, representing a growth of 133% over five years. MPI started its commercial operations on 20 October 1952 under the name of NV.PD. Soedarpo Corp.

For the financial year 2007, MPI managed to post an increase of 14% in its profit to IDR 9.6 billion (RM3.4 million) from IDR 8.4 billion (RM3.0 million) in the previous year despite the high inflation rate of 6.59% and rising operating cost due to the escalating oil prices.

Strengthening our presence and infrastructure

MPI had successfully secured one new principal; proving its expertise in handling deliveries of pharmaceutical products; especially in the ethical segment.

As at 31 December 2007, MPI's operation which covers Jawa, Sumatera, Kalimantan, Sulawesi and Bali in Indonesia is backed by a total of 17 principals. During the year, MPI opened its 25th branch in Purwokerto in Jawa Tengah, increasing its distribution points to 40 - including six sub distributors and nine sales stations.



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

The company also completed its phase 1 of IT upgrading and is entering into phase 2 which includes the implementation of an Enterprise Resource Planning ("ERP") system. The phase 2 implementation is expected to commence in the current year and is targeted for completion, nationwide, by middle of 2009.

Future Outlook

The Group has confidence that MPI is the platform for Pharmaniaga to explore more growth opportunities in Indonesia which is the largest pharmaceutical market in South East Asia.

MEDICAL PRODUCTS & SERVICES



Michael Loh Kee Ming

General Manager, Medical Equipment Unit

Michael, 53, is the General Manager of the Medical Equipment Unit. He graduated with a Bachelor of Arts from the University of Auckland, New Zealand, and began his working career in January 1980 as an Assistant Secretary in the Ministry of Energy, Telecommunications and Post, and hence began a career with the Malaysian Civil Service as an Administrative and Diplomatic Officer for the next sixteen (16) years in various Ministries and departments, until he went on optional retirement in 1995. His last position in Government Service was as the Principal Private Secretary to the Minister of Health, Malaysia. He joined Pharmaniaga Logistics as the Senior Manager for Business Development in June 1995. In October 1996, he was concurrently made the head of the Medical Equipment Unit and in 1999 was made solely responsible of this expanded unit. In January 2002, he was subsequently promoted to General Manager of the unit.

Abd Shukor bin Jamaluddin *Senior Manager, Medical Equipment Unit*

Abd Shukor, 40, is the Senior Manager, Medical Equipment Unit. He joined Pharmaniaga on 17 March 2008. Before that he had been with UEM Land Sdn Bhd since 2005 as Manager for Medical City in the Nusajaya project in Johor. He has over 14 years experience in overseeing Business Development activities in various industries such as biomedical and property development. Abd Shukor holds a Master in Business Administration from Ohio University, Athens, United States of America, which he obtained after he received a BA in Accounting & Finance from Leeds Metropolitan University, Leeds, United Kingdom.





MEDICAL PRODUCTS & SERVICES

Pharmaniaga Biomedical which carries out the business of medical equipment planning, hospital equipping and equipment supply posted a loss before tax of RM5.1 million on revenue of RM9.9 million for the financial year 2007. It recorded a loss before tax of RM1.5 million on revenue of RM10.2 million for the previous year.

The wider loss and lower revenue was due to the completion of all major projects that we had undertaken over the last five years.

During the year, the Division completed the two-year warranty management period of three of its hospital projects in East Malaysia, namely, Sarikei Hospital, Kuala Penyu Hospital and Kunak Hospital.

With the completion of these projects, the Division now focuses on new business development activities, both in Malaysia and in other selected countries.

In addition to hospital equipping, the Division also provides planning and supply of consumables. Pharmaniaga Biomedical is part of the design and

planning team for the upgrading of the Kuala Lipis Hospital project which was awarded to George Kent (M) Sdn Bhd.

The Division also acts as the procurement advisor and project site coordinator for medical equipment for the extension and renovation of the National Heart Institute ("IJN") project.

During the year, the Division has been awarded with equipment supply subcontracts for the military hospital; HAT 95 in Wangsa Maju and the International Islamic University of Malaysia in Kuantan.

In its effort to expand its market coverage, the Division participated in international tenders which include the Middle East and the African continent. In March 2007, the Division won a World Bank funded tender to supply 610 units of delivery beds to the Ministry of Health, Kenya under the Decentralisation HIV/AIDS & Reproductive Health project (DARE II). This project was successfully completed in quarter three 2007.



Medical Products & Services



While developing its core competencies in project-based revenue generating activities, the Division explored opportunities in the equipment supply business. It is now the distribution agent for the following products in Malaysia.

| Agency Line | Products |
|--|--|
| Welch Allyn, USA | Thermometry products - Digital Ear and Oral Thermometer |
| Schiller, Switzerland | ECG machine, Spirometry, Vital Sign Monitor, Fetal Monitor, Pulse Oximeter, etc. |
| MDF, USA | Diagnostic Instruments - Mercury Sphygmomanometer, Stethoscope, Patella Hammer |
| The Surgical Company, The Netherlands | Infrared Blood Warming System and Air Guard System |
| Lobeck Concept, Switzerland | Blood Glucometer |
| Genexel-Sein, Korea | Digital Blood Pressure Monitor |
| Codan Argus, Switzerland | Infusion and Syringe Pump |
| CAMI, Italy | Suction Pump |
| Flaem Nuova, Italy | Hospital and home Use Nebuliser |
| MyMedic, Malaysia | Consumables and Disposables |

The Division will continue to build-up its human capital by providing opportunities for in-house talents to transform, grow and exhibit their capabilities in tandem with the Division's effort to strengthen its core competencies to further expand the Group's business.

Future Outlook

The Medical Products and Services Division remains optimistic about the outlook of its business environment. The government planned spending in the Ninth Malaysia Plan provides great opportunity for the Division to grow its business and continue to seek for other opportunities, both locally and internationally.





HUMAN CAPITAL DEVELOPMENT



Amran bin Mohd Tomin

Deputy Senior Manager, Organisation Development

Amran, 36, the Deputy Senior Manager of Organisation Development Division, joined Pharmaniaga on 10 September 2007. He received his Bachelor of Business Management degree, majoring in Operation Management from Universiti Utara Malaysia (UUM), and Certificate in Human Resource Management (CHRM) from University Technology of Malaysia (UTM). He was a certified Trainer of Performance Management System by Development Dimension International (DDI), and a certified Trainer of Alam Flora Excellent Culture Programme, and an Assessor of Assessment Programme during his employment at Alam Flora Sdn. Bhd. Amran began his career at Mitsubishi Electric (M) Sdn. Bhd. Later, he joined

Penang Seagate (M) Sdn. Bhd., and made charge of production and the SPC Section. He then moved to a well established and Leading Security Services company. In 1997, he served the region's leading organisation in Solid Waste Management as a Manager, Human Resource Development. His area of expertise is Internal Auditing for both ISO 9001 : 2000 & ISO 14001, Change Management, Business Culture Change, Train-The-Trainer for Operations Trainer, Performance Management System, HR Balanced Scorecard, Competency Gap Analysis-CGA, Core and Technical Competencies Development, and Supervisory Competency Development.



Employees have been the Group's most enduring strength. As a result of their dedication, determination and passion, Pharamaniaga has consistently risen above all challenges, maximised opportunities and positioned itself as one of the leaders in the local generics pharmaceutical industry.

The Group is currently focusing on nurturing its human resources. Thus, attention is given not only to the development of high performers but also to the career needs and aspirations of every single person working with the Group, irrespective of their hierarchical position. The Group believes, only when a person perceives that the Company wants to specifically promote his or her welfare by providing appropriate guidance, training and growth opportunities - in line with the person's potential - will a sense of deeper staff commitment to the Company ensue.

The Group is engaged in promoting a caring and receptive culture of open communication that encourages sharing of ideas and constructive criticism to bring about innovation and positive change. During the

year, the Group infused fresh energy in its efforts towards engaging its people; undertaking activities aimed at appreciating, recognising and motivating them, as well as creating a vibrant environment that promotes learning, development and overall growth.

Moving forward, the operating environment will become more complex; therefore recruiting, retaining and nurturing the best talent will become more challenging. The Group will focus on developing managers and leaders with the vision and mettle to take the Company beyond its aspirations for tomorrow.

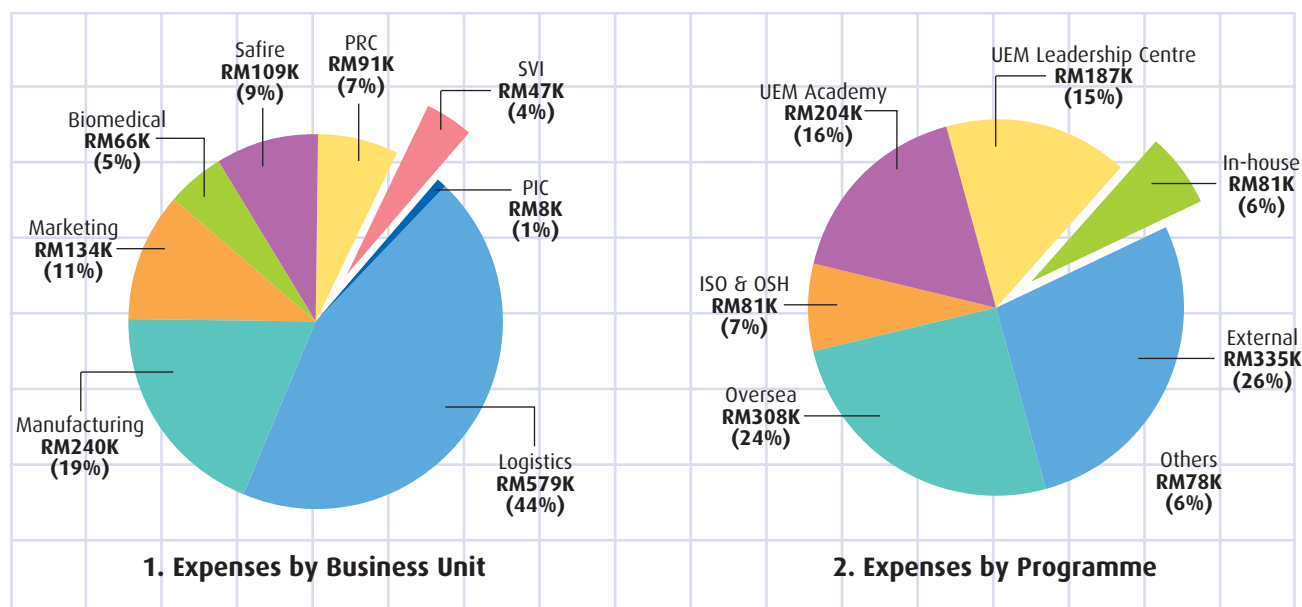
Training & Development

As such, the Group's continuous training programmes are carefully and thoroughly planned to ensure their effectiveness; and that they provide desired results. Employees and employers work closely in deciding on the kind of training programmes that benefit the Group.



HUMAN CAPITAL DEVELOPMENT

In 2007, the Group invested about RM1.27 million of its training budgets for employee training and development compared to RM816,000 in 2006. Utilisation of the expenses is shown in the following charts;



a) List of In-house training

| Date | Duration (days) | Programme Title | Venue | Number of Attendees |
|---------------------------|-----------------|---|------------|---------------------|
| 5 & 23 February 07 | 2 | Statistical Quality Analysis (SQA) & Factorial Design of Experiment (DOE) | Bangi | 7 |
| 27 February 07 | 1 | Records and Files Management | Ipoh | 24 |
| 12-13 March 07 | 2 | Handling Discipline and Domestic Inquiry | Bukit Raja | 14 |
| 24-25 March 07 | 2 | Safe Forklift Driving | Ipoh | 17 |
| 14-15 May 07 | 2 | Scheduled Waste Management | Bukit Raja | 16 |
| 3 July 07 | 1 | Effective Presentation Skills | Ipoh | 27 |
| 11-13 August 07 | 3 | Emergency Action Plan Training | Ipoh | 27 |
| 12-13 September 07 | 2 | OH&S Process Based Internal Auditing | Bangi | 19 |
| 1-3 October 07 | 3 | Continual Improvement Programme | Bukit Raja | 26 |
| 3-4 October 07 | 2 | Six Sigma Champion Training | Bangi | 10 |
| 23-24 October 07 | 2 | How To Write Effective Board Papers | Bukit Raja | 16 |
| 13-14 November 07 | 2 | Letter of Credit - An In-depth Understanding | Bukit Raja | 14 |
| 26-28 November 07 | 2.5 | Basic First Aid | Bukit Raja | 12 |
| December 07 to January 08 | 4.25 | English Language - Basic and Intermediate | Ipoh | 20 |



b) List of Leadership Development Programmes for Managers and above

| Programmes | Attendance |
|---|------------|
| Premier Leadership Programme (PLP) | 13 |
| Premier Leadership Programme - Follow-up (PLPF) | 18 |
| Business Leadership Programme (BLP) | 5 |
| Outstanding Business Leaders (OBL) | 6 |
| Visionary Business Leadership (VBL) | 3 |

Among the highest programmes attended by employees were; training related to manufacturing operations (32%), leadership development (16%), quality and environment safety and health programme (13%).

Executives and non-executive employees recorded the highest score in attendance and the number of training days; followed by middle and senior management staff.

Besides learning and development; industrial training for students is another on going activity in Pharmaniaga since year 2000. This activity is considered as one of the Corporate Social Responsibility programmes provided by the Group to the nation. In 2007, the Group spent RM26,000 for 22 students from various local universities to attend this training programme conducted by the Group. These students were exposed to various areas and scopes of work during their three months of attachment with the Group. The programme provided them with valuable experience and necessary knowledge; on top of the opportunity to fulfill their university requirements.

MBA Sponsorship Programmes

The Group also holds on to the principle that in order to prepare the Company for future growth and challenges, there is a need to develop its middle level managers to be competent business leaders in order to drive and compete in future competitive business environments.

In view of this, it is of utmost importance for the Group to embark on Masters of Business Administration (MBA) programmes to equip managers with business leadership skills and knowledge. The MBA programmes complement the current development programmes offered by UEM Leadership Centre and UEM Academy.

For a start, the Group has fully sponsored four of its managers who are potential future leaders to lead Pharmaniaga in its core business, namely; Manufacturing Operations, Logistics, Marketing and Manufacturing Quality/Quality Management. The four managers commenced their programmes in January 2008 and are expected to graduate in 2010.



HUMAN CAPITAL DEVELOPMENT

Book Prize Award

Pharmaniga organised two Book Prize Award competitions for final year pharmacy students of two higher learning institutions, namely; Universiti Teknologi Mara ("UiTM") and International Islamic University Malaysia ("IIUM").

The objectives of these competitions, apart from awarding the best final year students of Pharmacy, were to give a clearer picture of Pharmaniaga's businesses to future pharmacists, and to attract talents from these institutions for career prospects with the Group in the long run.

Cik Hanis Hanum Zulkifli won the Best Student Award and received a challenge Trophy, a certificate and a cheque for the Pharmaniaga-UiTM Book Prize Award 2007, which was held on 21 January 2008. Cik Noor Nabila Ajmi was the Second Best, followed by Cik Ros Azima Maasah.

For Pharmaniga-IIUM Book Prize Award 2006, which was held on 15 September 2007, the Best Student Award was awarded to Cik Sara Abdullah. Cik Amirah Hajirah Abdul Jamil won the Second Best Student Award, followed by Cik Siti Nor Rahizah Abdul Razak.



Moving Forward

In February 2008, the Senior Management gathered in a High Performance Culture workshop, and together they agreed that in order to bring Pharmaniaga to greater heights, it needs to establish a standard set of behaviour that would lead the company to become a high performing organisation - and so TOPIC was born.

TOPIC stands for:

- T**eamwork
- O**pen Communication
- P**assion for Excellence
- I**ntegrity and Honesty
- C**aring

A soft launch of TOPIC was held during the Monthly Assembly at the headquarters as well as the branches in April 2008. Programmes will follow throughout 2008 to relay the values of TOPIC to employees.



Pharmaniaga Group's tradition of contributing to society is derived from its firm belief in good corporate governance and responsibility. Pharmaniaga is not merely about doing business, but rather a philosophy of enriching life together, to do business with a conscience and to enrich life for all.

Maintaining its Corporate Social Responsibility ("CSR") thrusts through four major platforms, i.e. education, sports development, community/nation-building and environment, the Group spent in excess of RM1.0 million in 2007 towards programmes and activities to achieve its CSR objectives.

CSR OBJECTIVES

In carrying out its CSR, the Group is committed to achieving several broad objectives which serve as a tool for the planning of all activities and ensuring that all actions meet expectations of good corporate governance, ethical corporate values and corporate citizen. The Group also ensures that its initiatives in this area bring value to society in meaningful and tangible ways, build a corporate culture of social service and responsibility as well as reinforce the Group's brand position and business relationships.

CORE CSR THRUSTS

Within the platforms of education, sports development, and community/nation and environment, the Group carries out activities that create a value proposition for all parties concerned.

1. EDUCATION

Under its education platform, the Group provides educational/study loan to the development of its own staff. The Group has embarked on Masters of Business Administration ("MBA") programmes to equip managers with business leadership skills and knowledge. The Group has fully sponsored four of its managers who are potential future leaders to lead Pharmaniaga in its core business. The four managers commenced their programmes in January 2008 and are expected to graduate in 2010.

The year saw the Group allocating RM200,000 for the enrollment in masters programmes, forming the major portion of its activities and expenditure under the education platform.

Pharmaniaga also organises Book Prize Award competitions for final year pharmacy students of higher learning institutions with the objective of creating a career prospect for them.

2. SPORTS DEVELOPMENT

Under this platform, the Group aims to promote team building and healthy lifestyle through its support of sports programmes such as futsal, netball, badminton and bowling.

3. COMMUNITY BUILDING

Under its community/nation-building platform, the Group seeks to enrich the lives of the needy and less fortunate through its sponsorship assistance to NGOs, charitable organisations and welfare institutions. In the sphere of nation-building, the Group supports activities, community development programmes and national events that aim to enhance national unity and economic development. Amongst others, the initiatives undertaken by the Group include :

■ "SKUAD OPERASI SIHAT"

Pharmaniaga launched another community service project - the Mobile Clinic - to add to their already widespread community awareness programme, the "Mesti Ambil Tahu". The mobile clinic project was officially launched on 2 November 2007 at Dataran Labis, Johor, and was graced by the Minister of Health, Malaysia.

Dubbed "Skuad Operasi Sihat" ("SOS"), the mobile clinic does not only perform health screening, but also provides resources and establishes education and awareness for rural and marginalised populations in promoting a healthy lifestyle.





CORPORATE Social Responsibility



The mobile clinic is a converted ambulance that is equipped with basic facilities. It is manned by volunteer doctors and nurses from MERCY, with the assistance of Pharmaniaga volunteers. SOS is endorsed by the Ministry of Health, Malaysia (MOH).

SOS opens opportunities for:

- the development of human capital through volunteerism
- trainings by MERCY personnel in areas of medical relief and emergency response
- the Group to remain as partners with MOH in ensuring a healthy Malaysia

The first SOS mission was organised at Agensi Anti Dadah Kebangsaan in collaboration with MERCY Malaysia, Kuala Lumpur on 13 February 2008.

■ “MESTI AMBIL TAHU”

“Mesti Ambil Tahu” (“MAT”), a consumer awareness campaign focusing on healthcare was officially launched in April 2005 by the Minister of Health, Malaysia. The main objective of this campaign is to inculcate consumers’ awareness on the importance of proper medicine management. This includes following medication and storage instructions, knowledge of medicines that are consumed, such as their generic and trade-names, awareness of possible side effects, and the importance of communication with one’s doctor or pharmacist.



In line with that, “Kempen Kenali Ubat Anda” or “Know Your Medicine Campaign” was run at national, state and district levels. Activities held during the campaign included MAT educational quizzes and distribution of MAT health brochures.

“Karnival Sihat Sepanjang Hayat”, a campaign by MOH with Pharmaniaga being the major sponsor, enabled MAT activities to be carried out in Peninsular Malaysia, Sabah and Sarawak throughout 2007.

The sponsorship of RM50,000 was channelled to the programme “Jom Tak Nak” which was a component of the “Karnival Sihat Sepanjang Hayat” campaign. “Jom Tak Nak” was a programme to create public awareness on the risks of smoking tobacco.



■ HUMANITARIAN ASSISTANCE

In its commitment to humanitarian efforts in times of national and international calamities, the Group mobilised its resources in aid of the flood victims in the hard-hit state of Kelantan on 29 December 2007. Our established team of volunteers, known as Pharmaniaga ALERT cleaned up the three schools in Meranti, Pasir Mas, Kelantan - Sekolah Menengah Arab Siram, Sekolah Menengah Arab Kampung Bongor and Sekolah Menengah Arab Tarbiyah Diniah.

■ DONATIONS AND SPONSORSHIPS

The Group has always been sensitive towards the plight of the less fortunate and the needy. In view of this, the Group continued to provide financial assistance to NGOs, charitable and welfare organisations. Beneficiaries included senior citizens, the disabled, the orphans and the abused. Other notable contributions from the Group included cash and in-kind contributions to private and government bodies.

In addition to these sponsorships, the Group has also been providing industrial training for students in Pharmaniaga



since year 2000. This activity is considered as one of the CSR programmes provided by the Group towards nation building. In 2007, the Group spent RM26,000 for 22 students from various local universities to attend this training program conducted by the Group. These students were exposed to various areas and scopes of work during their three months of attachment with the Group. The programme provided them with valuable experience and necessary knowledge; on top of the opportunity to fulfill their university requirements.

■ CSR ACTIVITIES BY OUR INDONESIA SUBSIDIARY

During the year, our subsidiary in Indonesia, PT Millennium Pharmacon Tbk ("MPI") has accepted three selected undergraduate students to apprentice at MPI head office for three months. Through apprenticeship, they have the opportunity to learn about administration activities in managing human resources and corporate secretarial activities. In supporting their expenses during apprenticeship, MPI provides transportation and meal allowance to the students. Besides accepting apprentice, MPI has also provided scholarships to two students who studied in senior high school level. Focusing its CSR activities on the society, MPI has donated fund to selected orphanage. The objective of these social activities is to help government in providing skilled and educated work force.

4. ENVIRONMENT

Unlike MAT and SOS, which are more focused on community, "Ayuh Kayuh" will be the beginning of the Group's special CSR focusing on the environment. Ayuh Kayuh, a cycle-to-work campaign to help reduce Carbon Dioxide from the atmosphere and create awareness on the importance of keeping fit, is in line with World Health Day's theme of 2008, which is "Protecting Health from Climate Change". *More on "Ayuh Kayuh" in the Environment, Safety and Health section on page 107.*

BEYOND CORE CSR PLATFORMS

The Group believes that CSR should take on a holistic approach, and therefore places emphasis on its commitment to internal CSR practices. These include adherence to good corporate governance principles, risk management, performance measurement, employee satisfaction monitoring, staff training as well as health and safety issues.

On the corporate governance front, a clear demarcation of the roles of the Board and the Management Committee has provided for smooth running of Group operations. Strict financial authority limits have been set for management personnel throughout the Group. A code of conduct covering ethical business practices for employee behaviour and procurement processes has also been published and provided for staff reference.

Risk management practices has been in place and embedded into daily business operations through the Group's Balanced Scorecard process. This has helped to mitigate risk and cost in the Group's conduct of its business activities. The Group's performance targets or Key Performance Indicators are cascaded throughout the organisation through the Balanced Scorecard process. An online employee satisfaction survey conducted on a yearly basis helps to gauge employee satisfaction and sentiments at the workplace.

With training as an important component for development, all staff of the Group are required to undergo mandatory training and development yearly. Through the Group's Orange and Blue book initiatives, all staff are assessed on their leadership and competencies development on a yearly basis, where gaps are identified and directed towards appropriate training and skills development programmes.

Environment, health and safety steering and working committees have been established to allow for effective monitoring and escalation of environment, health and safety related issues throughout the Group.

SILVER BOOK GUIDELINES

The Group is in line with Khazanah Nasional Berhad, the government's investment arm's initiative called the Silver Book Guidelines, which governs social contributions by Government Link Companies. Overall, 2007 saw the Group maintain its CSR efforts on all its four major platforms, while also paying attention to internal programs. The Group is proud of fulfilling its social obligations and holding its track record of good corporate governance. It stands committed to the practice of good CSR for the benefit of the community and nation.



ENVIRONMENT, SAFETY & HEALTH

As a good corporate citizen and one that is a leader in its field, Pharmaniaga strives to be an exemplary role model as manufacturing and distribution concerns that place its utmost importance towards protecting the environment and ensuring health and safety of its employees, customers and the public.

INTEGRATED QUALITY MANAGEMENT SYSTEM

Pharmaniaga had over the last few years put in place various measures and initiatives to ensure a more effective and efficient Environment, Safety and Health ("ESH") system. Several committees have been formed to spearhead the ESH issues to ensure that all statutory guidelines are adhered to.

Due to such efforts, the Group achieved its target to extend ISO 14001 certification to all branches of Pharmaniaga Logistics Sdn Bhd in Juru, Kota Kinabalu and Kuching. After completing three phases of consultation and training by its internal committee, SIRIM recommended the extension of ISO 14001 to all branches.

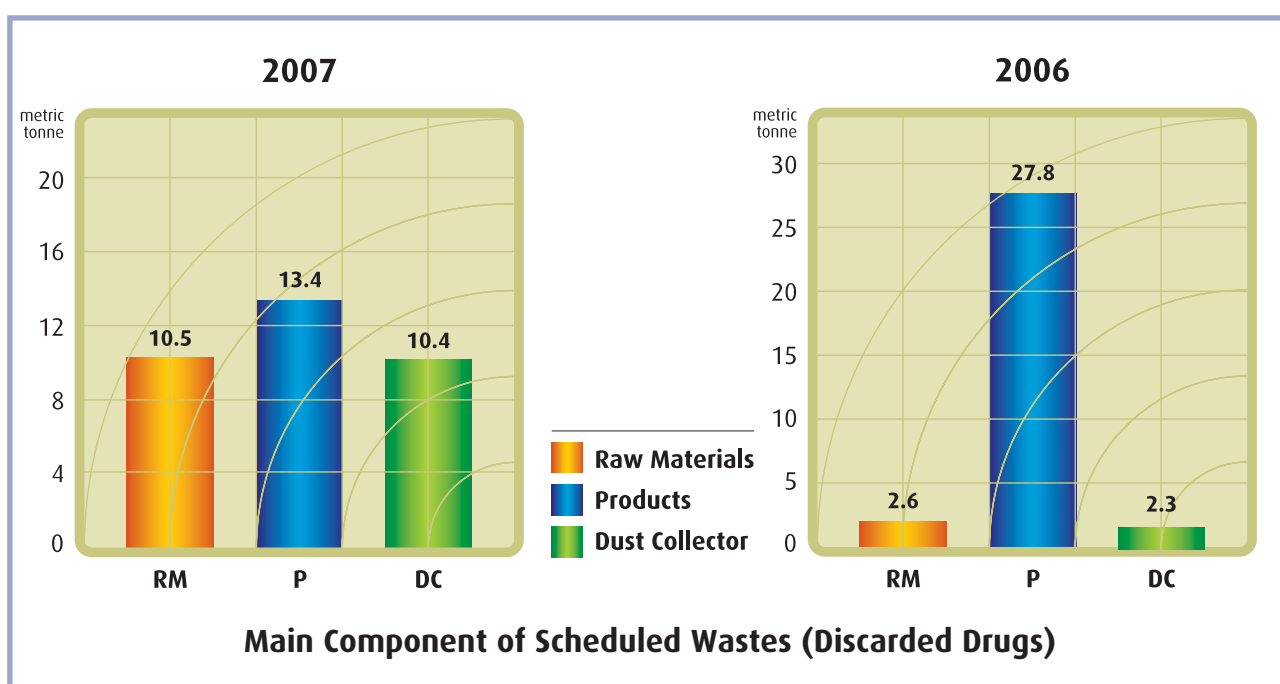
PROTECTING ENVIRONMENTAL ACTIVITIES

Pharmaniaga is committed to reducing energy and water use throughout its research and development,

manufacturing and distribution processes. This focus results in more efficient, cost effective operations while conserving natural resources vital to the Group operations and the communities in which it operates. Pharmaniaga actively seeks opportunities to minimise its environmental impact and reduce waste with particular attention on protecting the quality and availability of water and reducing air emissions through energy conservation. Hence, the Group has undertaken several measures to ensure that environmental, safety and health values are not compromised.

Scheduled Waste

Pharmaniaga tracks scheduled waste sent off-site from our facilities. The chart shows the amount of scheduled waste disposed. The main components of scheduled wastes (discarded drugs) are raw materials, products and dust collector.



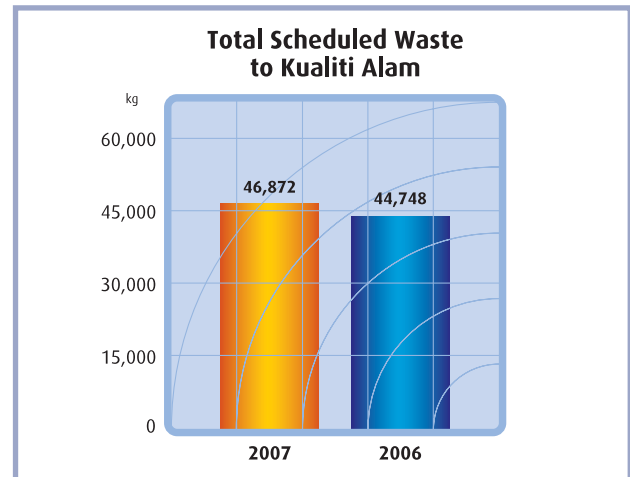


For tracking purposes, scheduled waste is defined as any material, solid and liquid, that can no longer be used as it was originally intended and must be modified in some way for beneficial reuse or destroyed to render it harmless to human health and the environment.

The vast majority of scheduled waste is incinerated and the Group managed to reduce scheduled waste generated per kilogram by 20.0 per cent despite the increase in production in 2007 with the implementation of the following :

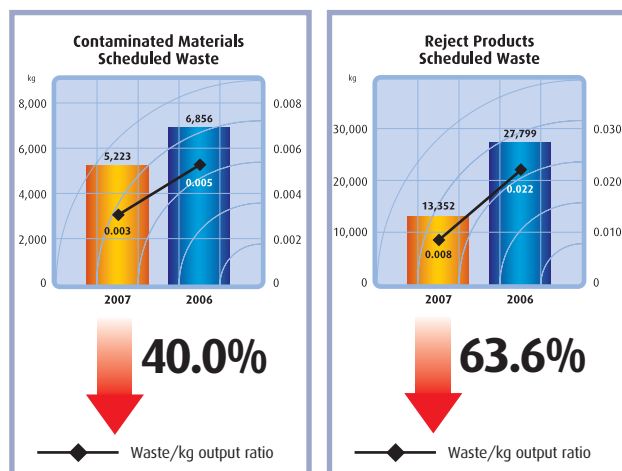
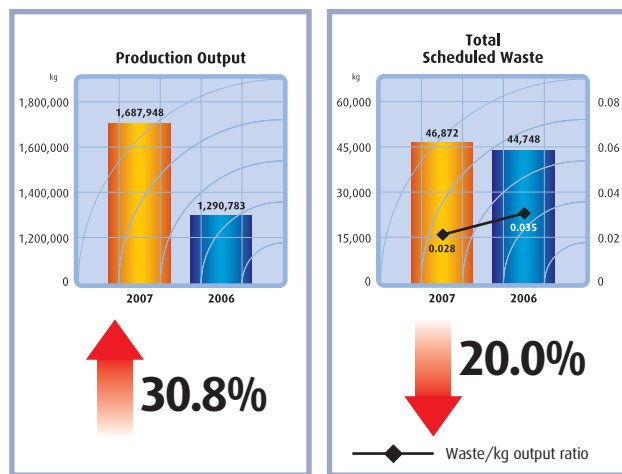
- Full utilisation of materials related to the manufacturing process. Contaminated materials per output decreased by 40.0 per cent.
- Reject products decreased by 63.6 per cent as a result of improvements in overall manufacturing process

In 2007, approximately 46.9 tonnes of scheduled waste was disposed to Kualiti Alam Sdn Bhd.



Nonhazardous Waste

Pharmaniaga defines nonhazardous wastes as those wastes discarded from manufacturing, distribution, and administrative sources, including cardboard, paper, plastics and off-spec product. The Group tracks its generation, recycling, and disposal of nonhazardous waste. However, the Group continues to promote recycling as a preferred alternative to disposal. In sync with that, the Group started to monitor the usage of pallets since July 2007. An average 240 pallets were reused in the packaging processes during the year under review. The Group has continuously recycled all other packaging materials such as boxes, cartons and other materials.



Effluents to Water

Pharmaniaga has corporate standards and guidelines in place to ensure that its facilities meet or exceed regulatory requirements regarding the treatment and management of wastewater effluents.

The Group measures parameters that contribute to water quality degradation, either in the form of depleted oxygen levels (total suspended solids and chemical oxygen demand) or toxicity to human and aquatic life (nitrates) to arrive at a total for discharge of general pollutants.

The quality of effluent water discharged from the plant met the Standard A requirements. The Group will continue to collect metrics on these parameters.

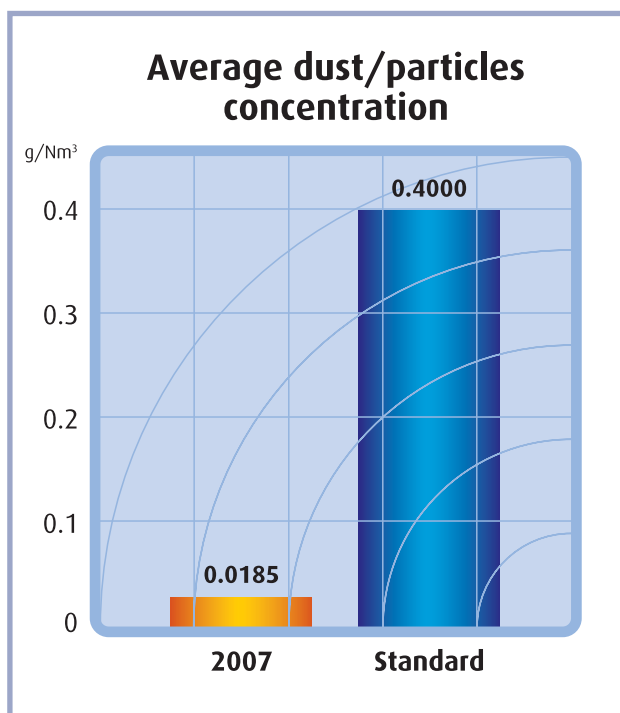


Noise and Odours

Pharmaniaga is committed to working with its neighbours to ensure that its operations do not negatively impact the community. The Group understands that nuisance issues, such as noise and odours, can become significant if left unaddressed. In the event that odours or noise become a problem for any members of the community, the Group encourages them to contact the engineering and facility management.

Air Emissions

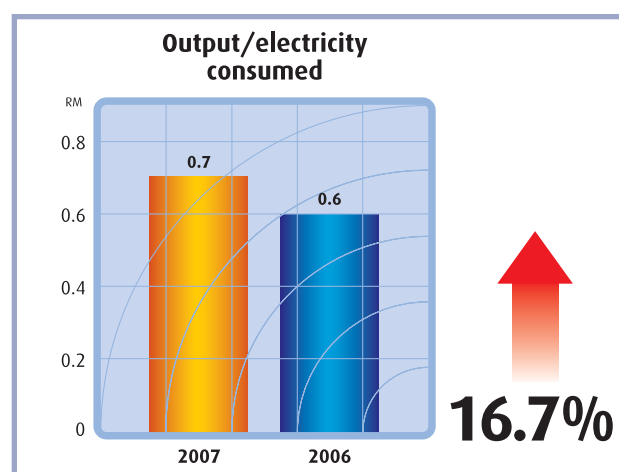
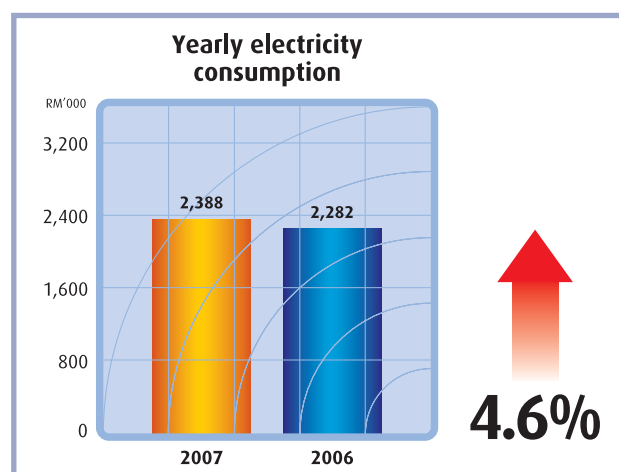
The results from its monitoring of air quality have shown readings that are below the Malaysian Environment Quality Act limits. Due to consistent and excellent outcomes recorded, the frequency of air monitoring has been reduced since 2004. For the quality of air emission, the average of particulate level was 0.0185 g/Nm³, well below the requirement level of 0.4 g/Nm³.



Energy Programme

Each division is required to develop and maintain an energy management programme based on the characteristics of its specific operational situations. The Environment, Health, and Safety Committee reviews these programmes annually and reports its findings to senior management. The programmes objectives are supported by a number of other company initiatives that require consideration of energy issues.

Pharmaniaga collects and reports data on electricity use and fuel usage from its manufacturing facilities in Bangi. The majority of the fuel consumed by its facilities is natural gas, which produces less air pollution than oil fuel.





Transportation Impacts

The Group operations have three primary transportation impacts: receiving materials from suppliers, distributing product to customers, and selling product through its sales force. Most materials in and out of its facilities are shipped via common carrier by truck, air service, or ship. The emission of carbon monoxide from its own fleet of lorries and vans is also regularly monitored. Pharmaniaga has also started to promote the bicycle as a serious alternative to the motor vehicles.

■ “Ayuh Kayuh” for the Environment

In conjunction with World Health Day 2008, Pharmaniaga began promoting “Ayuh Kayuh”, a cycle-to-work campaign to help reduce Carbon Dioxide (“CO₂”) from the atmosphere and create awareness on the importance of keeping fit.

Launched during Pharmaniaga Health Carnival at Cyberjaya Lake Garden on 5 April 2008, “Ayuh Kayuh” is in line with World Health Day’s theme of 2008, which is “Protecting Health from Climate Change”.

“Ayuh Kayuh” is an initiative from Pharmaniaga to encourage the public to “go green” wherever and whenever possible, especially to work.

More than 50 Pharmaniaga employees took part in the “Ayuh Kayuh” cyclethon to rediscover the joy and benefit of cycling in the hope that they would cycle to work and leave their habit of single-occupant driving.

The car produces an average of 160g of CO₂ per kilometer. To date, there are two employees who have decided to leave their cars at home and cycle to work. One lives 45km away from the office and therefore saves 14.4kg of carbon everyday. The other lives 25km away and saves 8kg of carbon daily.



Many possible health impacts can be avoided or controlled by reducing the exposure to and the effect of changing climate. Reducing pollution from transport is a well-known and tested measure that can help.

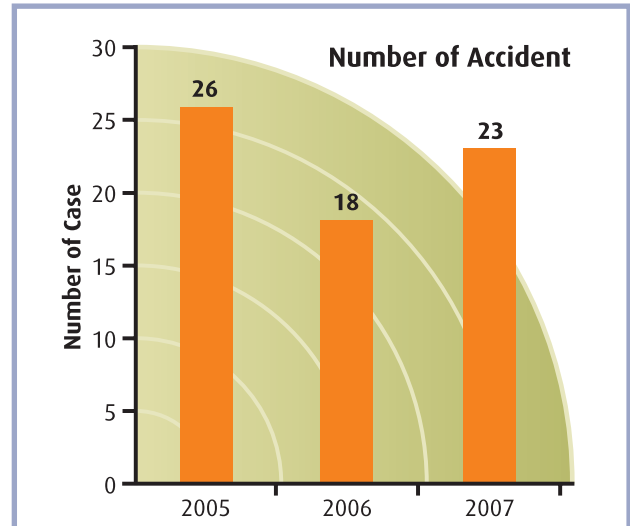
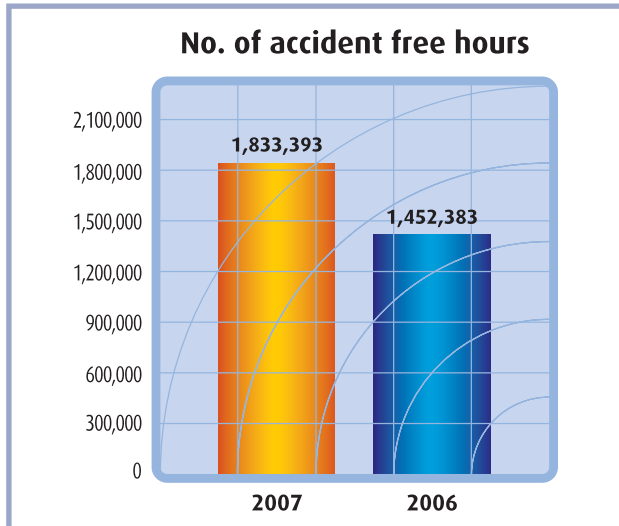
Moreover, the increased use of bicycles instead of personal cars not only reduces greenhouse gas emissions, but will also improve air quality and lead to better respiratory health and fewer premature deaths.

The increase in physical activity from cycling will lead to less obesity and fewer cardiovascular illness. Studies have also proven that cycling cures diabetes, heart disease and even cancer.

HIBISCUS AWARD

The Group’s commitment in the area of environment protection and sustainable development is reflected when one of its subsidiary, Pharmaniaga Manufacturing Berhad won the Notable Achievement Award in the Prime Minister’s Hibiscus Award for Environmental Performance.



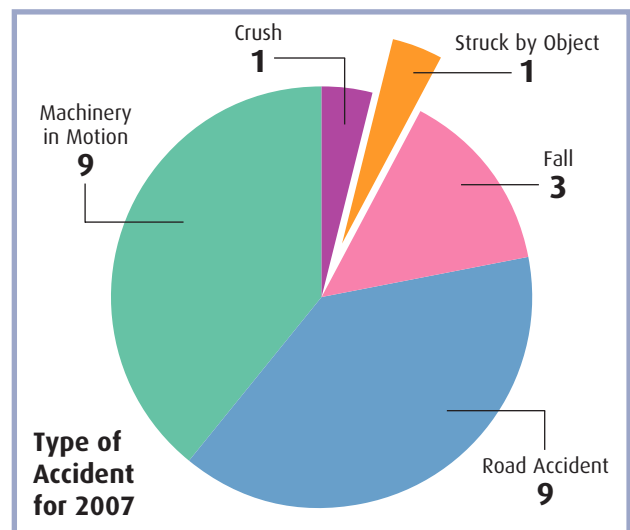


OCCUPATIONAL SAFETY AND HEALTH

Safety is of paramount importance at Pharmaniaga. Throughout the organisation, a high standard of management is applied in all operations to ensure occupational safety for the entire employees. In the year under review, the Group achieved a good safety record with no fatality cases reported.

The increased awareness has encouraged staff to report accidents at the workplace. 23 accidents occurred in 2007, out of which 3 major accidents reported during the year. A total of 1,833,393 accident free hours was achieved in 2007 as compared to 1,452,383 in 2006. The safety and health committee has evaluated the cause of accidents and measures have been taken to ensure that such accidents are avoided and precautions have been taken to reduce the risk of such accidents.

Among them included awareness initiatives via e-mail, safety talks to canteen operators and contractors as well as Weekly Safety Inspection. The contractors are also been briefed on their responsibility that will reflect to Pharmaniaga policies. Cafeteria operator, cleaner and gardener management representatives and their employees have attended the briefing.



During the year, we held four ESH meetings in compliance with its requirement. Workplace inspections were also implemented four times during the year. We also carried out a Fire Drill Exercise and other health and safety awareness programmes during the year.

Integrated Quality Management System meetings were also held during the year to satisfy our regulatory, environmental and business requirements. We have not received any complaints on non compliance issues pertaining to environment, safety and health in 2007 from any external parties or statutory bodies.



ENVIRONMENTAL, SAFETY AND HEALTH PROGRAMME

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

ESH awareness programmes carried out in 2007 at Bukit Raja

| NO. | AWARENESS PROGRAMME | PROVIDER | DURATION | DATE |
|-----|---|---|--------------------|----------|
| 1. | Cervical Cancer Talk | Merck Sharp & Dohme (Supplier) | 2 hours | 09/05/07 |
| 2. | Talk & Exhibition On Emergency Rescue | Malaysia Civil Defence Department | 7 hours | 13/06/07 |
| 3. | ESH IQ Test | Staff Awareness Team | 1 hour | 28/06/07 |
| 4. | Blood Donation Campaign | Tengku Ampuan Rahimah Klang Hospital | 1 day (7 hours) | 09/08/07 |
| 5. | Water Conservation Talk & Presentation | FOMCA | 2 hours | 21/11/07 |
| 6. | Awareness On Nutrient/Vitamin (Fruits Give Away) | Staff Awareness | 1 hour | 28/12/07 |





Group CORPORATE CALENDAR

2007

1 January

Mohamad Abdullah was appointed as Managing Director of Pharmaniaga Berhad.

14 February

Visit by ATM (Angkatan Tentera Malaysia) to Pharmaniaga's headquarters and warehouse.



15 February

The launch of Staff Purchase Discount took place in anticipation of the Pharmaniaga Healthy Lifestyle Campaign. Staff enjoyed 35% discount on all in-house products and had the opportunity to listen to a talk by Puan Mary Easaw, guest dietician from Institut Jantung Negara.

22 February

The first Pharmaniaga Edu-Trip took place. This edu-trip provided employees' teenage children with some exposures on what the whole pharmaceutical industry is all about. The programme included a briefing and a guide tour of the manufacturing plant.

14 March

A "teh-tarik" session was held between randomly selected employees and the Managing Director to enhance Management-Staff relationship.

23 March

The Pharmaniaga Annual Dinner was celebrated by staff from Bukit Raja, Bangi and Petaling Jaya. For the first time, an award was presented to the Most Productive Employee of 2006. Acknowledgements were also given to employees retiring in 2007. This event also provided staff with the opportunity to perform on stage where their hidden talents were discovered.

30 March

A simple event was held to honour the birthday of Prophet Muhammad s.a.w. A guest speaker from Amanah Raya Berhad gave a talk on "will"; a guest Ustaz also gave an enlightening talk on the excellent personality of the Prophet.

11 April

Pharmaniaga presents a medical grant of RM100,000 to YBhg. Dr. Jemilah Mahmood of MERCY Malaysia.



19 April

Pharmaniaga held its first Vendor Excellence Award ceremony.



23 April

Pharmaniaga Berhad signed a collaboration agreement with the government in Putrajaya. The purpose of the agreement is to enable mutual collaboration between Pharmaniaga Berhad and the government in the commercialisation of a popular Malay herbal product.

22 May

The 9th Annual General Meeting was held.



24 May

Pharmaniaga welcomed delegates from Kazakhstan.



30 May

"Mesti Ambil Tahu" campaigned medicine management to the public during the annual Pekan Fest in Pahang.

12 June

Prime Minister visited the Pharmaniaga booth during the OIC Health Ministerial Conference 2007.



16 June

Pharmaniaga sponsored RM50k towards the Ministry of Health's "Jom Tak Nak" campaign.



GROUP CORPORATE CALENDAR



| | | | | |
|--|--|---|---|--|
| <p>23 August Bapak Prof. Dr. Sujudi, MPI's President Commissioner passed away on 23 June 2007, at Pertamina Central Hospital, South Jakarta.</p> | <p>20 August The Ministry of Health, Brunei visited the Pharmaniaga warehouse in Bukit Raja to learn more about Automated Stock and Retrieval System and e-procurement.</p>  | <p>24 - 25 August The first batch of Pharmaniaga ALERT members learned about emergency response in a program conducted by MERCY Malaysia.</p>  | <p>15 September Pharmaniaga Book Prize Award at IIUM, Kuantan.</p>  <p>26 September Majlis Buka Puasa.</p> | <p>27 September Pharmaniaga donated Vitamins worth RM120k to Angkatan Tentera Malaysia who would be on duty during the Raya eve.</p>  |
| <p>30 October Hari Raya Aidilfitri Pot-Luck Gathering 2007 was held to promote harmony and develop teamwork culture among staff.</p> | <p>2 November "Skuad Operasi Sihat" was launched. This CSR programme was aimed not only to provide free health screening in rural areas but also to create awareness and promote a healthy lifestyle.</p>  | <p>1 December The Pharmaniaga Bowling Tournament 2007 was held. A total of 88 players from Bukit Raja, Bangi, and Puchong offices were involved in the tournament.</p>  | <p>12 December "Skuad Operasi Sihat" mobile clinic went on its first mission to Agensi Anti Dadah Kebangsaan.</p> <p>21 December Launch of Citrex Kid's Club at Sunway.</p> | <p>9 January Sambutan Maal Hijrah.</p> <p>19 January Our Sabah branch celebrated its Family Day on the 19 and 20 January 2008. The branch organised a two-day, one-night excursion trip to Kundasang, Mount Kinabalu in the Ranau district which included a visit to Mount Kinabalu Park, Sabah Tea Garden, Kundasang Memorial Garden and Rose Garden.</p> |
| <p>21 January A Book Prize Award ceremony was held at UiTM. Cik Hanis Hanum Zulkifli was presented the Best Student Award and received a trophy, certificate and a RM1000 cheque.</p>  | <p>19 February A group of 35 USM students and their lecturers visited Pharmaniaga Berhad on 19 February 2008.</p> <p>They were headed by Assoc. Prof. Dr. Nabsiah Abdul Wahid who was the Marketing Programme Chairman and Lecturer for Services Marketing.</p> <p>The purpose of the visit was to understand the Business Operations of Pharmaniaga.</p> | <p>21 February Pharmaniaga held its first Yee Sang, which it celebrated with its Chinese employees.</p> <p>1 March The appointment of new COO, Stephen Sze.</p> <p>2 March "Mesti Ambil Tahu" took part in Karnival Kesihatan Mersing.</p> | <p>19 March The first of the monthly Morning Assembly was held to improve communication between Management and employees. Agendas included light physical exercise, singing of the corporate song and company updates.</p> | <p>25 March Dr. Achmad Sujudi, appointed as MPI's President Commissioner and Independent Commissioner.</p>  |

2008

FINANCIAL REPORT



FINANCIAL STATEMENTS



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DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the Group and Company for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiary companies are disclosed in Note 13 to the financial statements.

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

FINANCIAL RESULTS

| | Group RM'000 | Company RM'000 |
|-------------------------------|-----------------|-------------------|
| Profit for the financial year | 51,718 | 67,548 |

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 2006: | |
| - final 15% tax exempt dividend paid on 13 July 2007 | 16,044 |

The Directors have recommended the payment of a final 18% tax exempt dividend for the financial year ended 31 December 2007 amounting to approximately RM19,254,000 which, subject to the approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 2 July 2008 to shareholders registered on the Company's Register of Members at the close of business on 9 June 2008.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

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

There were no debentures issued during the financial year.

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.



EMPLOYEE SHARE OPTION SCHEME ("ESOS") (cont'd.)

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.

As at 31 December 2007, 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 31.12.2007 |
|------------------|--------------------|--|---------|-----------|----------|---------------------|
| | | As at 1.1.2007 | Granted | Exercised | Lapsed | |
| 7 February 2006 | 4.43 | 701,850 | - | - | - | 701,850 |
| 1 September 2006 | 3.91 | 549,900 | - | - | - | 549,900 |
| 5 September 2007 | 3.56 | - | 405,900 | - | (48,800) | 357,100 |

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

DIRECTORS

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

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



DIRECTORS' REPORT (CONT'D.)

DIRECTORS' BENEFITS

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

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 33 to the financial statements.

The options granted to the Directors pursuant to holding company's EES are as follows:

Holding company's EES

| | Number of ordinary shares of RM1.00 each in UEM World | |
|----------------------|---|---|
| | Fixed entitlement | Eligible under Performance-based Scheme |
| Mohamad Bin Abdullah | 560,000 | 128,000* |

* Under the EES, in addition to a fixed entitlement portion, the relevant Director is eligible for additional shares in UEM World over the EES period under a performance-based scheme.

DIRECTORS' INTERESTS

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

The Company

| | Number of ordinary shares of RM1.00 each | | | |
|---|--|--------|------|------------------|
| | As at 1.1.2007 | Bought | Sold | As at 31.12.2007 |
| Direct interest | | | | |
| YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin | 27,000 | - | - | 27,000 |
| Mohamad bin Abdullah | 100 | - | - | 100 |
| Deemed interest | | | | |
| Dato' Mohamed Azman bin Yahya* | 10,000 | - | - | 10,000 |
| Oh Kim Sun** | 177,000 | - | - | 177,000 |
| YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin*** | 2,000 | - | - | 2,000 |

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

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

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



DIRECTORS' INTERESTS (cont'd.)

Holding company - UEM World Berhad

| | Number of ordinary shares of RM1.00 each | | | |
|---|--|--------------------|-------------|---------------------|
| | As at 1.1.2007 | Granted/ Bought | Sold | As at 31.12.2007 |
| Direct interest | | | | |
| Dato' Ahmad Pardas bin Senin [#] | 8,062,000 | 540,000 | (3,362,000) | 5,240,000 |
| Oh Kim Sun | 22,250 | - | (22,250) | - |
| Mohamad bin Abdullah ^{**} | 653,900 | 614,000 | (600,000) | 667,900 |
| Deemed interest | | | | |
| Oh Kim Sun ^{***} | 11,250 | - | (11,250) | - |

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

^{**} In respect of the UEM World's EES allocation under performance-based scheme and fixed entitlement allocation

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

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

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

CURRENT ASSETS VALUATION

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

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

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

- which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.



DIRECTORS' REPORT (CONT'D.)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (cont'd.)

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

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

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with a resolution dated 27 February 2008.

DATO' MOHAMED AZMAN BIN YAHYA
CHAIRMAN

MOHAMAD BIN ABDULLAH
MANAGING DIRECTOR

STATEMENT by DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965



We, Dato' Mohamed Azman bin Yahya and Mohamad bin Abdullah, two of the Directors of Pharmaniaga Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 121 to 186 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 2007 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

Signed on behalf of the Board of Directors in accordance with a resolution dated 27 February 2008.

DATO' MOHAMED AZMAN BIN YAHYA
CHAIRMAN

MOHAMAD BIN ABDULLAH
MANAGING DIRECTOR

STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Ramlan bin Abdul Rahman, being the Senior General Manager primarily responsible for the financial management of Pharmaniaga Berhad, do solemnly and sincerely declare that the financial statements set out on pages 121 to 186 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

RAMLAN BIN ABDUL RAHMAN
SENIOR GENERAL MANAGER

Subscribed and solemnly declared by the abovenamed Ramlan bin Abdul Rahman at Kuala Lumpur on 27 February 2008, before me.



COMMISSIONER FOR OATHS

NO: 34, TINGKAT 3,
JALAN SETIAWANGSA 10A,
TAMAN SETIAWANGSA,
54200 KUALA LUMPUR.



Report of the Auditors

TO THE MEMBERS OF PHARMANIAGA BERHAD

We have audited the financial statements set out on pages 121 to 186. 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 ("the Act") and for no other purpose. 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 the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities 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 2007 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 its 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 13 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

Kuala Lumpur
27 February 2008

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/08 (J))
Partner of the firm

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007



| | | Group | | Company | |
|---|------|------------------|----------------|----------------|----------------|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Revenue | 4 | 1,183,983 | 1,057,868 | 71,300 | 5,000 |
| Cost of sales | 5 | (983,590) | (903,965) | - | - |
| Gross profit | | 200,393 | 153,903 | 71,300 | 5,000 |
| Other income | | 2,348 | 8,765 | 4,157 | 21,049 |
| Administrative expenses | | (75,942) | (59,510) | (956) | (832) |
| Selling and distribution costs | | (26,474) | (25,968) | - | - |
| Other expenses | | (12,945) | (40,000) | (225) | (482) |
| Finance costs | | (9,692) | (9,995) | (6,728) | (7,296) |
| Share of results from associated company | | 210 | - | - | - |
| Profit before taxation | 6 | 77,898 | 27,195 | 67,548 | 17,439 |
| Taxation | 8 | (26,180) | (13,111) | - | - |
| Profit for the financial year | | 51,718 | 14,084 | 67,548 | 17,439 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 50,080 | 12,481 | 67,548 | 17,439 |
| Minority interest | | 1,638 | 1,603 | - | - |
| Profit for the financial year | | 51,718 | 14,084 | 67,548 | 17,439 |
| Earnings per share (sen): | | | | | |
| - basic | 9(a) | 46.82 | 11.67 | | |
| - diluted | 9(b) | 46.82 | 11.67 | | |
| Dividend per share (sen): | 10 | | | | |
| - final tax exempt dividend proposed/paid | | 18 | 15 | | |



BALANCE SHEETS

AS AT 31 DECEMBER 2007

| | | Group | | Company | |
|--|------|----------------|----------------|----------------|----------------|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 241,013 | 252,553 | - | - |
| Prepaid lease payments | 12 | 21,431 | 23,351 | - | - |
| Investments in subsidiary companies | 13 | - | - | 185,073 | 185,073 |
| Investments in associated companies | 14 | 6,441 | 6,283 | 1,970 | 2,020 |
| Amounts due from subsidiary companies | 19 | - | - | 44,780 | 59,610 |
| Intangible assets | 15 | 33,988 | 34,621 | - | - |
| Deferred taxation | 27 | 2,297 | 2,207 | - | - |
| | | 305,170 | 319,015 | 231,823 | 246,703 |
| Current assets | | | | | |
| Inventories | 16 | 182,130 | 171,704 | - | - |
| Trade receivables | 17 | 280,411 | 222,464 | - | - |
| Other receivables | 18 | 9,434 | 15,534 | 4 | 7 |
| Amount due from intermediate holding company | | 18 | 20 | 18 | 20 |
| Amounts due from subsidiary companies | 19 | - | - | 106,767 | 49,275 |
| Amounts due from related companies | 20 | 13,698 | 16,198 | - | - |
| Amounts due from associated companies | 20 | 1,087 | 7,830 | - | - |
| Tax recoverable | | 2,796 | 5,286 | - | - |
| Fixed deposits | 21 | 8 | 1,161 | - | - |
| Cash and bank balances | | 56,132 | 68,573 | 1,043 | 20,277 |
| | | 545,714 | 508,770 | 107,832 | 69,579 |
| Non-current assets held for sale | 22 | 33,965 | - | - | - |
| TOTAL ASSETS | | 884,849 | 827,785 | 339,655 | 316,282 |

BALANCE SHEETS

AS AT 31 DECEMBER 2007 (CONT'D.)



| | | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| EQUITY AND LIABILITIES | | | | | |
| Equity attributable to equity holders of the Company | | | | | |
| Share capital | 25 | 106,963 | 106,963 | 106,963 | 106,963 |
| Share premium | 26 | 22,410 | 22,410 | 22,410 | 22,410 |
| Other reserves | 26 | (253) | 352 | 550 | 1,310 |
| Retained earnings | 26 | 220,551 | 186,515 | 69,930 | 18,426 |
| Equity attributable to equity holders of the Company | | 349,671 | 316,240 | 199,853 | 149,109 |
| Minority interest | | 12,789 | 11,151 | - | - |
| Total equity | | 362,460 | 327,391 | 199,853 | 149,109 |
| Non-current liabilities | | | | | |
| Loans and borrowings | 24 | 58,486 | 90,960 | 58,130 | 90,960 |
| Deferred taxation | 27 | 3,767 | 3,767 | - | - |
| | | 62,253 | 94,727 | 58,130 | 90,960 |
| Current liabilities | | | | | |
| Trade payables | 23 | 254,833 | 215,700 | - | - |
| Other payables | | 31,728 | 18,683 | 204 | 1,733 |
| Amount due to intermediate holding company | | - | 58 | - | - |
| Amount due to immediate holding company | | - | 152 | - | - |
| Amounts due to subsidiary companies | 19 | - | - | 18,447 | 3,543 |
| Amounts due to related companies | 20 | 2,561 | 4,932 | 2 | 61 |
| Amounts due to associated companies | 20 | 716 | - | 315 | 59 |
| Taxation payable | | 3,842 | 1,526 | - | - |
| Dividends payable | | 7 | - | 7 | - |
| Loans and borrowings | 24 | 166,449 | 164,616 | 62,697 | 70,817 |
| | | 460,136 | 405,667 | 81,672 | 76,213 |
| Total liabilities | | 522,389 | 500,394 | 139,802 | 167,173 |
| TOTAL EQUITY AND LIABILITIES | | 884,849 | 827,785 | 339,655 | 316,282 |



STATEMENTS of CHANGES in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| Note | Equity attributable to equity holders of the Company | | | | | | Minority interest RM'000 | Total equity RM'000 |
|--|--|-------------------------|-----------------------------|--------------------------|-----------------------------|-----------------|-----------------------------|------------------------|
| | Share capital RM'000 | Share premium RM'000 | Exchange reserves RM'000 | Other reserves RM'000 | Retained earnings RM'000 | Total RM'000 | | |
| Group | | | | | | | | |
| At 1 January 2007 | 106,963 | 22,410 | (958) | 1,310 | 186,515 | 316,240 | 11,151 | 327,391 |
| Currency translation differences | - | - | (2,723) | - | - | (2,723) | - | (2,723) |
| Loss recognised directly in equity | - | - | (2,723) | - | - | (2,723) | - | (2,723) |
| Profit for the financial year | - | - | - | - | 50,080 | 50,080 | 1,638 | 51,718 |
| Total recognised income and expense for the financial year | - | - | (2,723) | - | 50,080 | 47,357 | 1,638 | 48,995 |
| 2006 final 15% tax exempt dividend | 10 | - | - | - | (16,044) | (16,044) | - | (16,044) |
| Employee equity scheme: - options granted | - | - | - | 2,118 | - | 2,118 | - | 2,118 |
| Balance as at 31 December 2007 | 106,963 | 22,410 | (3,681) | 3,428 | 220,551 | 349,671 | 12,789 | 362,460 |
| | | | | | | | | |
| At 1 January 2006 as restated | 106,952 | 22,372 | (1,101) | - | 186,334 | 314,557 | 9,548 | 324,105 |
| Currency translation differences | - | - | 143 | - | - | 143 | - | 143 |
| Income recognised directly in equity | - | - | 143 | - | - | 143 | - | 143 |
| Profit for the financial year | - | - | - | - | 12,481 | 12,481 | 1,603 | 14,084 |
| Total recognised income and expense for the financial year | - | - | 143 | - | 12,481 | 12,624 | 1,603 | 14,227 |
| 2005 final 11.5% tax exempt dividend | 10 | - | - | - | (12,300) | (12,300) | - | (12,300) |
| Employee share option scheme: - shares issued | 25 | 11 | 38 | - | - | 49 | - | 49 |
| - options granted | - | - | - | 600 | - | 600 | - | 600 |
| Employee equity scheme: - options granted | - | - | - | 710 | - | 710 | - | 710 |
| Balance as at 31 December 2006 | 106,963 | 22,410 | (958) | 1,310 | 186,515 | 316,240 | 11,151 | 327,391 |

STATEMENTS of CHANGES in EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONT'D.)



| | Note | Share capital RM'000 | Non-distributable | | Distributable | Total RM'000 |
|--|------|-------------------------|-------------------------|--------------------------|-----------------------------|-----------------|
| | | | Share premium RM'000 | Other reserves RM'000 | Retained earnings RM'000 | |
| Company | | | | | | |
| At 1 January 2007 | | 106,963 | 22,410 | 1,310 | 18,426 | 149,109 |
| Profit for the financial year | | - | - | - | 67,548 | 67,548 |
| Employee share option scheme: | | | | | | |
| - option lapsed | | - | - | (50) | - | (50) |
| Employee equity scheme: | | | | | | |
| - reclassification | | - | - | (710) | - | (710) |
| Dividends for financial year ended: | | | | | | |
| - 2006 final 15.0% tax exempt dividend | 10 | - | - | - | (16,044) | (16,044) |
| At 31 December 2007 | | 106,963 | 22,410 | 550 | 69,930 | 199,853 |
| | | | | | | |
| At 1 January 2006 | | 106,952 | 22,372 | - | 13,287 | 142,611 |
| Profit for the financial year | | - | - | - | 17,439 | 17,439 |
| Employee share option scheme: | | | | | | |
| - shares issued | | 11 | 38 | - | - | 49 |
| - options granted | | - | - | 600 | - | 600 |
| Employee equity scheme: | | | | | | |
| - options granted | | - | - | 710 | - | 710 |
| Dividends for financial year ended: | | | | | | |
| - 2005 final 11.5% tax exempt dividend | 10 | - | - | - | (12,300) | (12,300) |
| At 31 December 2006 | | 106,963 | 22,410 | 1,310 | 18,426 | 149,109 |



Cash Flow STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | Group | | Company | |
|--|------------------|-----------|----------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| CASH FLOW OPERATING ACTIVITIES | | | | |
| Cash receipts from customers | 1,123,608 | 1,049,617 | - | - |
| Cash payments to suppliers | (926,083) | (919,527) | - | - |
| Cash payments to employees and for expenses | (105,087) | (116,812) | (7,952) | (644) |
| Cash receipts from related companies | - | 32,375 | - | - |
| Advances from/(to) subsidiary companies | - | - | 52,683 | (10,484) |
| Cash from operations | 92,438 | 45,653 | 44,731 | (11,128) |
| Interest paid | (6,135) | (5,119) | - | - |
| Profit on Murabahah Commercial Paper paid | (1,178) | (1,508) | (1,178) | (1,508) |
| Tax paid | (20,367) | (11,876) | - | - |
| Tax refund | - | 85 | - | - |
| Interest received | 120 | 261 | - | - |
| Net cash flows generated from/(used in) operating activities | 64,878 | 27,496 | 43,553 | (12,636) |
| CASH FLOW INVESTING ACTIVITIES | | | | |
| Proceeds from disposal of property, plant and equipment | 232 | 281 | - | - |
| Purchase of property, plant and equipment | (26,936) | (67,837) | - | - |
| Purchase of intangible asset | - | (1,000) | - | - |
| Additional investment in an associated companies | - | (8,499) | - | - |
| Proceeds from the sale of subsidiary company, net of cash disposed (Note 35) | - | 21,696 | - | 21,842 |
| Net cash flows (used in)/generated from investing activities | (26,704) | (55,359) | - | 21,842 |

Cash Flow STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONT'D.)



| | Group | | Company | |
|--|----------|----------|----------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of shares | | | | |
| - exercise of share options | - | 49 | - | 49 |
| Dividends paid | (16,037) | (12,300) | (16,037) | (12,300) |
| (Redemption of)/proceeds from issuance of Murabahah CP/MTN | (25,000) | 35,000 | (25,000) | 35,000 |
| Drawdown of short term borrowings | 11,497 | 34,017 | - | - |
| Repayments of term loan | (16,200) | (7,200) | (16,200) | (7,200) |
| Term loan interest paid | (3,120) | (3,549) | (3,120) | (3,549) |
| Profit on Murabahah Medium Term Notes paid | (2,430) | (1,313) | (2,430) | (1,313) |
| Fixed deposits released | 1,153 | 51 | - | - |
| Net cash flows (used in)/generated from financing activities | (50,137) | 44,755 | (62,787) | 10,687 |
| CHANGE IN CASH AND CASH EQUIVALENTS | (11,963) | 16,892 | (19,234) | 19,893 |
| Foreign exchange differences | (478) | 112 | - | - |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR | 68,573 | 51,569 | 20,277 | 384 |
| CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR | 56,132 | 68,573 | 1,043 | 20,277 |
| Cash and cash equivalents comprise: | | | | |
| Fixed deposits | 8 | 1,161 | - | - |
| Cash and bank balances | 56,132 | 68,573 | 1,043 | 20,277 |
| | 56,140 | 69,734 | 1,043 | 20,277 |
| Less: Fixed deposits pledged to banks (Note 21) | (8) | (1,161) | - | - |
| Cash and cash equivalents | 56,132 | 68,573 | 1,043 | 20,277 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

1 GENERAL INFORMATION

The Company is an investment holding company. The principal activities of its subsidiary companies are disclosed in Note 13 to the financial statements.

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

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

Registered office:

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

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

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

Unless otherwise stated, the following accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

The financial statements have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.



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

(a) Basis of preparation (cont'd.)

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(i) Standards, amendments to published standards and interpretations that are effective

The new and revised MASB Approved Accounting Standards, effective 1 January 2007 in the Group's and the Company's financial statements are as follows:

- FRS 117 Leases
- FRS 124 Related Party Disclosures
- FRS 119 Amendments to FRS 119 Employee Benefits - Actuarial Gain and Losses, Group Plans and Disclosures
- FRS 6 Exploration for and Evaluation of Mineral Resources
- TRI-1 Accounting for Zakat on Business
- TRI-2 Ijarah

The adoptions of FRS 117 and FRS 124 have largely affected the presentation and disclosure in the financial statements. Adoption of the Amendment to FRS 119, FRS 6, TRI-1 and TRI-2 did not have any material impact on the financial statement of the Group and Company.

A summary of the impact of the new accounting standards, amendments to published standards and interpretations to existing standards on the financial statements of the Group and Company is set out in Note 30.

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

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial year beginning on or after 1 January 2008 or later years, but which the Group has not early adopted, are as follows:

- Amendment to FRS 121 The Effects to Changes in Foreign Exchange Rates - Net Investment in a Foreign Operations (effective for accounting periods beginning on or after 1 July 2007). This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in. The Group will apply this amendment from financial year beginning on 1 January 2008.
- FRS 112 Income Taxes (effective for accounting periods beginning on or after 1 July 2007). The revised standard removes the requirements that prohibit recognition of deferred tax on unutilised reinvestment allowances or other allowances in excess of capital allowances. The Group will apply this standard from financial periods beginning on 1 January 2008.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

(a) Basis of preparation (cont'd.)

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

- FRS 139 Financial Instruments : Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this standard when effective.
- Other revised standards (effective for accounting periods beginning on or after 1 July 2007) that have no significant changes compared to the original standards:
 - FRS 107 Cash flow statements
 - FRS 118 Revenue
 - FRS 120 Accounting for Government Grants and Disclosure of Government Assistance
 - FRS 134 Interim Financial Reporting
 - FRS 137 Provisions, Contingent liabilities and Contingent Assets

The application of the above standards will not have a significant impact on the financial statements of the Group and Company.

(iii) Standards that are not yet effective and not relevant for the Group's operations

- IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (effective for accounting periods beginning on or after 1 July 2007).
- IC Interpretation 8 Scope of FRS 2 (effective for accounting periods beginning on or after 1 July 2007).
- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (effective for accounting periods beginning on or after 1 July 2007).
- IC Interpretation 5 Rights to Interests arising from Decommission, Restoration and Environmental Rehabilitation Funds (effective for accounting periods beginning on or after 1 July 2007).
- IC Interpretation 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for accounting periods beginning on or after 1 July 2007).
- IC Interpretation 7 Applying the Restatement Approach under FRS 129²⁰⁰⁴ Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 July 2007).



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

(b) Basis of consolidation

(i) Subsidiary companies

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

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

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

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

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

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

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company.

(iii) Associated companies

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

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

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

(c) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.



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

(c) Foreign currencies (cont'd.)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

| | 2007 RM | 2006 RM |
|-------------------|-------------|------------|
| US Dollar | 3.31 | 3.53 |
| Euro | 4.88 | 4.65 |
| Singapore Dollar | 2.29 | 2.30 |
| Indonesian Rupiah | 0.04 | 0.04 |
| Sterling Pound | 6.60 | 6.93 |
| Australian Dollar | 2.92 | 2.79 |
| Chinese Renminbi | 0.45 | 0.45 |

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Company are translated into the presentation currency as follows:

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

(d) Property, plant and equipment

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

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

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

The principal annual depreciation rates used are as follows:

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

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

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

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. See accounting policy Note 2(i) on impairment of assets.

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



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

(e) Prepaid lease payments

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

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

(f) Investments

Investments in subsidiary and associated companies are shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 2(i) on impairment of assets.

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

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

(g) Intangible assets

(i) Goodwill

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

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



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

(g) Intangible assets (cont'd.)

(ii) Project development expenditure

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

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

(iii) Brand

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

(h) Research and development

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

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

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

(i) Impairment of assets

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



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

(i) Impairment of assets (cont'd.)

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

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

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

(j) Inventories

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

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

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

(k) Receivables

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

(l) Cash and cash equivalents

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

(m) Share capital

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

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



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

(n) Borrowings

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

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Payables

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

(p) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior years. The defined contribution plan of the Group relates to the contribution to the Employee Provident Fund, the national defined contribution plan.

The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.



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

(p) Employee benefits (cont'd.)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan for the employees of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement over the vesting periods of the grant with a corresponding increase in equity.

The Employee Share Option Scheme ("ESOS") and Employee Equity Scheme ("EES") allow the Group's employees to acquire ordinary shares of the Company and of the immediate holding company respectively.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(q) Provisions for liabilities

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

(r) Revenue recognition

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

(i) Sale of goods and services

Revenue relating to sale of goods is recognised upon the transfer of risks and rewards of ownership of the goods net of returns and discounts. Revenue from services is recognised upon services rendered.

(ii) Contracts

Revenue from system and equipment design, planning, installation and commissioning contracts is recognised based on the percentage of completion method; the stage of completion is measured on the proportion of contract costs incurred for work performed to date over the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable of recovery. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenues, the expected loss is recognised as an expense immediately. Where costs incurred on such contracts plus recognised profits (less recognised losses) exceeds progress billings, the balance is shown as amounts due from customers on contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amounts due to customers on contracts.

(iii) Interest income

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

(iv) Dividend income

Dividend income from subsidiary companies is included in the income statement when the right to receive payment is established and no significant uncertainty exists as regards to its receipt. Interim dividends from subsidiary companies are recognised when they are declared and final dividends when they are approved by shareholders in general meeting.



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

(s) Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by a foreign subsidiary company and associated company on distributions of retained earnings to companies in the Group, and real property gains taxes payable on disposal of properties.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiary companies and associated companies except where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(t) Financial instruments

(i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) Financial instruments recognised on the balance sheet

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



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

(t) Financial instruments (cont'd.)

(iii) Financial instruments not recognised on the balance sheet

The Group is a party to financial instruments that comprise foreign currency forward contracts. This instrument is not recognised in the financial statements on inception.

The Group enters into foreign currency forward contracts to protect the Group from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

Exchange gains and losses on foreign currency forward contracts are recognised when settled at which time they are included in the measurement of the transaction hedged.

(iv) Fair value estimation for disclosure purposes

The face value of financial liabilities with maturity of more than one year is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

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

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

(u) Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those components operating in other economic environments.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and segment liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.



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

(v) Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations

Non-current assets or disposal groups are classified as held for sale if their carrying amounts will be recovered principally through sale transaction rather than through continuing use. The condition is regarded as met only when the assets or disposal groups are available for immediate sale in its present condition subject to terms that are usual and customary and the sale is highly probable.

Non-current assets or disposal groups held for sale are measured at the lower carrying amount and fair value less costs to sell.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

3 CRITICAL ACCOUNTING ESTIMATES

Estimates are continuously evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amount of cash-generating unit has been determined based on value-in-used calculations. These calculations require use of estimates as set out in Note 15.

The results of impairment testing will not change even if the actual gross margin are 10% lower than the gross margins estimated by the management or if the estimated pre-tax discount rate applied to discounted cash flows had been 10% higher than management's estimates.

For the purposes of the value-in-use calculations in respect of RM12.65 million of the goodwill, the Group has taken into account the potential economic benefits of contracts to be awarded by the Government under the Ninth Malaysia Plan. The Group is still negotiating for some of these contracts. The goodwill referred to has been allocated to the cash generating unit relating to medical products and services. The Board of Directors believe that it is reasonable to assume that the Company will be successful in being awarded some of these contracts.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

4 REVENUE

| | Group | | Company | |
|-----------------------|-----------|-----------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue consists of: | | | | |
| Sale of goods | 1,181,681 | 1,052,831 | - | - |
| Rendering of services | - | 584 | - | - |
| Dividend income | - | - | 71,300 | 5,000 |
| Contracts | 2,302 | 4,453 | - | - |
| | 1,183,983 | 1,057,868 | 71,300 | 5,000 |

5 COST OF SALES

| | Group | |
|----------------------------|---------|---------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Cost of sales consists of: | | |
| Cost of inventories sold | 981,417 | 899,977 |
| Contracts costs | 2,173 | 3,988 |
| | 983,590 | 903,965 |

6 PROFIT BEFORE TAXATION

| | Group | | Company | |
|--|--------|--------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit before taxation is arrived at after charging/(crediting): | | | | |
| Auditors' remuneration | | | | |
| - statutory | | | | |
| - current | 241 | 150 | 37 | 32 |
| - under/(over) provision in prior year | 4 | (26) | - | - |
| - others | 34 | 404 | - | - |
| Amortisation of project development expenditure | 633 | 633 | - | - |
| Property, plant and equipment | | | | |
| - depreciation | 16,827 | 22,266 | - | - |
| - written-off | 105 | 308 | - | - |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

6 PROFIT BEFORE TAXATION (cont'd.)

| | Group | | Company | |
|--|--------|---------|---------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Amortisation of prepaid lease payments | 129 | 129 | - | - |
| Gain on disposal of property, plant and equipment | (225) | (257) | - | - |
| Gain on disposal of a subsidiary company | - | (7,333) | - | (17,292) |
| Directors' remuneration | | | | |
| - fees payable to directors | 320 | 260 | 320 | 260 |
| - fees payable to intermediate holding company | 36 | 30 | 36 | 30 |
| - salaries, bonuses and other emoluments | 938 | 837 | 113 | 156 |
| Finance cost | | | | |
| - interest expense on term loan | 5,005 | 5,278 | 3,120 | 3,539 |
| - interest expense on bankers' acceptance | 2,921 | 2,717 | - | - |
| - interest expense on bank overdrafts | - | 155 | - | - |
| - profit on Murabahah Commercial Paper | 1,178 | 1,462 | 1,178 | 1,462 |
| - profit on Murabahah Medium Term Notes | - | - | 2,430 | 2,295 |
| - others | 588 | 383 | - | - |
| Interest income | (681) | (261) | (3,608) | (3,757) |
| Allowance for doubtful debts | 1,234 | 3,397 | 23 | 456 |
| Write back of allowance for doubtful debts | (886) | (1,364) | - | - |
| Bad debts written off | - | 699 | 202 | 26 |
| Bad debts recovered | - | (53) | - | - |
| Allowance for slow moving and obsolete inventories | 1,983 | 1,725 | - | - |
| Inventories written off | 1,781 | 4,382 | - | - |
| Rental of premises | 1,836 | 2,238 | - | - |
| Rental of equipment | 481 | 605 | - | - |
| Research and development expenses | 1,013 | 729 | - | - |
| Loss/(gain) on foreign currency exchange | 49 | (119) | - | - |
| Rental income | (73) | (336) | - | - |
| Impairment of associated companies | - | 21,513 | - | - |
| Employee benefit expense (Note 7) | 57,651 | 47,967 | - | - |

The estimated monetary value of benefits provided to Directors of the Company during the financial year amounted to RM15,000 (2006: RM15,000).



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

7 EMPLOYEE BENEFIT EXPENSE

| | Group | | Company | |
|--|--------|--------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Salaries and bonus | 40,327 | 31,429 | - | - |
| Defined contribution plan | 5,421 | 4,789 | - | - |
| Short term employee benefits | 9,675 | 10,439 | - | - |
| Equity compensation benefits (Note 25) | 2,228 | 1,310 | - | - |
| | 57,651 | 47,967 | - | - |

The number of employees of the Group and Company at the end of the financial year was 1,915 and Nil (2006: 1,962 and Nil) persons respectively.

8 TAXATION

| | Group | | Company | |
|---|--------|--------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current tax: | | | | |
| - Malaysian income tax | 24,327 | 9,935 | - | - |
| - foreign income tax | 1,763 | 1,767 | - | - |
| - under provision in prior years | 180 | 1,700 | - | - |
| Deferred taxation (Note 27) | | | | |
| - reversal of net temporary differences | (90) | (782) | - | - |
| - under accrual in prior years | - | 491 | - | - |
| | 26,180 | 13,111 | - | - |

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.

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

8 TAXATION (cont'd.)

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

| | Group | | Company | |
|--|----------------|---------|-----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit before taxation | 77,898 | 27,195 | 67,548 | 17,439 |
| Income tax at rate of 27% (2006: 28%) | 21,032 | 7,615 | 18,238 | 4,883 |
| Tax effect in respect of: | | | | |
| Non allowable expenses | 6,818 | 7,738 | 129 | 1,359 |
| Income not subject to tax | (1,281) | (3,097) | (18,367) | (6,242) |
| Effect of different tax rate | 644 | 23 | - | - |
| Utilisation of current year's reinvestment allowances | (1,213) | (1,359) | - | - |
| Under provision of income tax in prior years | 180 | 1,700 | - | - |
| Under accrual of deferred tax liabilities in prior years (net) | - | 491 | - | - |
| | 26,180 | 13,111 | - | - |

9 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 RM50,080,000 (2006: RM12,481,000) and the weighted average number of ordinary shares in issue during the year of 106,963,000 (2006: 106,959,000).

| | Group | |
|--|----------------|---------|
| | 2007 | 2006 |
| Net profit attributable to shareholders (RM'000) | 50,080 | 12,481 |
| Weighted average number of ordinary shares in issue ('000) | 106,963 | 106,959 |
| Basic earnings per share (sen) | 46.82 | 11.67 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

9 EARNINGS PER SHARE (cont'd.)

(b) Diluted earnings per share

The adjustment for weighted average number of ordinary shares to arrive at the diluted earnings per share for the current year is not calculated as the market share price as at the year end closing of RM3.22 per share (2006: RM5.10 per share) was below the exercisable prices offered. However, the previous year's diluted earnings per share was based on the net profit attributable to shareholders of RM12,481,000 and the weighted average number of ordinary shares in issue which was adjusted to assume the conversion of all dilutive potential ordinary shares arising from the options granted to employees under ESOS of 106,965,000 calculated as follows:

| | Group | |
|---|----------------|-------------|
| | 2007 | 2006 |
| Weighted average number of ordinary shares in issue ('000) | 106,963 | 106,959 |
| Adjusted for: | | |
| Share options under ESOS ('000) | - | 6 |
| Weighted average number of ordinary shares in issue for diluted earnings per share ('000) | 106,963 | 106,965 |
| Diluted earnings per share (sen) | 46.82 | 11.67 |

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.

10 DIVIDENDS

Dividends declared and proposed in respect of ordinary shares for the financial year are as follows:

| | Group and Company | | | |
|---|---|--|---|--|
| | 2007 | | 2006 | |
| | Tax exempt per share sen | Amount of dividend RM'000 | Tax exempt per share sen | Amount of dividend RM'000 |
| Final tax exempt dividend proposed/paid | 18 | 19,254 | 15 | 16,044 |

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 December 2007 of 18 sen (2006: 15 sen) per share amounting to approximately RM19,254,000 (2006: RM16,044,000) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect the proposed final dividend. This will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

11 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RM'000 | Furniture, fittings, renovation and equipment RM'000 | Motor vehicles RM'000 | Plant and machinery RM'000 | Capital work-in- progress RM'000 | Total RM'000 |
|--|---------------------------------|---|-----------------------------|-------------------------------------|---|-----------------|
| Group | | | | | | |
| At 31 December 2007 | | | | | | |
| Cost | 187,587 | 62,015 | 7,436 | 89,558 | 1,114 | 347,710 |
| Accumulated depreciation | (29,257) | (36,107) | (6,359) | (34,974) | - | (106,697) |
| Net book value | 158,330 | 25,908 | 1,077 | 54,584 | 1,114 | 241,013 |
| At 31 December 2006 | | | | | | |
| Cost | | | | | | |
| - As previously stated | 186,145 | 62,789 | 8,321 | 79,933 | 50,206 | 387,394 |
| - Effect of adoption of FRS 117 (Note 12) | (24,338) | - | - | - | - | (24,338) |
| - As restated | 161,807 | 62,789 | 8,321 | 79,933 | 50,206 | 363,056 |
| Accumulated depreciation | | | | | | |
| - As previously stated | (31,940) | (34,307) | (6,960) | (38,283) | - | (111,490) |
| - Effect of adoption of FRS 117 (Note 12) | 987 | - | - | - | - | 987 |
| - As restated | (30,953) | (34,307) | (6,960) | (38,283) | - | (110,503) |
| Net book value, as restated | 130,854 | 28,482 | 1,361 | 41,650 | 50,206 | 252,553 |
| Movements in net book value | | | | | | |
| At 1 January 2007 | 130,854 | 28,482 | 1,361 | 41,650 | 50,206 | 252,553 |
| Additions | 5,379 | 6,798 | 254 | 25,474 | 53 | 37,958 |
| Disposals | - | (117) | (1) | 1 | - | (117) |
| Written off | (54) | (42) | - | (9) | - | (105) |
| Depreciation charged | (4,992) | (6,196) | (457) | (5,182) | - | (16,827) |
| Reclassification | 46,920 | - | - | (32) | (46,888) | - |
| Transfer to non-current assets held for sale (Note 22) | (19,568) | (2,986) | (49) | (7,314) | (2,257) | (32,174) |
| Foreign exchange adjustment | (209) | (31) | (31) | (4) | - | (275) |
| At 31 December 2007 | 158,330 | 25,908 | 1,077 | 54,584 | 1,114 | 241,013 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

| | Land and buildings RM'000 | Furniture, fittings, renovation and equipment RM'000 | Motor vehicles RM'000 | Plant and machinery RM'000 | Capital work-in- progress RM'000 | Total RM'000 |
|--|---------------------------------|---|-----------------------------|-------------------------------------|---|-----------------|
| Group | | | | | | |
| Movements in net book value | | | | | | |
| At 1 January 2006 | | | | | | |
| - As previously stated | 158,600 | 40,027 | 1,346 | 24,720 | 26,851 | 251,544 |
| - Effect of adoption of FRS 117 (Note 12) | (23,480) | - | - | - | - | (23,480) |
| - As restated | 135,120 | 40,027 | 1,346 | 24,720 | 26,851 | 228,064 |
| Additions | 1,213 | 11,857 | 506 | 22,776 | 37,142 | 73,494 |
| Disposals | - | (23) | - | (1) | - | (24) |
| Written off | (53) | (209) | - | (46) | - | (308) |
| Depreciation charged | (4,968) | (10,332) | (468) | (6,498) | - | (22,266) |
| Assets of disposed subsidiary company | - | (12,645) | (29) | - | (13,787) | (26,461) |
| Reclassification | (500) | (199) | - | 699 | - | - |
| Foreign exchange adjustment | 42 | 6 | 6 | - | - | 54 |
| At 31 December 2006 | 130,854 | 28,482 | 1,361 | 41,650 | 50,206 | 252,553 |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

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

| | 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 2007 | | | | | |
| Cost | 39,887 | 103,174 | 38,516 | 6,010 | 187,587 |
| Accumulated depreciation | - | (9,321) | (19,223) | (713) | (29,257) |
| Net book value | 39,887 | 93,853 | 19,293 | 5,297 | 158,330 |
| At 31 December 2006 | | | | | |
| Cost | | | | | |
| - As previously stated | 40,004 | 51,460 | 65,411 | 29,270 | 186,145 |
| - Effect of adoption of FRS 117 (Note 12) | - | - | (4,415) | (19,923) | (24,338) |
| - As restated | 40,004 | 51,460 | 60,996 | 9,347 | 161,807 |
| Accumulated depreciation | | | | | |
| - As previously stated | - | (7,996) | (19,522) | (4,422) | (31,940) |
| - Effect of adoption of FRS 117 (Note 12) | - | - | 730 | 257 | 987 |
| - As restated | - | (7,996) | (18,792) | (4,165) | (30,953) |
| Net book value, as restated | 40,004 | 43,464 | 42,204 | 5,182 | 130,854 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

| | 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 | | | | | |
| Movements in net book value | | | | | |
| At 1 January 2007 | 40,004 | 43,464 | 42,204 | 5,182 | 130,854 |
| Additions | - | 4,906 | 473 | - | 5,379 |
| Depreciation charged | - | (1,358) | (3,091) | (543) | (4,992) |
| Written off | - | - | (54) | - | (54) |
| Reclassification | - | 46,923 | (661) | 658 | 46,920 |
| Transfer to non-current assets held for sale (Note 22) | - | - | (19,568) | - | (19,568) |
| Foreign exchange adjustment | (117) | (82) | (10) | - | (209) |
| At 31 December 2007 | 39,887 | 93,853 | 19,293 | 5,297 | 158,330 |
| At 1 January 2006 | | | | | |
| - As previously stated | 39,981 | 44,725 | 48,431 | 25,463 | 158,600 |
| - Effect of adoption of FRS 117 (Note 12) | - | - | (3,762) | (19,718) | (23,480) |
| - As restated | 39,981 | 44,725 | 44,669 | 5,745 | 135,120 |
| Additions | - | 34 | 702 | 477 | 1,213 |
| Depreciation charged | - | (1,363) | (3,065) | (540) | (4,968) |
| Written off | - | - | (53) | - | (53) |
| Reclassification | - | 52 | (52) | (500) | (500) |
| Foreign exchange adjustment | 23 | 16 | 3 | - | 42 |
| At 31 December 2006 | 40,004 | 43,464 | 42,204 | 5,182 | 130,854 |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

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

| | Furniture and fittings RM'000 | Renovation RM'000 | Equipment RM'000 | Total RM'000 |
|---|-------------------------------------|----------------------|---------------------|-----------------|
| Group | | | | |
| Analysis of furniture, fittings, renovation and equipment: | | | | |
| At 31 December 2007 | | | | |
| Cost | 18,565 | 12,213 | 31,237 | 62,015 |
| Accumulated depreciation | (13,086) | (9,240) | (13,781) | (36,107) |
| Net book value | 5,479 | 2,973 | 17,456 | 25,908 |

At 31 December 2006

| | | | | |
|--------------------------|----------|---------|----------|----------|
| Cost | 20,650 | 13,140 | 28,999 | 62,789 |
| Accumulated depreciation | (13,406) | (9,239) | (11,662) | (34,307) |
| Net book value | 7,244 | 3,901 | 17,337 | 28,482 |

Movements in net book value

| | | | | |
|--|---------|-------|---------|---------|
| At 1 January 2007 | 7,244 | 3,901 | 17,337 | 28,482 |
| Additions | 650 | 743 | 5,405 | 6,798 |
| Disposals | - | (2) | (115) | (117) |
| Written off | (1) | - | (41) | (42) |
| Depreciation charged | (490) | (815) | (4,891) | (6,196) |
| Transfer to non-current assets held for sale (Note 22) | (1,924) | (854) | (208) | (2,986) |
| Foreign exchange adjustment | - | - | (31) | (31) |
| As at 31 December 2007 | 5,479 | 2,973 | 17,456 | 25,908 |

| | | | | |
|---------------------------------------|-------|-------|----------|----------|
| At 1 January 2006 | 7,160 | 4,311 | 28,556 | 40,027 |
| Additions | 569 | 937 | 10,351 | 11,857 |
| Disposals | - | (5) | (18) | (23) |
| Written off | (9) | (194) | (6) | (209) |
| Depreciation charged | (469) | (937) | (8,926) | (10,332) |
| Assets of disposed subsidiary company | (7) | (211) | (12,427) | (12,645) |
| Reclassification | - | - | (199) | (199) |
| Foreign exchange adjustment | - | - | 6 | 6 |
| As at 31 December 2006 | 7,244 | 3,901 | 17,337 | 28,482 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

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

Certain property, plant and equipment of a subsidiary company with net book value totalling RM1,121,140 (2006: RM1,148,000) have been pledged as collateral for borrowings as explained in Note 24.

Borrowing costs of RM1,589,245 (2006: RM2,918,000), incurred specifically for the construction of the Small Volume Injectable plant and purchases of related equipment were capitalised during the financial year.

12 PREPAID LEASE PAYMENTS

| | Long term RM'000 | Short term RM'000 | Total RM'000 |
|--|---------------------|----------------------|-----------------|
| Group | | | |
| At 31 December 2007 | | | |
| Cost | 2,128 | 19,923 | 22,051 |
| Accumulated depreciation | (311) | (309) | (620) |
| Net book value | 1,817 | 19,614 | 21,431 |
| At 31 December 2006 | | | |
| Cost | | | |
| - As previously stated | - | - | - |
| - Effect of adoption of FRS 117 (Note 11) | 4,415 | 19,923 | 24,338 |
| - As restated | 4,415 | 19,923 | 24,338 |
| Accumulated depreciation | | | |
| - As previously stated | - | - | - |
| - Effect of adoption of FRS 117 (Note 11) | (730) | (257) | (987) |
| - As restated | (730) | (257) | (987) |
| Net book value, as restated | 3,685 | 19,666 | 23,351 |
| Movements in net book value | | | |
| At 1 January 2007 | 3,685 | 19,666 | 23,351 |
| Amortisation | (77) | (52) | (129) |
| Transfer to non-current assets held for sale (Note 22) | (1,791) | - | (1,791) |
| At 31 December 2007 | 1,817 | 19,614 | 21,431 |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

12 PREPAID LEASE PAYMENTS (cont'd.)

| | Long term RM'000 | Short term RM'000 | Total RM'000 |
|---|---------------------|----------------------|-----------------|
| Group | | | |
| Movements in net book value | | | |
| At 1 January 2006 | | | |
| - As previously stated | - | - | - |
| - Effect of adoption of FRS 117 (Note 11) | 3,762 | 19,718 | 23,480 |
| - As restated | 3,762 | 19,718 | 23,480 |
| Amortisation | (77) | (52) | (129) |
| At 31 December 2006 | 3,685 | 19,666 | 23,351 |

13 INVESTMENTS IN SUBSIDIARY COMPANIES

| | Company | |
|--------------------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 |
| Unquoted shares, at cost | 185,073 | 185,073 |

Details of the subsidiary companies are as follows:

Details of the subsidiary companies are as follows:

| Name of company | Country of incorporation | Effective equity interest | | Principal activities |
|--|--------------------------|---------------------------|-----------|--|
| | | 2007 % | 2006 % | |
| Subsidiary companies of the Company | | | | |
| Pharmaniaga Manufacturing Berhad | Malaysia | 100 | 100 | Manufacture and sale of pharmaceutical products |
| Pharmaniaga LifeScience Sdn. Bhd. | Malaysia | 100 | 100 | Manufacture and sale of pharmaceutical products |
| Pharmaniaga Logistics Sdn. Bhd. | Malaysia | 100 | 100 | Purchase, storage and distribution of pharmaceutical and medical products to government hospitals and private institutions |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

13 INVESTMENTS IN SUBSIDIARY COMPANIES (cont'd.)

| Name of company | Country of incorporation | Effective equity interest | | Principal activities |
|---|--------------------------|---------------------------|--------|---|
| | | 2007 % | 2006 % | |
| Subsidiary companies of the Company (cont'd.) | | | | |
| 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 | In Member's Voluntary Liquidation |
| Insurgress Sdn. Bhd. | Malaysia | 100 | 100 | Dormant |
| Safire Pharmaceuticals (M) Sdn. Bhd. | Malaysia | 100 | 100 | Manufacture and sale of pharmaceutical products |
| Pharmaniaga International Corporation Sdn. Bhd. | Malaysia | 100 | 100 | Trading and marketing of pharmaceuticals and medical products for overseas market |
| Pharmaniaga Pegasus (Seychelles) Co. Ltd. * | Republic of Seychelles | 100 | 100 | Investment holding |
| Subsidiary company of Pharmaniaga Manufacturing Berhad | | | | |
| Pharmaniaga Trading (M) Sdn. Bhd. | Malaysia | 100 | 100 | In Members' Voluntary Liquidation |
| Subsidiary companies of Pharmaniaga Logistics Sdn. Bhd. | | | | |
| Pharmaniaga Medisystem Sdn. Bhd. | Malaysia | 100 | 100 | In Members' Voluntary Liquidation |
| Pharmaniaga Biomedical Sdn. Bhd. | Malaysia | 100 | 100 | Supply, trading and installation of medical and hospital equipment |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)



13 INVESTMENTS IN SUBSIDIARY COMPANIES (cont'd.)

| Name of company | Country of incorporation | Effective equity interest | | Principal activities |
|---|--------------------------|---------------------------|-----------|---|
| | | 2007 % | 2006 % | |
| Subsidiary company of Pharmaniaga International Corporation Sdn. Bhd. | | | | |
| PT Millennium Pharmacon International Tbk * | Indonesia | 55 | 55 | Distribution and trading of pharmaceutical products, food supplements and diagnostic products |

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

Certain investment in subsidiary companies have been pledged as collateral for borrowings as explained in Note 24.

14 INVESTMENTS IN ASSOCIATED COMPANIES

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Unquoted shares at cost | 26,268 | 26,268 | 4,630 | 4,630 |
| Group's share of post acquisition profits | 1,861 | 1,653 | - | - |
| Share options granted lapsed | (50) | - | (50) | - |
| | 28,079 | 27,921 | 4,580 | 4,630 |
| Less: Accumulated impairment losses | (21,638) | (21,638) | (2,610) | (2,610) |
| | 6,441 | 6,283 | 1,970 | 2,020 |

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

| | Group | |
|-------------------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 |
| Revenue | 8,922 | 5,637 |
| Profit/(loss) after tax | 210 | (114) |
| Non-current assets | 7,245 | 7,938 |
| Current assets | 4,787 | 2,238 |
| Current liabilities | (5,591) | (3,893) |
| Net assets | 6,441 | 6,283 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

14 INVESTMENTS IN ASSOCIATED COMPANIES (cont'd.)

The Group's share of losses of associated companies that have not been recognised amounted to RM750,000 (2006: RM756,000) for the current financial year and RM4,150,000 (2006: RM3,400,000) cumulatively as at 31 December 2007 as they have exceeded the Group's cost of investments and advances and thus the Group has no further financial obligation beyond these exposures.

Details of these associated companies are as follows:

| Name of company | Country of incorporation | Effective equity interest | | Principal activities |
|--|----------------------------|---------------------------|--------|--|
| | | 2007 % | 2006 % | |
| Associated companies of the Company | | | | |
| Pharmacare Asia Holdings (Cayman) Limited | Cayman Island | 49 | 49 | Investment holding |
| Amcare Labs Malaysia Sdn. Bhd. | Malaysia | 40 | 40 | Provision of specialised clinical laboratory testing and other laboratory-related services |
| Forte Tech Solutions Sdn. Bhd. (formerly known as Pharmaniaga Solutions Sdn. Bhd.) | Malaysia | 30 | 30 | Provision of information technology solutions and systems support services |
| Associated company of Pharmaniaga Logistics Sdn. Bhd. | | | | |
| Rumpun Lagenda Sdn. Bhd. | Malaysia | 50 | 50 | In Members’ Voluntary Liquidation |
| Associated company of Pharmaniaga Pegasus (Seychelles) Co. Ltd. | | | | |
| Wuxi Worldbest Treeful Pharma Pharmaceutical Co. Ltd. | People’s Republic of China | 40 | 40 | In bankruptcy proceedings |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

15 INTANGIBLE ASSETS

| | Goodwill RM'000 | Project development expenditure RM'000 | Brand RM'000 | Total RM'000 |
|-----------------------------------|--------------------|---|-----------------|-----------------|
| Group | | | | |
| Cost | | | | |
| At 1 January 2006 | 39,248 | 9,371 | - | 48,619 |
| Acquisition of brand | - | - | 1,000 | 1,000 |
| At 31 December 2006 | 39,248 | 9,371 | 1,000 | 49,619 |
| At 1 January 2007 | 39,248 | 9,371 | 1,000 | 49,619 |
| At 31 December 2007 | 39,248 | 9,371 | 1,000 | 49,619 |
| Accumulated amortisation | | | | |
| At 1 January 2006 | 7,628 | 6,737 | - | 14,365 |
| Amortisation charged for the year | - | 633 | - | 633 |
| At 31 December 2006 | 7,628 | 7,370 | - | 14,998 |
| At 1 January 2007 | 7,628 | 7,370 | - | 14,998 |
| Amortisation charged for the year | - | 633 | - | 633 |
| At 31 December 2007 | 7,628 | 8,003 | - | 15,631 |
| Carrying amount | | | | |
| At 31 December 2006 | 31,620 | 2,001 | 1,000 | 34,621 |
| At 31 December 2007 | 31,620 | 1,368 | 1,000 | 33,988 |

Project development expenditure

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



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

15 INTANGIBLE ASSETS (cont'd.)

Brand

On 2 October 2006, Pharmaniaga Marketing Sdn. Bhd., a wholly owned subsidiary of the Company purchased the total rights and ownership of the brand name and intellectual properties, marketing and formulation of a range of natural skincare and bodycare products under the trademark "Botanique" for a total cash consideration of RM1,000,000. The Directors are of the view that the brand has an indefinite useful life. Management had conducted impairment review of the asset as at 31 December 2007. The recoverable amount has been determined by management on the basis of value in use of the business which was calculated using the present values of projected future cash flows, which covered a period of five years and applying a terminal value multiple using a longer-term sustainable growth rate of 10% and adjusted to reflect the risk present in the market in which the business operates. The pre-tax discount rate applied to the business was 6.8%. Based on the calculations, the Directors are of the view that no impairment loss is required.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

| | 2007 | | | 2006 | | |
|-----------|---|--|-----------------|---|--|-----------------|
| | Pharmaceutical trading, marketing and distribution RM'000 | Medical products and services RM'000 | Total RM'000 | Pharmaceutical trading, marketing and distribution RM'000 | Medical products and services RM'000 | Total RM'000 |
| Malaysia | 15,901 | 12,653 | 28,554 | 15,901 | 12,653 | 28,554 |
| Indonesia | 3,066 | - | 3,066 | 3,066 | - | 3,066 |
| | 18,967 | 12,653 | 31,620 | 18,967 | 12,653 | 31,620 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Directors covering a five-year period and applying a terminal value multiple using longer-term sustainable growth rates stated below. The growth rate does not exceed the long-term average growth rate for the pharmaceutical business in which the CGU operates.

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

15 INTANGIBLE ASSETS (cont'd.)

Key assumptions used for value-in-use calculations:

| | 2007 | | 2006 | |
|----------------------------|---|------------------------------------|---|------------------------------------|
| | Pharmaceutical trading, marketing and distribution % | Medical products and services % | Pharmaceutical trading, marketing and distribution % | Medical products and services % |
| Gross margin ¹ | 13.3 | 12.7 | 10.1 | 26.0 |
| Growth rate ² | 10.0 | 10.0 | 10.0 | 10.0 |
| Discount rate ³ | 6.8 | 6.8 | 6.8 | 6.8 |

¹ Budgeted gross margin

² Weighted average growth rate used to extrapolate cash flows beyond the budget period

³ Pre-tax discount rate applied to the cash flow projections

The assumptions have been used for the analysis of each CGU within the business segment. The Directors have determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry report. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

16 INVENTORIES

| | Group | |
|---------------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 |
| Raw materials | 9,678 | 12,377 |
| Packaging materials | 2,216 | 2,861 |
| Work-in-progress | 1,294 | 2,176 |
| Finished goods | 168,942 | 154,290 |
| | 182,130 | 171,704 |

Certain inventories of a subsidiary company have been pledged as collateral for borrowings as explained in Note 24.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

17 TRADE RECEIVABLES

| | Group | |
|------------------------------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 |
| Trade receivables | 287,384 | 230,084 |
| Less: Allowance for doubtful debts | (6,973) | (7,620) |
| | 280,411 | 222,464 |

The credit terms of trade receivables range from 30 days to 120 days (2006: 30 days to 120 days).

Certain trade receivables of a subsidiary company has been pledged as collateral for borrowings as explained in Note 24.

18 OTHER RECEIVABLES

| | Group | | Company | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Other debtors and prepayments | 10,448 | 16,548 | 4 | 7 |
| Less: Allowance for doubtful debts | (1,014) | (1,014) | - | - |
| | 9,434 | 15,534 | 4 | 7 |

19 AMOUNTS DUE FROM/(TO) SUBSIDIARY COMPANIES

Amounts due from subsidiary companies are unsecured and comprise:

| | Company | |
|------------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 |
| Current: | | |
| Interest bearing | 29,697 | 39,617 |
| Interest free | 77,070 | 9,658 |
| | 106,767 | 49,275 |
| Non-current: | | |
| Interest bearing | 44,780 | 59,610 |
| | 151,547 | 108,885 |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

19 AMOUNTS DUE FROM/(TO) SUBSIDIARY COMPANIES (cont'd.)

Amounts due to subsidiary companies are unsecured and comprise:

| | Company | |
|---------------|---------|--------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Current: | | |
| Interest free | 18,447 | 3,543 |

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 3.90% to 4.50% (2006: 3.50% to 3.89%) 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 purchases of related equipment undertaken by a subsidiary company.

This amount bears interest rates ranging from 3.65% to 4.14% (2006: 3.50% to 4.75%) per annum and repayable in full upon maturity of the Murabahah MTN facility (see Note 24).

20 AMOUNTS DUE FROM/(TO) RELATED COMPANIES AND ASSOCIATED COMPANIES

The amounts due from related companies arose from billings made under the hospital equipping contracts. The amounts due to related companies arose from expenses incurred for the upgrading and refurbishment work at the manufacturing plants. The credit terms of amounts due to related companies granted to the Group range from 30 days to 60 days (2006: 30 days to 60 days) and the amounts are unsecured and interest free.

Amount due from an associated company relates to the credit term extended to the related companies is 45 days (2006: 45 days). The amount due to an associated company is unsecured, interest free and has no fixed terms of repayment.

| | Group | | Company | |
|--------------------------------------|---------|---------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Amount due from associated companies | 3,623 | 9,906 | 613 | 613 |
| Less: Allowance for doubtful debts | (2,536) | (2,076) | (613) | (613) |
| | 1,087 | 7,830 | - | - |
| Amount due to an associated company | 716 | - | 315 | 59 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

21 FIXED DEPOSITS

Fixed deposits amounting to nil (2006: RM178,000) and RM8,000 (2006: RM983,000) 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 effective interest rate of fixed deposits was 6.75% (2006: 9.13%) per annum.

22 NON-CURRENT ASSETS HELD FOR SALE

| | Group | |
|---|--------|--------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Property, plant and equipment held for sale (Note 11) | 32,174 | - |
| Prepaid lease payments (Note 12) | 1,791 | - |
| | 33,965 | - |

During the financial year, the Directors had resolved to disposed off certain property, plant and equipment of a subsidiary company with carrying value of RM33.7 million to a third party, for a total consideration which have been agreed at a price higher than the carrying value of the property, plant and equipment. The Directors are of the view that the transaction will be completed in 2008 and that the third party will be able to raise the necessary financing for the purpose of the acquisition. Based on the above, the property, plant and equipment had been reclassified as non-current assets held for sale as at 31 December 2007.

23 TRADE PAYABLES

| | Group | |
|---|---------|---------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Trade payables | 253,537 | 215,700 |
| Amounts due to customers on contracts (Note 28) | 1,296 | - |
| | 254,833 | 215,700 |

The credit terms of trade payables granted to the Group range from 30 days to 120 days (2006: 30 days to 120 days).

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

24 LOANS AND BORROWINGS

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Short term | | | | |
| Unsecured: | | | | |
| - Bankers' acceptance | 91,033 | 84,377 | - | - |
| - Murabahah Commercial Paper | 29,697 | 39,617 | 29,697 | 39,617 |
| | 120,730 | 123,994 | 29,697 | 39,617 |
| Secured: | | | | |
| - Foreign term loan | 12,719 | 6,570 | - | - |
| - Foreign time loan | - | 2,852 | - | - |
| Sub-total | 133,449 | 133,416 | 29,697 | 39,617 |
| Add: Portion of long term borrowings due within 12 months | 33,000 | 31,200 | 33,000 | 31,200 |
| | 166,449 | 164,616 | 62,697 | 70,817 |
| Long term | | | | |
| Unsecured: | | | | |
| - Murabahah Medium Term Notes | 44,780 | 59,610 | 44,780 | 59,610 |
| Secured: | | | | |
| - Term loan | 46,350 | 62,550 | 46,350 | 62,550 |
| - Foreign term loan | 356 | - | - | - |
| | 46,706 | 62,550 | 46,350 | 62,550 |
| Sub-total | 91,486 | 122,160 | 91,130 | 122,160 |
| Less: Portion of long term borrowings due within 12 months | | | | |
| Unsecured: | | | | |
| - Murabahah Medium Term Notes | (15,000) | (15,000) | (15,000) | (15,000) |
| Secured: | | | | |
| - Term loan | (18,000) | (16,200) | (18,000) | (16,200) |
| Sub-total | (33,000) | (31,200) | (33,000) | (31,200) |
| | 58,486 | 90,960 | 58,130 | 90,960 |
| Analysis of maturity of long term borrowings: | | | | |
| - within 1 year | 33,000 | 31,200 | 33,000 | 31,200 |
| - between 1 and 2 years | 34,593 | 32,668 | 34,593 | 32,668 |
| - between 2 and 5 years | 23,893 | 58,292 | 23,537 | 58,292 |
| | 91,486 | 122,160 | 91,130 | 122,160 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

24 LOANS AND BORROWINGS (cont'd.)

The net exposure of loans and borrowings of the Group and Company to interest rates changes and the periods in which it matures are as follows:

| | Effective interest rate % per annum | Functional currency/ currency exposure | Floating interest rate RM'000 | Fixed interest rate | | | | | | Total carrying amount RM'000 |
|--|--|---|----------------------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------------------|---------------------------------|
| | | | | <1 year RM'000 | 1 - 2 years RM'000 | 2 - 3 years RM'000 | 3 - 4 years RM'000 | 4 - 5 years RM'000 | >5 years RM'000 | |
| Group | | | | | | | | | | |
| 2007 | | | | | | | | | | |
| Bankers' acceptance Murabahah | 4.50 | RM/RM | 91,033 | - | - | - | - | - | - | 91,033 |
| Commercial Paper Murabahah Medium Term Notes | 3.91 | RM/RM | - | 29,697 | - | - | - | - | - | 29,697 |
| Term loan | 4.14 | RM/RM | - | 15,000 | 14,793 | 14,987 | - | - | - | 44,780 |
| Foreign term loans | 5.50 | RM/RM | 46,350 | - | - | - | - | - | - | 46,350 |
| Foreign time loan | 15.50 | IDR/IDR | 12,719 | - | - | - | - | - | - | 12,719 |
| | 13.00 | IDR/IDR | 356 | - | - | - | - | - | - | 356 |
| | | | 150,458 | 44,697 | 14,793 | 14,987 | - | - | - | 224,935 |
| 2006 | | | | | | | | | | |
| Bankers' acceptance Murabahah | 3.65 | RM/RM | 84,377 | - | - | - | - | - | - | 84,377 |
| Commercial Paper Murabahah Medium Term Notes | 3.91 | RM/RM | - | 39,617 | - | - | - | - | - | 39,617 |
| Term loan | 4.14 | RM/RM | - | 15,000 | 14,668 | 14,953 | 14,989 | - | - | 59,610 |
| Foreign term loans | 5.50 | RM/RM | 62,550 | - | - | - | - | - | - | 62,550 |
| Foreign time loan | 16.75 | IDR/IDR | 6,570 | - | - | - | - | - | - | 6,570 |
| | 13.00 | IDR/IDR | 2,852 | - | - | - | - | - | - | 2,852 |
| | | | 156,349 | 54,617 | 14,668 | 14,953 | 14,989 | - | - | 255,576 |
| Company | | | | | | | | | | |
| 2007 | | | | | | | | | | |
| Murabahah Commercial Paper | 3.91 | RM/RM | - | 29,697 | - | - | - | - | - | 29,697 |
| Murabahah Medium Term Notes | 4.14 | RM/RM | - | 15,000 | 14,793 | 14,987 | - | - | - | 44,780 |
| Term loan | 5.50 | RM/RM | 46,350 | - | - | - | - | - | - | 46,350 |
| | | | 46,350 | 44,697 | 14,793 | 14,987 | - | - | - | 120,827 |
| 2006 | | | | | | | | | | |
| Murabahah Commercial Paper | 3.91 | RM/RM | - | 39,617 | - | - | - | - | - | 39,617 |
| Murabahah Medium Term Notes | 4.14 | RM/RM | - | 15,000 | 14,668 | 14,953 | 14,989 | - | - | 59,610 |
| Term loan | 5.50 | RM/RM | 62,550 | - | - | - | - | - | - | 62,550 |
| | | | 62,550 | 54,617 | 14,668 | 14,953 | 14,989 | - | - | 161,777 |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

24 LOANS AND BORROWINGS (cont'd.)

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

| | Group | | Company | |
|-------------------|---------|---------|---------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Ringgit Malaysia | 211,860 | 246,154 | 120,827 | 161,777 |
| Indonesian Rupiah | 13,075 | 9,422 | - | - |
| | 224,935 | 255,576 | 120,827 | 161,777 |

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 company (Note 13) bears an average interest rate of 5.50% (2006: 5.50%) per annum.

Foreign term loans

All foreign term loans are denominated in Indonesian Rupiah and are secured over certain property, plant and equipment (Note 11), inventories (Note 16) and trade receivables (Note 17) of the subsidiary company. The foreign term loans bear interest rates ranging from 14.00% to 17.00% per annum (2006: 13.00% - 19.00% per annum).

Foreign time loan

In the current financial year, a subsidiary company obtained time loan facility of Indonesian Rupiah 5 billion and an overdraft facility of Indonesian Rupiah 1 billion bearing interest rate at 13.00% per annum (2006: 13.00% per annum). These facilities are secured over certain property, plant and equipment (Note 11), inventories (Note 16) and trade receivables (Note 17) of the subsidiary company.

25 SHARE CAPITAL

| | Group and Company | |
|---|-------------------|---------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Authorised: | | |
| 300,000,000 ordinary shares of RM1 each | 300,000 | 300,000 |
| Issued and fully paid: | | |
| Ordinary shares of RM1 each | | |
| At beginning of year | 106,963 | 106,952 |
| Issue of shares under ESOS | - | 11 |
| At end of year | 106,963 | 106,963 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

25 SHARE CAPITAL (cont'd.)

(i) Employee Share Option Scheme ("ESOS")

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

The principal features of the ESOS are as follows:

- 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.
- 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.
- 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.
- The newly issued ordinary shares shall rank pari passu with the existing ordinary shares of the Company.

As at 31 December 2007, 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 1.1.2007 | Granted | Exercised | Lapsed | As at 31.12.2007 |
| 7 February 2006 | 4.43 | 701,850 | - | - | - | 701,850 |
| 1 September 2006 | 3.91 | 549,900 | - | - | - | 549,900 |
| 5 September 2007 | 3.56 | - | 405,900 | - | (48,800) | 357,100 |
| Total | | 1,251,750 | 405,900 | - | (48,800) | 1,608,850 |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)



25 SHARE CAPITAL (cont'd.)

(i) Employee Share Option Scheme ("ESOS") (cont'd.)

The fair value of the options granted during the financial year determined using the Trinomial valuation model was RM3.22 per option (2006: RM5.10 per option). The actual remuneration cost charged in the financial year was nil (2006: RM600,515). The significant inputs into the model were as follows:

2007

Valuation assumptions:

| | |
|---|-----------------|
| Expected volatility | 20.0% |
| Expected dividend yield | 3.0 - 3.8% |
| Expected option life | 8 - 15 months |
| Weighted average share price at date of grant | RM3.56 - RM4.92 |
| Risk-free interest rate (per annum) | 3.5% |

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 5 years.

(ii) Employee Equity Scheme ("EES") of UEM World Berhad

UEM World Berhad, the immediate holding company, operates an equity-settled share-based compensation plan, namely EES, for the eligible employees of UEM, its subsidiaries including Pharmaniaga Berhad and certain of its associated companies and Khazanah Nasional Berhad, in relation to the shares of UEM World Berhad. As a subsidiary company of UEM World Berhad, certain employees of Pharmaniaga Berhad and its group of companies participate in the EES. The compensation expense charged by UEM World Berhad relating to the EES granted to the employees of the Group in the financial year amounted to RM2,168,000 (2006: RM709,627).

26 RESERVES

| | Group | | Company | |
|---------------------------------------|---------|---------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Non-distributable: | | | | |
| Share premium | 22,410 | 22,410 | 22,410 | 22,410 |
| Other reserves | | | | |
| - Exchange reserve | (3,681) | (958) | - | - |
| - Other reserves | | | | |
| - Employee Share Option Scheme (ESOS) | 550 | 600 | 550 | 600 |
| - Employee Equity Scheme (EES) | 2,878 | 710 | - | 710 |
| | 3,428 | 1,310 | 550 | 1,310 |
| | (253) | 352 | 550 | 1,310 |
| Distributable: | | | | |
| Retained earnings | 220,551 | 186,515 | 69,930 | 18,426 |
| Total reserves | 242,708 | 209,277 | 92,890 | 42,146 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

27 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the years are as follows:

| | Group | |
|---|----------------|---------------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Deferred tax assets | 2,297 | 2,207 |
| Deferred tax liabilities | (3,767) | (3,767) |
| | (1,470) | (1,560) |
| At beginning of financial year | (1,560) | (1,851) |
| Credited/(charged) to income statement (Note 8) | | |
| - property, plant and equipment | (293) | 236 |
| - provisions | (401) | 55 |
| - unutilised tax losses | 784 | - |
| | 90 | 291 |
| At end of financial year | (1,470) | (1,560) |
| Subject to income tax | | |
| Deferred tax assets | | |
| - property, plant and equipment | 292 | 524 |
| - provisions | 2,808 | 2,858 |
| - unutilised tax losses | 784 | - |
| | 3,884 | 3,382 |
| Offsetting | (1,587) | (1,175) |
| | 2,297 | 2,207 |
| Deferred tax liabilities | | |
| - property, plant and equipment | (5,354) | (4,942) |
| Offsetting | 1,587 | 1,175 |
| | (3,767) | (3,767) |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

27 DEFERRED TAXATION (cont'd.)

As at 31 December 2007, 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 | |
|----------------------------------|--------------|--------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Deductible temporary differences | - | 123 |
| Unabsorbed capital allowances | 180 | 131 |
| Unutilised business losses | 3,166 | 2,439 |
| | 3,346 | 2,693 |

The unutilised business losses are, however subject to Inland Revenue Board of Malaysia's approval. The potential deferred tax assets of the Group have not been recognised in respect of these items as they cannot be used to offset against taxable profits of other subsidiary companies within Group and it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

28 AMOUNTS DUE TO CUSTOMERS ON CONTRACTS

| | Group | |
|--|----------------|---------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Aggregate costs incurred to-date | 2,173 | 7,168 |
| Add: Attributable profit | 129 | 1,532 |
| | 2,302 | 8,700 |
| Less: Progress billings | (3,598) | (8,700) |
| Amounts due to customers (Note 23) | (1,296) | - |
| Contract revenue recognised during the financial year | 2,302 | 4,453 |
| Contract costs recognised as expense during the financial year | 2,173 | 3,988 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

29 SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segments. The primary format - business segments is based on the Group's management and internal reporting structure.

Intersegment pricing is based on arm's length transactions under terms not materially different from transactions with unrelated parties. These transfers are eliminated on consolidation.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses, interest income, interest expenses and related assets and liabilities.

The Group comprises the following main business segments.

| Business segment | Business activity |
|--|--|
| 2007 | |
| Pharmaceutical manufacturing | Manufacturing of pharmaceutical products |
| Pharmaceutical trading, marketing and distribution | Purchasing, storage, distribution and marketing of pharmaceutical and medical products |
| Medical products and services | Supply and installation of medical and hospital equipment |
| Other operations | Investment holding |
| 2006 | |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

29 SEGMENTAL REPORTING (cont'd.)

(a) Primary reporting - Business segments

| | Pharmaceutical manufacturing RM'000 | Pharmaceutical trading, marketing and distribution RM'000 | Medical products and services RM'000 | Other operations RM'000 | Eliminations RM'000 | Consolidated RM'000 |
|--|---|--|--|-------------------------------|------------------------|------------------------|
| Group | | | | | | |
| 2007 | | | | | | |
| Revenue | | | | | | |
| External sales | 6,277 | 1,169,333 | 8,373 | - | - | 1,183,983 |
| Intersegment sales | 146,476 | 9,351 | 8 | 71,300 | (227,135) | - |
| Total revenue | 152,753 | 1,178,684 | 8,381 | 71,300 | (227,135) | 1,183,983 |
| Results | | | | | | |
| Segment results | 35,316 | 58,420 | 123 | 69,974 | (75,951) | 87,882 |
| Unallocated corporate expenses | | | | | | (1,183) |
| Profit from operations | | | | | | 86,699 |
| Interest expense | - | (6,476) | (96) | (6,726) | 3,606 | (9,692) |
| Interest income | 1 | 627 | 53 | 3,606 | (3,606) | 681 |
| Share of results of associated company | - | - | - | - | - | 210 |
| Profit before taxation | | | | | | 77,898 |
| Income tax expense | | | | | | (26,180) |
| Profit for the financial year | | | | | | 51,718 |
| Other information | | | | | | |
| Segment assets | 333,688 | 653,585 | 49,415 | 331,897 | (495,270) | 873,315 |
| Investment in associated companies | | | | | | 6,441 |
| Unallocated corporate assets | | | | | | 5,093 |
| Total assets | | | | | | 884,849 |
| Segment liabilities | 185,540 | 465,857 | 36,406 | 154,711 | (327,734) | 514,780 |
| Unallocated corporate liabilities | | | | | | 7,609 |
| Total liabilities | | | | | | 522,389 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

29 SEGMENTAL REPORTING (cont'd.)

(a) Primary reporting - Business segments (cont'd.)

| | Pharmaceutical manufacturing RM'000 | Pharmaceutical trading, marketing and distribution RM'000 | Medical products and services RM'000 | Other operations RM'000 | Eliminations RM'000 | Consolidated RM'000 |
|--|---|---|--|-------------------------------|------------------------|------------------------|
| Group | | | | | | |
| 2007 | | | | | | |
| Other information (cont'd.) | | | | | | |
| Capital expenditure on property, plant and equipments | 35,518 | 2,434 | 6 | - | - | 37,958 |
| Depreciation | 9,955 | 5,962 | 435 | - | 475 | 16,827 |
| Amortisation of project development expenditure and prepaid lease payments | 57 | 705 | - | - | - | 762 |
| Non cash expenses other than depreciation and amortisation | 2,847 | 3,968 | 180 | 23 | - | 7,018 |
| | | | | | | |
| | 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 |
| 2006 | | | | | | |
| Revenue | | | | | | |
| External sales | 6,230 | 1,042,705 | 8,933 | - | - | 1,057,868 |
| Intersegment sales | 118,190 | 27,690 | 1,233 | - | (147,113) | - |
| Total revenue | 124,420 | 1,070,395 | 10,166 | - | (147,113) | 1,057,868 |
| Results | | | | | | |
| Segment results | 26,131 | 25,578 | (1,338) | (853) | (11,275) | 38,243 |
| Unallocated corporate expenses | | | | | | (1,314) |
| Profit from operations | | | | | | 36,929 |
| Interest expense | (8) | (6,422) | (26) | (7,296) | 3,757 | (9,995) |
| Interest income | - | 248 | 11 | 3,759 | (3,757) | 261 |
| Profit before taxation | | | | | | 27,195 |
| Income tax expense | | | | | | (13,111) |
| Profit for the financial year | | | | | | 14,084 |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

29 SEGMENTAL REPORTING (cont'd.)

(a) Primary reporting - Business segments (cont'd.)

| | 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 |
|---|---|---|--|-------------------------------|------------------------|------------------------|
| Group | | | | | | |
| 2006 | | | | | | |
| Other information | | | | | | |
| Segment assets | 320,514 | 542,321 | 31,789 | 122,642 | (203,277) | 813,989 |
| Investment in associated companies | | | | | | 6,283 |
| Unallocated corporate assets | | | | | | 7,493 |
| Total assets | | | | | | 827,765 |
| Segment liabilities | 163,591 | 374,564 | 18,352 | 180,578 | (242,004) | 495,081 |
| Unallocated corporate liabilities | | | | | | 5,293 |
| Total liabilities | | | | | | 500,374 |
| Capital expenditure on property, plant and equipments and intangible assets | 61,899 | 12,580 | 15 | - | - | 74,494 |
| Depreciation | 10,190 | 10,882 | 848 | - | 475 | 22,395 |
| Amortisation of project development expenditure and prepaid lease payments | 57 | 705 | - | - | - | 762 |
| Non cash expenses other than depreciation and amortisation | 2,243 | 3,427 | 23 | 4,703 | 9,959 | 20,355 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

29 SEGMENTAL REPORTING (cont'd.)

(b) Secondary reporting - Geographical segments

| | Revenue from external customers RM'000 | Total segment assets RM'000 | Capital expenditure and intangible assets incurred during the year RM'000 |
|-----------------------------|--|--------------------------------------|--|
| Geographical markets | | | |
| 2007 | | | |
| Malaysia | 904,287 | 803,091 | 36,792 |
| Indonesia | 268,051 | 81,758 | 1,166 |
| Other countries | 11,645 | - | - |
| | 1,183,983 | 884,849 | 37,958 |
| 2006 | | | |
| Malaysia | 802,305 | 758,413 | 74,183 |
| Indonesia | 245,474 | 68,964 | 311 |
| Other countries | 10,089 | 408 | - |
| | 1,057,868 | 827,785 | 74,494 |

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.

30 CHANGES IN ACCOUNTING POLICIES

The list of new accounting standards, amendments to published standards and interpretations on existing standards that are effective for the Company's financial year beginning on or after 1 January 2007 is set out in Note 2(a).

The following describes the impact of new standards, amendments and interpretations on the financial statements of the Group and Company.



30 CHANGES IN ACCOUNTING POLICIES (cont'd.)

(a) Irrelevant or immaterial effect on financial statements

The adoption of Amendment to FRS 119, FRS 6, TRI-1 and TRI-2 did not have a significant financial impact on the financial statements of the Group and Company and did not result in substantial changes in the Group's and Company's accounting policies.

The principal effects of the changes in accounting policies resulting from the adoption of the other new and revised standards are discussed as below:

(i) FRS 117: Leases

The adoption of the revised FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold land. The up-front payments made for the leasehold land represents prepaid lease payments and are amortised on straight-line basis over the lease term. Prior to 1 January 2007, leasehold land were classified as property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

Upon the adoption of the revised FRS 117 from 1 January 2007, the unamortised amounts of leasehold properties are retained as the surrogate carrying amounts of prepaid lease payments as allowed by the transitional provisions of FRS 117. The reclassification of leasehold properties as prepaid lease properties has been accounted for retrospectively and the comparative amounts as at 31 December 2006 have been restated as indicated below.

(ii) FRS 124: Related Party Disclosures

The adoption of the revised FRS 124 resulted in additional presentation and disclosure changes in the financial statements and comparative amounts as at 31 December 2006 have been restated as indicated in Note 33 to the financial statements.

(iii) Comparatives

The effect on the comparatives to the Company on adoption of new standard is as follows:

| | 2006 As previously reported RM | Effect of adoption of FRS 117 RM | 2006 As restated RM |
|---|---|---|------------------------------|
| Balance sheet | | | |
| Property, plant and equipment | 275,904 | (23,351) | 252,553 |
| Prepaid lease payments | - | 23,351 | 23,351 |
| Income statement | | | |
| Depreciation | 22,395 | (129) | 22,266 |
| Amortisation of prepaid lease payments | - | 129 | 129 |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

31 CAPITAL COMMITMENTS

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

| | Group | | Company | |
|--|--------|--------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Authorised and contracted for: | | | | |
| - acquisition of property, plant and equipment | 11,214 | 12,901 | - | - |
| Authorised but not contracted for: | | | | |
| - acquisition of property, plant and equipment | - | 1,945 | - | - |

32 CONTINGENT LIABILITIES - UNSECURED

| | Group | | Company | |
|---|--------|--------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Corporate guarantee given to financial institution for credit facilities extended to a subsidiary company | - | - | 12,648 | 6,335 |
| Bank performance and reimbursement bonds for concession business undertaken by a subsidiary company | 45,000 | 45,000 | - | - |
| Bank guarantees for projects and utilities undertaken by subsidiary companies | 25,116 | 28,200 | - | - |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

33 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

| | 2007 RM'000 | 2006 RM'000 |
|--|----------------|----------------|
| Group | | |
| (a) Sales of goods and services | | |
| Sales of goods: | | |
| - Company within the immediate holding company | | |
| • supply of medical equipment | 2,458 | 2,871 |
| - Company within the intermediate holding company | | |
| • sale of disinfectant range of products | 1,383 | 1,257 |
| Sale of services: | | |
| - The immediate holding company | | |
| • Services rendered on Computer Disaster Recovery Plan and Business Continuity Plan | - | 21 |
| | 3,841 | 4,149 |
| (b) Purchases of Services | | |
| Purchases of services: | | |
| - Companies within the immediate holding company | | |
| • Construction and engineering work | 949 | 64 |
| • Transportation and freight forwarding services | 2,259 | 1,992 |
| • Provision of scheduled waste treatment and disposal services | 254 | 3,261 |
| - Company within the intermediate holding company | | |
| • Training and administration services | 863 | 434 |
| - The associated company | | |
| • Provision of IT Consultancy, technical support services and granting of software license | 15,025 | - |
| - Entity controlled by a common director * | | |
| • Provision of freight forwarding services | - | 162 |
| | 19,350 | 5,913 |

* The entity controlled by a common director is a company belonging to YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin, a director of the Company.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd.)

| | 2007 RM'000 | 2006 RM'000 |
|--|----------------|----------------|
| Company | | |
| Dividend income from subsidiary companies | 71,300 | 5,000 |
| Advances from subsidiary companies for: | | |
| • Redemption of Murabahah Commercial Papers | 10,000 | - |
| • Redemption of Murabahah Medium Term Notes | 15,000 | - |
| Finance expense charges to subsidiary companies for: | | |
| • Profit for Murabahah Commercial Papers | 1,178 | 1,462 |
| • Profit for Murabahah Medium Term Notes | 2,430 | 2,295 |
| | 99,908 | 8,757 |
| Advances to subsidiary company from: | | |
| • Issuance of Murabahah Medium Term Notes | - | 35,000 |

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

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

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Salaries, bonus and allowances | 3,083 | 2,906 | - | - |
| Social contribution cost | 2 | 2 | - | - |
| Defined benefit plans | 834 | 8 | - | - |
| Defined contribution plan | 413 | 393 | - | - |
| Estimated monetary value of benefits by way of usage of Group assets | 11 | 13 | - | - |
| Others | 229 | 184 | - | - |
| | 4,572 | 3,506 | - | - |

NOTES TO THE FINANCIAL STATEMENTS



31 DECEMBER 2007 (CONT'D.)

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd.)

(d) Significant outstanding balances

Significant outstanding arising from the above transactions were as follows:

| | Group | | Company | |
|--|--------|--------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Amount due from related parties | | | | |
| Intermediate holding company | 18 | 20 | 18 | 20 |
| Subsidiary companies | - | - | 106,767 | 49,275 |
| Related companies | 13,698 | 16,198 | - | - |
| Associated companies | 1,087 | 7,830 | - | - |
| Amount due to related parties | | | | |
| Intermediate holding company | - | 58 | - | - |
| Immediate holding company | - | 152 | - | - |
| Subsidiary companies | - | - | 18,447 | 3,543 |
| Related companies | 2,561 | 4,932 | 2 | 61 |
| Associated companies | 716 | - | 315 | 59 |

34 SUMMARY EFFECT OF DISPOSAL OF INVESTMENT IN A SUBSIDIARY COMPANY

On the 28 December 2006, the Company completed the disposal of 70% equity interest in Forte Tech Solutions Sdn. Bhd. (formerly known as Pharmaniaga Solutions Sdn. Bhd.) to UEM World Berhad. As a result, at the end of previous financial year, Forte Tech Solutions Sdn. Bhd. became an associated company of Pharmaniaga Berhad.

(a) The effects of the disposal on the financial position of the Group are as below:

| | Group | |
|--------------------------------|--------|----------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Property, plant and equipment | - | (18,523) |
| Trade receivables | - | (3,129) |
| Other receivables | - | (1,251) |
| Cash and bank balances | - | (103) |
| Trade payables | - | 1,380 |
| Other payables | - | 7,117 |
| Decrease in Group's net assets | - | (14,509) |



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

34 SUMMARY EFFECT OF DISPOSAL OF INVESTMENT IN A SUBSIDIARY COMPANY (cont'd.)

(b) The details of net assets disposed and cash flow as at the date of disposal are as follows:

| | Group | |
|--|--------|----------|
| | 2007 | 2006 |
| | RM'000 | RM'000 |
| Property, plant and equipment | - | (18,523) |
| Trade receivables | - | (3,129) |
| Other receivables | - | (1,251) |
| Cash and bank balances | - | (103) |
| Trade payables | - | 1,380 |
| Other payables | - | 7,117 |
| Share of net assets as at date of disposal | - | (14,509) |
| Proceeds from sale of subsidiary company | - | 21,842 |
| Less: Cash and bank balance disposed | - | (146) |
| Net cash generated from the disposal | - | 21,696 |

(c) The impact of disposal of investment in subsidiary company on the cash flows of the Group and Company are as follows:

| | Group | | Company | |
|--|--------|--------|---------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Net cash generated from disposal of investment in Forte Tech Solutions Sdn. Bhd. (formerly known as Pharmaniaga Solutions Sdn. Bhd.) | - | 21,696 | - | 21,842 |



35 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.

The Company announced on 18 January 2005, that Safri bin Nawawi and Hamimah binti Idruss, former directors of Safire, on 28 December 2004 have each commenced an action by way of Counterclaim against the Company in the legal suit originally filed by Danaharta Urus Sdn. Bhd. against them. The Company and Safire are named 4th Defendant and 3rd Defendant respectively in both Actions by Counterclaim and were served with the court papers on 11 January 2005. The Company had filed its Memorandum of Appearance in Court on 14 January 2005 and 18 January 2005 in respect of the Counterclaim.

The Company and Safire have both filed their respective defense to the Action by Counterclaim on 31 January 2005. The Company has further filed an application to strike out the Counterclaim on 3 March 2005. The Company's application to strike out the Counterclaim by Safri and Hamimah is pending in Court as there are other various interlocutory applications which have yet to be disposed. The matter is currently fixed for hearing on 10 April 2008.

The Board of Directors of the Company upon consultation with the solicitors, is of the opinion that the positions of both the Company and Safire are defensible.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

36 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 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 31.12.2007 | | | | |
|----------------------------------|------------------------|----------------|-------------------------------|------------------|
| | US Dollar RM'000 | Euro RM'000 | Singapore Dollar RM'000 | Others RM'000 |
| Trade receivables | 969 | - | 37 | - |
| Deposits, bank and cash balances | 366 | - | - | - |
| Trade payables | (5,545) | - | - | - |
| Other payables | (2) | - | - | (8)* |
| | (4,212) | - | 37 | (8) |

| Currency exposure at 31.12.2006 | | | | |
|----------------------------------|------------------------|----------------|-------------------------------|------------------|
| | US Dollar RM'000 | Euro RM'000 | Singapore Dollar RM'000 | Others RM'000 |
| Trade receivables | 2,132 | - | 51 | - |
| Deposits, bank and cash balances | 587 | - | - | - |
| Trade payables | (618) | (97) | (3) | (2)* |
| Other payables | (5) | (470) | (58) | - |
| | 2,096 | (567) | (10) | (2) |

* Balances denominated in Sterling Pound and Australian Dollar



36 FINANCIAL RISK MANAGEMENT POLICIES (cont'd.)

(b) Interest rate risk

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows the Group to capitalise on funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

(c) Credit risk

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

The Group has a substantial concentration of credit risk with its customers under the concession contracts 75% (2006: 72%) 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 even in difficult times for the markets or the Group and a flexible, cost-effective borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance.



NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007 (CONT'D.)

37 FAIR VALUES

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

| | 2007 | | 2006 | |
|------------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | Carrying value RM'000 | Fair value RM'000 | Carrying value RM'000 | Fair value RM'000 |
| Group | | | | |
| Financial liabilities | | | | |
| Loans and borrowings | 58,486 | 55,924 | 90,960 | 70,399 |
| Company | | | | |
| Financial liabilities | | | | |
| Loans and borrowings | 58,130 | 55,568 | 90,960 | 70,399 |

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 4.40% to 5.80% (2006: 4.14% to 5.50%) per annum.

The carrying amounts of short-term borrowings approximate their fair value. The fair value of contingent liabilities is nil (2006: nil).

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2008.

PROPERTIES of THE GROUP



PROPERTY LIST AS AT 31 DECEMBER 2007

| 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 31/12/2007 (RM'000) | Date of Revaluation/Acquisition |
|---|--|--------------------------------|--|------------------------------|--|---------------------------------|
| <p>Lot PT 46016, H.S. (D) 87359 Mukim of Kapar, Klang Selangor Darul Ehsan</p> <p>Industrial Premises: No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan Seksyen 7, 40000 Shah Alam Selangor Darul Ehsan</p> | 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 | 13 | 30,880 | 14 March 2005 |
| <p>Lot PT 46016, H.S. (D) 87359 Mukim of Kapar, Klang Selangor Darul Ehsan</p> <p>Industrial Premises: No 7, Lorong Keluli 1B Kawasan Perindustrian Bukit Raja Selatan Seksyen 7, 40000 Shah Alam Selangor Darul Ehsan</p> | A parcel of industrial land with a single storey laboratory building, a chiller plant building and a guard house | 17,414 | Freehold | 10 | 15,820 | 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 pieces of contiguous freehold industrial land where a building is under construction on one parcel of land | 71,298 | Freehold | 7 | 24,050 | 21 August 2001 |
| <p>Lot PT 1157, H.S. (M) 9726 Mukim of Kajang, Hulu Langat Selangor Darul Ehsan</p> <p>Factory: No 11A, Jalan P/1 Kawasan Perusahaan Bangi 43650 Bandar Baru Bangi Selangor Darul Ehsan</p> | 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 | 22 | 32,227 | 28 August 1991 |
| <p>Lot 1024, Block 7 Muara Tebas Land District of Kuching, Sarawak</p> <p>Industrial Premises: Lot 1024, Block 7 Muara Tebas Land District Demak Laut Industrial Park 93050 Kuching, Sarawak</p> | 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 | 11 | 7,461 | 3 November 2004 |
| <p>Country Lease 015377554 Kota Kinabalu, Sabah</p> <p>Industrial Premises: Lorong Kurma Kolombong Industrial Centre KM 9, Off Jalan Tuaran 88450 Kolombong Kota Kinabalu, Sabah</p> | 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 | 5/34 | 4,493 | 21 January 2002 |



PROPERTIES of the GROUP

PROPERTY LIST AS AT 31 DECEMBER 2007 (CONT'D.)

| 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 31/12/2007 (RM'000) | Date of Revaluation/Acquisition |
|---|---|--------------------------------|---|------------------------------|--|---------------------------------|
| 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 1½ semi detached warehouse with office | 2,175 | Freehold | 10 | 1,304 | 11 November 1998 |
| Industrial Premises: Nos. 1, 3 & 5 Lorong IKS Juru 8 Taman Perindustrian Ringan Juru, 14100 Seberang Prai Pulau Pinang | | | | | | |
| Flat Nos. 401-405 3rd Floor, Block 5 Jalan 1/9 Section 1 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 | 14 | 54 | 10 June 1993 and 19 July 1995 |
| Flat Nos. 501, 503, 505 and 507, 4th Floor, Block 10 Jalan 6C/11, Section 16 43650 Bandar Baru Bangi Selangor Darul Ehsan | 4 units of 2-bedroom flat for staff lodging | 262 | Leasehold of 99 years, expiring on 31 March 2095 | 12 | 35 | 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 | 21 | 27 | 4 September 1987 |
| House: No 5, Jalan 4/4E, Section 4 43650 Bandar Baru Bangi Selangor Darul Ehsan | | | | | | |
| Lot PR 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 | 21 | 27 | 4 September 1987 |
| House: No 11, Jalan 4/4E Section 4, 43650 Bandar Baru Bangi Selangor Darul Ehsan | | | | | | |

PROPERTIES of the GROUP



PROPERTY LIST AS AT 31 DECEMBER 2007 (CONT'D.)

| 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 31/12/2007 (RM'000) | Date of Revaluation/Acquisition |
|---|---|--------------------------------|--|------------------------------|--|---------------------------------|
| 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 sub-station and a guard house | 28,795 | Leasehold of 99 years, expiring on 31 March 2100 | 7 | 9,982 | 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 | 7 | 5,098 | 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 | 7 | 5,980 | 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 | 544 | Leasehold 20 years to 24 September 2013 | 10 | 144 | 13 October 2003 |
| Jalan Depsos 67 - 70 Bintaro Jaksel | Office and warehouse | 3,570 | Leasehold 30 years to 9 December 2027 | 15 | 1,126 | 14 January 1999 |
| Apartmen Permata Eksekutif Jalan Pos Pengumben Raya Jak-Bar | Shop lots | 290 | Leasehold 20 years to 2015 | 8 | 246 | 6 May 2004 |
| Jalan Kalibokor Selatan 152 Surabaya | Office and warehouse | 1,952 | Leasehold 5 years to 30 June 2010 (in progress to extend) | 22 | 145 | 4 November 1971 |



Analysis of SHAREholdings

AS AT 31 MARCH 2008

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 | : | RM106,963,188 divided into 106,963,188 ordinary shares of RM1.00 each |
| Class of Shares | : | Ordinary shares of RM1.00 each |
| Voting Rights | : | 1 vote per ordinary share held |

SHAREHOLDINGS DISTRIBUTION

| Size of Holdings | No of Holders | % of Holders | No of Shares Held | % of Issued Capital |
|---|---------------|---------------|--------------------|---------------------|
| Less than 100 | 24 | 2.15 | 515 | * |
| 100 to 1,000 | 525 | 47.04 | 222,800 | 0.21 |
| 1,001 to 10,000 | 484 | 43.37 | 1,736,200 | 1.62 |
| 10,001 to 100,000 | 65 | 5.82 | 1,890,700 | 1.77 |
| 100,001 to less than 5 % of issued shares | 15 | 1.34 | 15,814,230 | 14.78 |
| 5% and above of the issued shares | 3 | 0.27 | 87,298,743 | 81.62 |
| TOTAL | 1,116 | 100.00 | 106,963,188 | 100.00 |

* Less than 0.01%

30 LARGEST SHAREHOLDERS (as per the Register of Depositors)

| No | Name of Shareholders | No of Shares Held | % of Issued Capital |
|----|---|-------------------|---------------------|
| 1 | Cimsec Nominees (Tempatan) Sdn Bhd CIMB for Trinity Saga Sdn Bhd (Banking) | 46,569,277 | 43.54 |
| 2 | Cimsec Nominees (Tempatan) Sdn Bhd CIMB for UEM World Berhad (Banking) | 30,980,466 | 28.96 |
| 3 | Employees Provident Fund Board | 9,749,000 | 9.11 |
| 4 | Amanah Raya Nominees (Tempatan) Sdn Bhd Skim Amanah Saham Bumiputra | 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 | 1,294,700 | 1.21 |
| 9 | Amanah Raya Nominees (Tempatan) Sdn Bhd Skim Amanah Saham Nasional | 962,500 | 0.90 |
| 10 | HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Bank Berhad | 599,700 | 0.56 |

ANALYSIS of SHAREHOLDINGS



AS AT 31 MARCH 2008 (CONT'D.)

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

| No | Name of Shareholders | No of Shares Held | % of Issued Capital |
|--------------|---|--------------------|---------------------|
| 11 | MCIS Zurich Insurance Berhad | 518,700 | 0.48 |
| 12 | Mayban Nominees (Tempatan) Sdn Bhd Avenue Invest Berhad for Kumpulan Wang Amanah Pencen | 365,000 | 0.34 |
| 13 | HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Assurance Berhad (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 | HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Assurance Berhad (Non-Life) | 150,000 | 0.14 |
| 17 | MCIS Zurich Insurance Berhad | 147,700 | 0.14 |
| 18 | HLG Nominee (Tempatan) Sdn Bhd Hong Leong Fund Management Sdn Bhd for Hong Leong Foundation | 130,000 | 0.12 |
| 19 | Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Au Kwan Seng | 96,500 | 0.09 |
| 20 | Wong Nyet Lan | 90,000 | 0.08 |
| 21 | EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Lee Yu Yong @ Lee Yuen Ying | 80,800 | 0.08 |
| 22 | BH Insurance (M) Bhd | 80,000 | 0.07 |
| 23 | Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Sleuths Holdings Sdn Bhd | 80,000 | 0.07 |
| 24 | Malaysia Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Melval Holdings Sdn Bhd | 57,000 | 0.05 |
| 25 | Foo Wan Kong | 51,500 | 0.05 |
| 26 | Loh Kee Ming | 50,700 | 0.05 |
| 27 | Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Gemilang for Amanah Saham Pendidikan | 50,000 | 0.05 |
| 28 | Lee Wah Sawmill Sdn Berhad | 50,000 | 0.05 |
| 29 | Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Shatrade Sdn Bhd | 50,000 | 0.05 |
| 30 | CIMB Trustee Berhad (for Al-Hadharah Boustead REIT) | 50,000 | 0.05 |
| Total | | 103,899,473 | 97.14 |



ANALYSIS of SHAREHOLDINGS

AS AT 31 MARCH 2008 (CONT'D.)

SUBSTANTIAL SHAREHOLDERS (as per the Register of Substantial Shareholders)

| No | Name of Substantial Shareholders | Direct | No of Shares Held | | % |
|----|----------------------------------|------------|-------------------|-------------------------|-------|
| | | | % | Indirect | |
| 1 | Khazanah Nasional Berhad | - | - | 77,562,443 ¹ | 72.51 |
| 2 | UEM Group Berhad | - | - | 77,562,443 ² | 72.51 |
| 3 | Trinity Saga Sdn Bhd | 46,581,977 | 43.55 | - | - |
| 4 | UEM World Berhad | 30,980,466 | 28.96 | 46,581,977 ³ | 43.55 |
| 5 | Employees Provident Fund Board | 9,749,000 | 9.11 | - | - |

Notes

¹ Deemed interested by virtue of being the holding company of UEM Group Berhad.

² Deemed interested by virtue of being the holding company of UEM World Berhad which in turn is a holding company of Trinity Saga Sdn Bhd.

³ Deemed interested by virtue of being the holding company of Trinity Saga Sdn Bhd.

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

| No | Name of Directors | Direct | No of Shares Held | | % |
|----|---|--------|-------------------|----------------------|------|
| | | | % | Indirect | |
| 1 | Dato' Mohamed Azman bin Yahya | - | - | 10,000 ¹ | 0.01 |
| 2 | Dato' Ahmad Pardas bin Senin | - | - | - | - |
| 3 | Datuk Sulaiman bin Daud | - | - | - | - |
| 4 | Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj. Salleh | - | - | - | - |
| 5 | YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin | 27,000 | 0.03 | 2,000 ² | * |
| 6 | Mohamad bin Abdullah | 100 | * | - | - |
| 7 | Ismael Fariz bin Ali | - | - | - | - |
| 8 | Oh Kim Sun | - | - | 177,000 ³ | 0.17 |

Notes

* Less than 0.01%

¹ Deemed interested by virtue of his spouse's shareholding in Pharmaniaga Berhad.

² Deemed interested by virtue of his sister in-law's shareholding in Pharmaniaga Berhad.

³ Deemed interested by virtue of his associate companies' shareholdings in Pharmaniaga Berhad. 80,000 shares held through Sleuths Holdings Sdn Bhd; 57,000 shares held through Melval Holdings Sdn Bhd and 40,000 shares held through Goldinas Sdn Bhd.

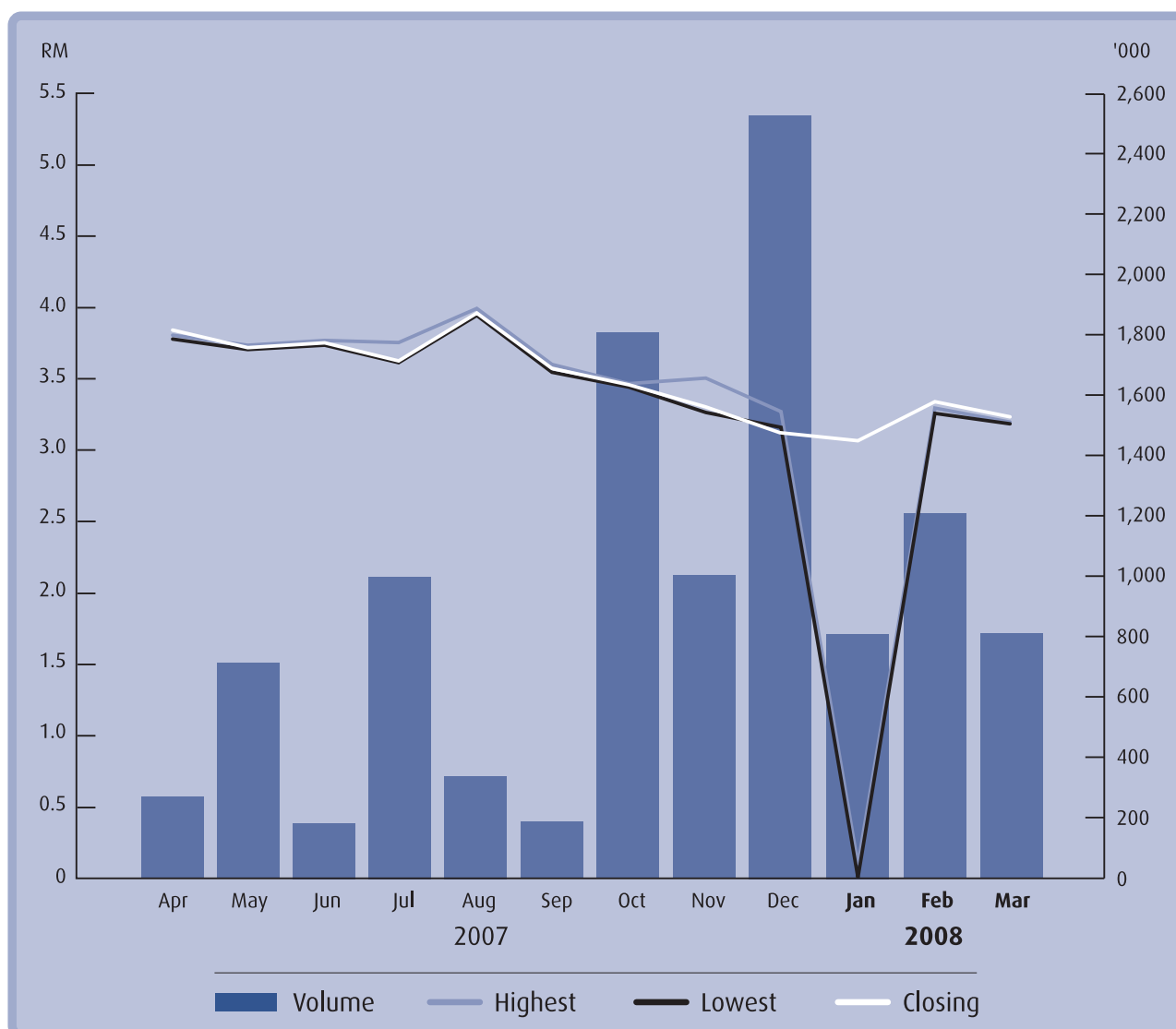
SHARE PERFORMANCE



Share Price Movement for Pharmaniaga

For the period April 2007 - March 2008

| | Apr | May | Jun | Jul | 2007 Aug | Sep | Oct | Nov | Dec | 2008 Jan | Feb | Mar |
|---------------|------|------|------|-------|-------------|------|-------|-------|-------|-------------|-------|------|
| Volume ('000) | 255 | 712 | 192 | 1,070 | 343 | 193 | 1,819 | 1,018 | 2,534 | 818 | 1,238 | 818 |
| Highest (RM) | 3.80 | 3.70 | 3.74 | 3.72 | 3.96 | 3.62 | 3.44 | 3.50 | 3.28 | 0.00 | 3.36 | 3.24 |
| Lowest (RM) | 3.76 | 3.70 | 3.74 | 3.62 | 3.96 | 3.60 | 3.42 | 3.32 | 3.22 | 0.00 | 3.30 | 3.24 |
| Closing (RM) | 3.80 | 3.70 | 3.74 | 3.62 | 3.96 | 3.60 | 3.42 | 3.36 | 3.22 | 3.10 | 3.36 | 3.24 |





Group Corporate Directory

| List Of Companies | Address |
|---|---|
| <ul style="list-style-type: none"> ■ Pharmaniaga Berhad ■ Pharmaniaga Logistics Sdn Bhd ■ Pharmaniaga International Corporation Sdn Bhd ■ Insurgress Sdn Bhd ■ Pharmaniaga Biomedical Sdn Bhd | <p>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</p> <p>Mailing address P.O. Box 2030, Pusat Bisnes Bukit Raja 40800 Shah Alam, Selangor Darul Ehsan</p> |
| <ul style="list-style-type: none"> ■ Pharmaniaga Manufacturing Berhad ■ Pharmaniaga Research Centre Sdn Bhd | <p>11A Jalan P/1, Kawasan Perusahaan Bangi 43650 Bandar Baru Bangi Selangor Darul Ehsan Tel: 03-8925 7880 Fax: 03-8925 6177</p> |
| <ul style="list-style-type: none"> ■ Pharmaniaga LifeScience Sdn Bhd | <p>Lot 7, Jalan PPU 3 Taman Perindustrian Puchong Utama 47100 Puchong Selangor Darul Ehsan Tel: 03-8061 2006 Fax: 03-8061 2875</p> |
| <ul style="list-style-type: none"> ■ Pharmaniaga Logistics Sdn Bhd (Juru Branch) | <p>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</p> |
| <ul style="list-style-type: none"> ■ Pharmaniaga Logistics Sdn Bhd (Kuching Branch) | <p>Lot 1024, Block 7 Muara Tebas Land District Demak Laut Industrial Park 93050 Kuching, Sarawak Tel: 082-432 800 Fax: 082-432 806</p> |



| List Of Companies | Address |
|---|--|
| ■ Pharmaniaga Logistics Sdn Bhd (Kota Kinabalu Branch) | Lorong Kurma, Kolombong Industrial Centre KM 9 Off Jalan Tuaran, 88450 Kolombong Kota Kinabalu, Sabah Tel: 088-439 188 Fax: 088-437 288 |
| ■ PT Millennium Pharmacon International Tbk (HQ) | Panin Bank Centre 9th Floor, Jl-Jendral Sudirman Senayan, Jakarta 10270 Indonesia Tel: 62-21 727 88906/7 Fax: 62-21 722 8090 |
| ■ Pharmaniaga Marketing 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 |
| (Ipoh Sales Office) | No. 9 (A) Hala Bandar Baru Tambun 18 31400 Perak Darul Ridzuan Tel: 05-545 9792 Fax: 05-545 9795 |
| (Johor Sales Office) | No. 38-1, Jalan Titiwangsa 3 Taman Tampoi Indah 81200 Johor Bahru, Johor Darul Takzim Tel: 07-241 7046 Fax: 07-241 9523 |
| ■ Safire Pharmaceuticals (M) Sdn Bhd (HQ and Plant) | Lot 120, Taman Farmasiutikal 32600 Bandar Baru Sri Iskandar Perak Darul Ridzuan Tel: 05-371 2020 Fax: 05-371 1940/46 |

Proxy Form



| No. of Shares | CDS Account Number |
|---------------|--------------------|
| | |

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

of _____
(ADDRESS)

being a member/members of PHARMANIAGA BERHAD hereby appoint _____

_____ (FULL NAME IN BLOCK LETTERS)

of _____ (ADDRESS)

or failing him, _____ (FULL NAME IN BLOCK LETTERS)

of _____ (ADDRESS)

or failing him/her the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Tenth Annual General Meeting of the Company to be held at the Concorde 1 (Level 2), Concorde Hotel Shah Alam, 3 Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on **Thursday, 22 May 2008 at 10.30 a.m.** and at any adjournment thereof.

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

| No. | Ordinary Resolution | For | Against |
|-----|---|-----|---------|
| 1. | Declaration of a Final Tax Exempt dividend 18 sen per ordinary share in respect of the financial year ended 31 December 2007 as recommended by the Directors. | | |
| 2. | Re-election of Dato' Mohamed Azman bin Yahya as Director. | | |
| 3. | Re-election of Dato' Ahmad Pardas bin Senin as Director. | | |
| 4. | Re-election of YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin as Director. | | |
| 5. | Payment of Directors' Fees for the financial year ended 31 December 2007. | | |
| 6. | Re-appointment of Messrs PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration. | | |
| 7. | Authority to issue shares pursuant to Section 132D of the Companies Act, 1965. | | |
| 8. | Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | | |
| No. | Special Resolution | For | Against |
| 1. | Amendments to the Articles of Association of the Company. | | |

Dated this _____ day of _____ 2008.

Signature(s) of member(s)

Notes:

- A member of the Company entitled to be present and vote at the Meeting may appoint a proxy to vote instead of him. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy.
- 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.
- 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.
- 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, MCOBA Building, 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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Pharmaniaga Berhad (467709-M)

No.7, Lorong Keluli 1B,
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7, 40000 Shah Alam,
Selangor Darul Ehsan, Malaysia.

Tel: 03-3342 9999

Fax: 03-3341 7777

www.pharmaniaga.com