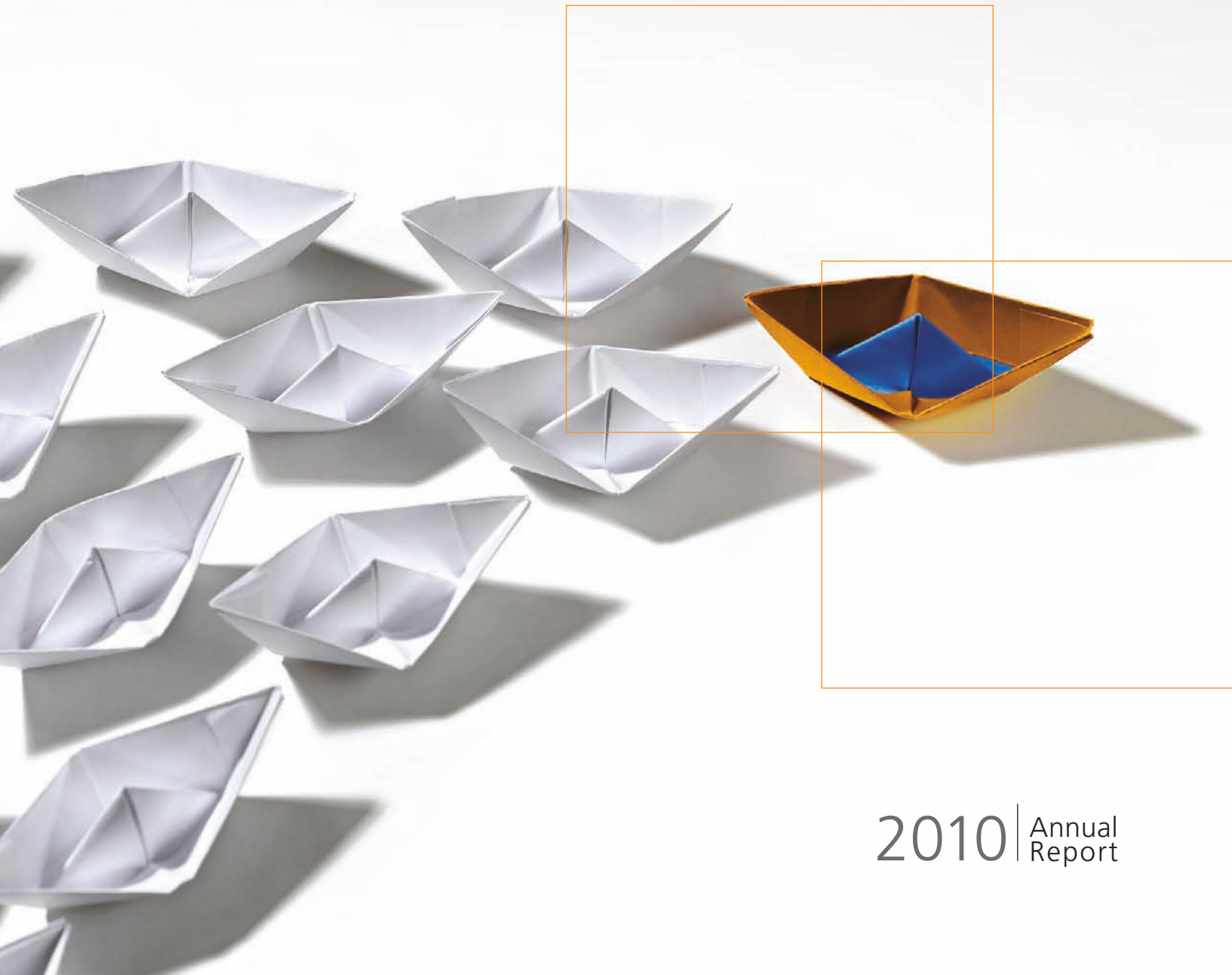


pharmaniaga

Pursuing  
**OPPORTUNITIES**



2010 | Annual  
Report



# PURSUING OPPORTUNITIES

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

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





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Pharmaniaga Berhad  
ANNUAL REPORT 2010



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04

Pharmaniaga Berhad  
ANNUAL REPORT 2010

## our vision

The preferred pharmaceutical  
brand in regional markets

## our mission

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

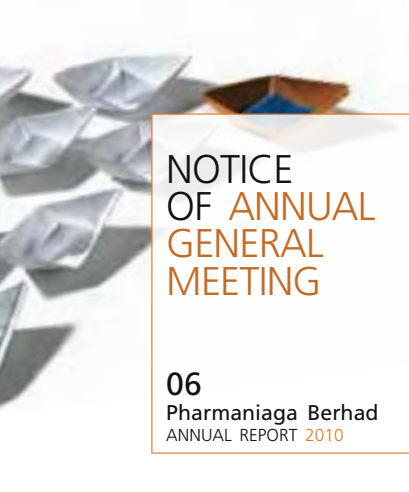




## THE EDGE BILLION RINGGIT CLUB AWARDS 2010

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





# NOTICE OF ANNUAL GENERAL MEETING

06

Pharmaniaga Berhad  
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NOTICE IS HEREBY GIVEN THAT THE 13TH ANNUAL GENERAL MEETING OF PHARMANIAGA BERHAD (467709-M) ("THE COMPANY") WILL BE HELD AT 4TH FLOOR, MENARA BOUSTEAD, 69, JALAN RAJA CHULAN, 50200 KUALA LUMPUR ON TUESDAY, 7 JUNE 2011 AT 10.30 A.M FOR THE PURPOSE OF TRANSACTING THE FOLLOWING BUSINESSES:

---

## AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements of the Company for the financial year ended 31 December 2010 together with the Reports of the Directors and the Auditors thereon. RESOLUTION 1
2. To re-elect the following Directors retiring in accordance with Article 73 of the Company's Articles of Association and, who being eligible, offer themselves for re-election:
  - a. Tan Sri Dato' Lodin bin Wok Kamaruddin RESOLUTION 2
  - b. Dato' Farshila binti Emran RESOLUTION 3
  - c. Mr. Daniel Ebinesan RESOLUTION 4
  - d. En. Izzat bin Othman RESOLUTION 5
  - e. En. Mohd Suffian bin Hj. Haron RESOLUTION 6
3. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2010. RESOLUTION 7
4. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. RESOLUTION 8

## AS SPECIAL BUSINESS

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

### 5. Ordinary Resolution

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

"**THAT** pursuant to Section 132D of the Companies Act, 1965 and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue and allot shares of the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit, provided that the aggregate number of shares issued pursuant to this resolution shall not exceed ten percent (10%) of the total issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

RESOLUTION 9



## 6. Ordinary Resolution

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

"**THAT** subject to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), approval be and is hereby given for the renewal of the shareholders' mandate for the Company and/or its subsidiaries ("Pharmaniaga Group") to enter into and give effect to specified recurrent transactions of a revenue or trading nature with specified classes of Related Parties (as defined in the Listing Requirements of Bursa Malaysia Securities Berhad and as specified in Section 2.2.1 of the Circular to Shareholders dated 13 May 2011) which are necessary for the day to day operations of the Pharmaniaga Group and the transactions are in the ordinary course of business, at arms' length basis and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company and disclosure is made in the Annual Report of the aggregate value of transactions conducted pursuant to the Shareholders' Mandate during the financial year and such approval conferred shall continue to be in force until:

- a. the conclusion of the next Annual General Meeting ("AGM") of the Company following the forthcoming AGM at which such Shareholders' Mandate is passed, at which time it will lapse, unless by a resolution passed at such general meeting whereby the authority is renewed; or
- b. the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- c. revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier.

**AND FURTHER THAT** the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the transactions authorised by this Ordinary Resolution."

**RESOLUTION 10**

## 7. Ordinary Resolution

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

"**THAT** subject to the Listing Requirements, approval be and is hereby given to the Company and/or its subsidiaries ("Pharmaniaga Group") to enter into and give effect to specified recurrent transactions of a revenue or trading nature with specified classes of Related Parties (as defined in the Listing Requirements and as specified in Section 2.2.2 of the Circular to Shareholders dated 13 May 2011) which are necessary for the day to day operations of the Pharmaniaga Group and the transactions are in the ordinary course of business, at arms' length basis and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company and disclosure is made in the Annual Report of the aggregate value of transactions conducted pursuant to the Shareholders' Mandate during the financial year and such approval conferred shall continue to be in force until:



## NOTICE OF ANNUAL GENERAL MEETING (cont'd)

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Pharmaniaga Berhad  
ANNUAL REPORT 2010

- a. the conclusion of the next AGM of the Company following the forthcoming AGM at which such Shareholders' Mandate is passed, at which time it will lapse, unless by a resolution passed at such general meeting whereby the authority is renewed; or
- b. the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- c. revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier.

**AND FURTHER THAT** the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the transactions authorised by this Ordinary Resolution."

**RESOLUTION 11**

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

### BY ORDER OF THE BOARD

**SHARIFAH BINTI MALEK** (LS00448)

**YANTI IRWANI BINTI ABU HASSAN** (MACS01349)

Company Secretaries

Kuala Lumpur  
13 May 2011

## EXPLANATORY NOTES ON SPECIAL BUSINESS

### **Resolution 9 – Authority to issue shares pursuant to Section 132D of the Companies Act, 1965**

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

The proposed Ordinary Resolution 9 is a renewal of the general mandate for the authority to issue and allot shares pursuant to Section 132D of the Companies Act, 1965.

As at the date of this Notice, no new shares in the Company were issued pursuant to the authority granted to the Directors at the 12th Annual General Meeting held on 27 May 2010 and which will lapse at the conclusion of the 13th Annual General Meeting.

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

### **Resolution 10 – Proposed renewal of shareholders’ mandate for recurrent related party transactions of a revenue or trading nature**

This proposed Ordinary Resolution, if passed, will authorise the Company and/or its subsidiaries to continue entering into the specified recurrent related party transactions of a revenue or trading nature with related parties, particulars of which are set out in Section 2.2.1 of the Circular to Shareholders dated 13 May 2011 circulated together with this Annual Report. These authorities, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

### **Resolution 11 – Proposed shareholders’ mandate for new recurrent related party transactions of a revenue or trading nature**

This proposed Ordinary Resolution, if passed, will authorise the Company and/or its subsidiaries to enter into the specified recurrent related party transactions of a revenue or trading nature with related parties, particulars of which are set out in Section 2.2.2 of the Circular to Shareholders dated 13 May 2011 circulated together with this Annual Report. These authorities, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

## **Notes**

### **Registration of Members/Proxies**

Registration of Members/Proxies attending the 13th Annual General Meeting (“the Meeting”) will be from 9.30 a.m. on the day of the Meeting. Members/Proxies are required to produce identification documents for registration.

### **Proxy**

1. A member of the Company entitled to be present and vote at the Meeting may appoint a proxy to vote instead of him. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 need not be complied with.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if the appointor is a corporation, under its common seal or signed by its attorney or by an officer on behalf of the corporation.
3. Where a Member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, he may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited at the Company's share registrar, Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor at least forty eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise the person so named shall not be entitled to vote in respect thereof. The Annual Report and Form of Proxy are available for access and download at the Company's website at [www.pharmaniaga.com](http://www.pharmaniaga.com).

# STATEMENT ACCOMPANYING NOTICE OF AGM

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Pharmaniaga Berhad  
ANNUAL REPORT 2010



## STATEMENT ACCOMPANYING NOTICE OF THE 13TH ANNUAL GENERAL MEETING PURSUANT TO PARAGRAPH 8.27(2) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

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

Directors retiring pursuant to Article 73 of the Articles of Association:

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

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

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

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

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

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

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

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

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

Date : Tuesday, 7 June 2011  
Time : 10.30 a.m.  
Place : 4th Floor, Menara Boustead  
69, Jalan Raja Chulan  
50200 Kuala Lumpur

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

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



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## STATEMENT ACCOMPANYING NOTICE OF AGM (cont'd)

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Pharmaniaga Berhad  
ANNUAL REPORT 2010

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

### TAN SRI DATO' LODIN BIN WOK KAMARUDDIN

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

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

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

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

### EN. MOHD SUFFIAN BIN HJ. HARON

Independent Non-Executive Director  
65 Years of Age, Malaysian

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

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

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

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

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#### Note:

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



## 2010 FINANCIAL HIGHLIGHTS



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### ENHANCING VALUE TO SHAREHOLDERS

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

#### REVENUE

RM1.378 billion

#### PROFIT BEFORE TAXATION

RM45.5 million

#### EARNINGS PER SHARE

28.40 sen

#### DIVIDEND PER SHARE

10.0 sen

# FINANCIAL CALENDAR

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Pharmaniaga Berhad  
ANNUAL REPORT 2010



## FINANCIAL YEAR END

31 DECEMBER 2010

### Announcement of results

1st Quarter	26 May 2010
2nd Quarter	11 August 2010
3rd Quarter	4 November 2010
4th Quarter	25 February 2011

## 2010 GROUP QUARTERLY PERFORMANCE

### BY INDUSTRY SEGMENT

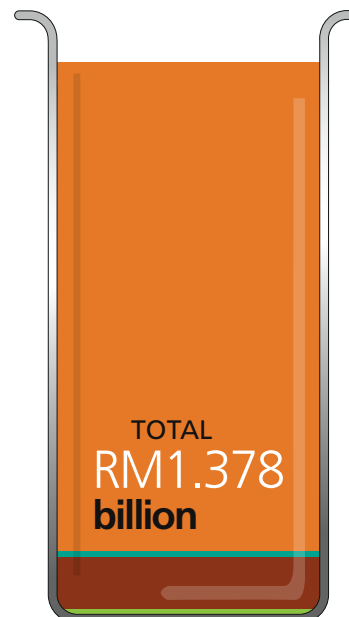
RM'000	1st	2nd	3rd	4th	Total
<b>Revenue</b>					
Pharmaceutical Trading, Marketing and Distribution	307,171	363,616	335,098	373,776	1,379,661
Medical Product and Services	516	211	693	4,793	6,213
Pharmaceutical Manufacturing	42,197	26,927	35,363	33,454	137,941
Other operations	3,014	1,028	971	912	5,925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

# GROUP 2010 SEGMENTAL REPORT

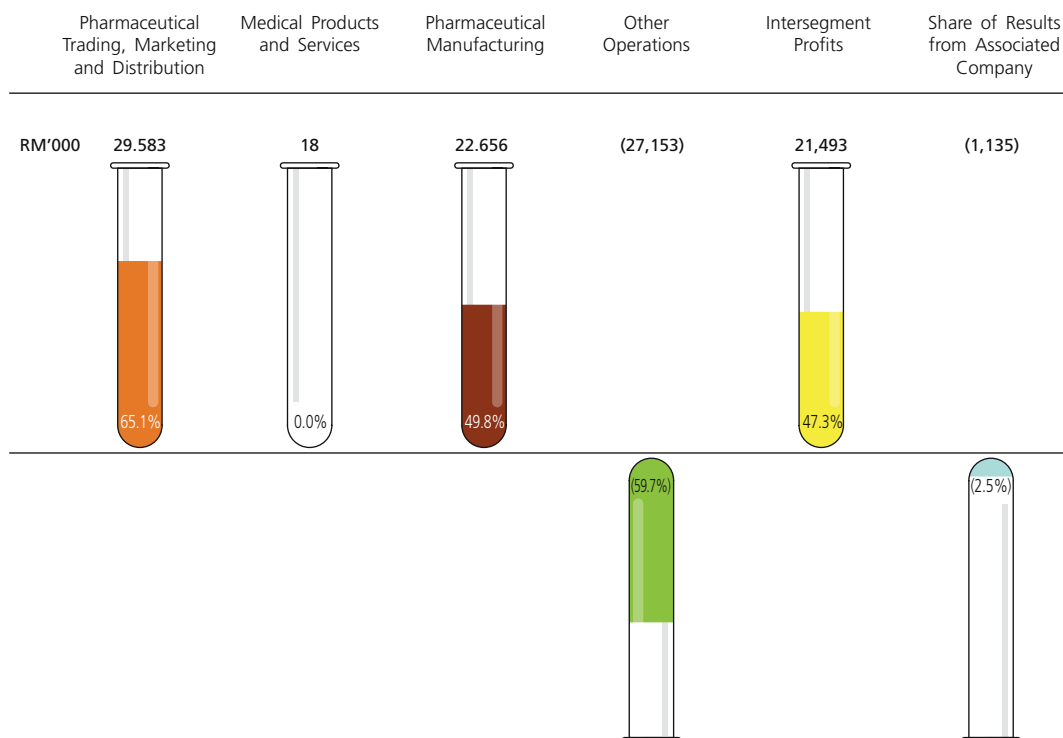


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REVENUE	RM'000	%
Pharmaceutical Trading, Marketing and Distribution	1,379,661	100.1
Medical Product and Services	6,213	0.5
Pharmaceutical Manufacturing	137,941	10.0
Other Operations	5,925	0.4
Intersegment sales	(151,392)	(11.0)
<b>TOTAL</b>	<b>1,378,348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



## PROFIT BEFORE TAXATION



# GROUP 5-YEAR FINANCIAL HIGHLIGHTS

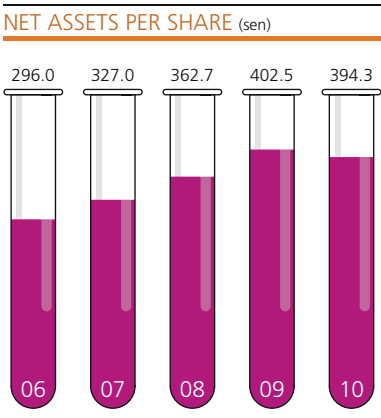
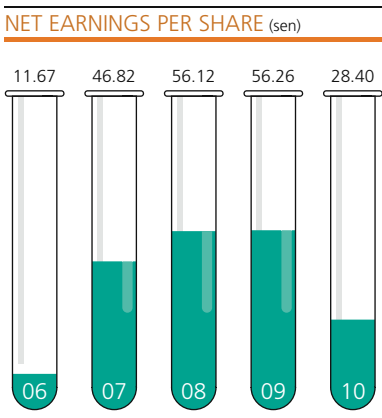
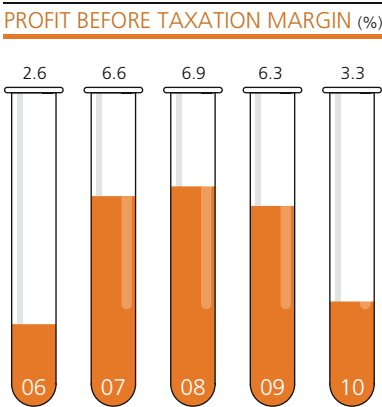
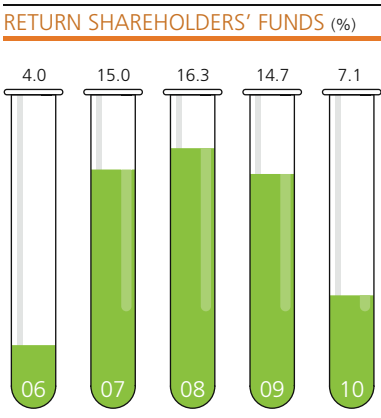
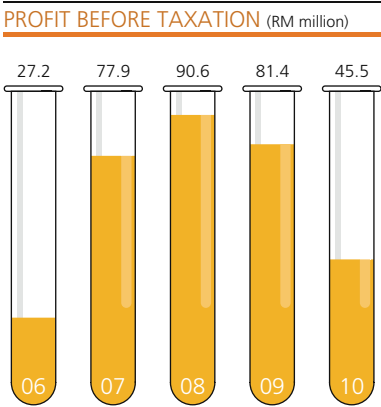
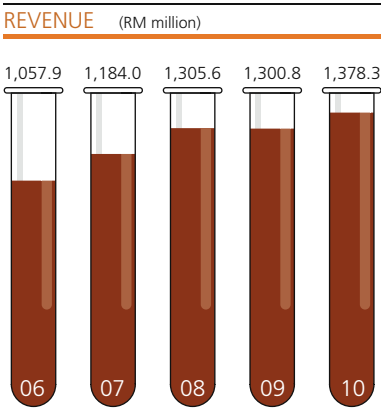
for the years ended  
31 December

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Pharmaniaga Berhad  
ANNUAL REPORT 2010



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



# STATEMENT OF VALUE ADDED

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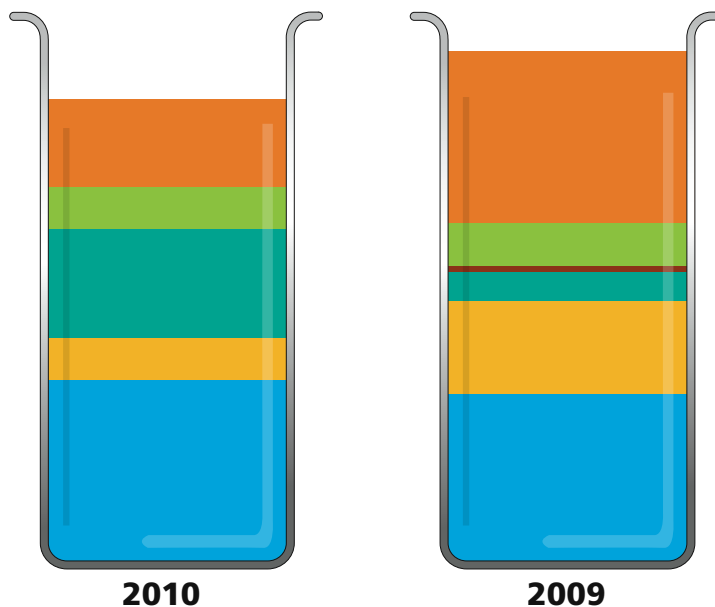
Pharmaniaga Berhad  
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	2010 RM'000	2009 RM'000
Revenue	1,378,348	1,300,796
Purchase of goods and services	(1,215,476)	(1,128,136)
Value added by the Group	162,872	172,660
Finance expenses (net)	(4,043)	(4,467)
Provision for impairment of goodwill	–	(1,800)
Gain on disposal of two lots of land	–	7,193
Gain on disposal of non-current assets held for sale	–	2,375
Value added available for distribution	158,829	175,961

## RM'000

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



## RM'000

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

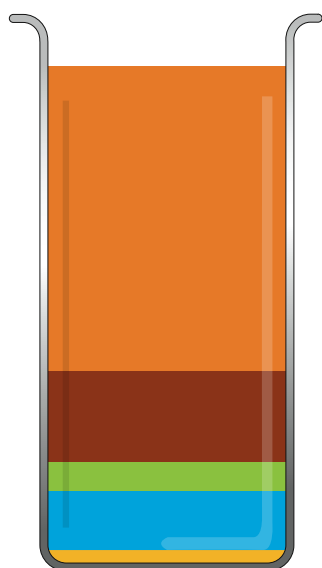
		2010 RM'000	2009 RM'000
To employees	– Employment costs	61,495	58,197
To government	– Taxation	15,152	19,709
To capital contributors	– Dividend	37,709	21,663
	– Minority interest	(74)	1,536
Retained for re-investment and future growth	– Depreciation/Amortisation	14,163	14,665
	– Profit for the year	30,384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



## 2010 EMPLOYEES & PRODUCTIVITY

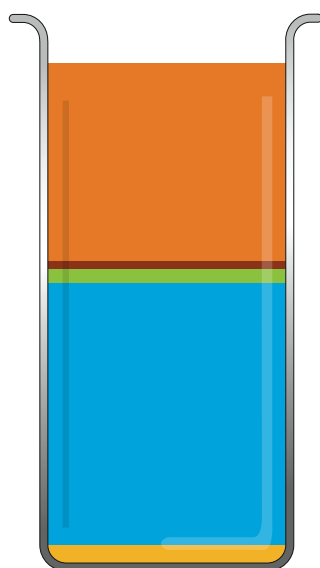


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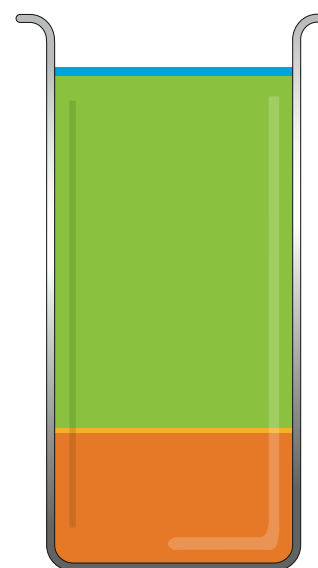
**Executive**

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



**Non executive**

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



**Employees by business units**

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



# SOARING TO GREATER HEIGHTS

## **Reaching our Potential**

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





## CORPORATE INFORMATION

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Pharmaniaga Berhad  
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### BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

### COMPANY SECRETARIES

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

### STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad,  
Main Market - Trading/Services

### REGISTERED ADDRESS

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

### AUDITORS

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

### SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd (378993-D)  
Block D13, Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan  
Tel: +603-7841 8000 Fax: +603-7841 8008

**AUDIT COMMITTEE****Chairman**

En. Mohd Suffian bin Hj. Haron

**Members**

En. Izzat bin Othman  
Mr. Daniel Ebinesan

**NOMINATION COMMITTEE****Chairman**

En. Mohd Suffian bin Hj. Haron

**Members**

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

**REMUNERATION COMMITTEE****Chairman**

En. Mohd Suffian bin Hj. Haron

**Members**

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

**SOLICITORS**

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

**PRINCIPAL BANKERS**

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

**BUSINESS ADDRESS**

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



## BOARD OF DIRECTORS

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Pharmaniaga Berhad  
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From Left to Right:

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

**Datuk Mohamed Azman bin Yahya** Non-Independent Non-Executive Chairman

**Datuk Sulaiman bin Daud** Senior Independent Non-Executive Director

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**Mr. Oh Kim Sun** Independent Non-Executive Director

**Dato' Farshila binti Emran** Managing Director

**Mr. Daniel Ebinesan** Non-Independent Non-Executive Director

**En. Izzat bin Othman** Independent Non-Executive Director

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## PROFILE OF DIRECTORS

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Pharmaniaga Berhad  
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### DATUK MOHAMED AZMAN BIN YAHYA

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

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

Outside his professional engagements, Datuk Azman is also active in public service. He sits on the boards of various Government Linked Corporations namely, Khazanah Nasional Berhad (the investment arm of the Malaysian Government), Ekuiti Nasional Berhad, Malaysian Airline System Berhad and PLUS Expressways Berhad. Datuk Azman also serves as a member of the National Council for Scientific Research & Development, the National Innovation Council, the Special Taskforce to facilitate Business (PEMUDAH), and the Financial Reporting Foundation.

Datuk Azman is also the Chairman of the Motorsports Association of Malaysia and a Director of Scomi Group Berhad and Sepang International Circuit Sdn Bhd. He graduated with a first class Honours Degree in Economics from the London School of Economics and Political Science and is a member of the Institute of Chartered Accountants in England and Wales (ICAEW), the Malaysian Institute of Accountants (MIA) and a Fellow of the Malaysian Institute of Banks.



**DATO' FARSHILA BINTI EMRAN**

Managing Director  
45 Years of Age, Malaysian

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

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

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

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



**DATUK SULAIMAN BIN DAUD**

Senior Independent Non-Executive Director  
64 Years of Age, Malaysian

Datuk Sulaiman has been the Senior Independent Non-Executive Director of Pharmaniaga Berhad since 15 November 2001. He is also the Chairman of the Investment Committee, Nomination and Remuneration Committee, Risk Management Committee and member of the Audit Committee.

He had an illustrious career with Malaysian Tobacco Company Berhad (MTC) where he ascended the corporate ladder to be its Deputy Chief Executive/ Executive Director. He has been the Chairman of Bank Pertanian Malaysia for four terms; from 1998 to 2006. He has also been a Chairman of Ranhill Power Berhad and Director of Malaysia National Insurance Berhad.

He is currently the Chairman of Malaysia Packaging Industry Berhad and Director of Konsortium Transnasional Berhad and Silverlake Axis Limited in Singapore. He is also a Director of UMS Link Holdings Sdn Bhd and the Chairman of UMS Link Agro Based Sdn Bhd as well as Director and Chairman of a number of private companies in Malaysia and abroad. He has served as a Board Member of Universiti Putra Malaysia and the Chairman of the Malaysia Syria Business Council as well as an Advisory Panel Member of the Commercialisation Committee for all public Universities in Malaysia.

He has a Diploma in Agriculture from the College of Agriculture (now Universiti Putra Malaysia), graduating as the Most Outstanding Student in 1968. He has a Masters in Business Administration from IMC Buckingham and he graduated from Stanford-Insead Advanced Management Programme in Fontainebleau, France. He spends a considerable part of his time now seeking and developing business opportunities in Asean and the Middle East primarily.



## PROFILE OF DIRECTORS (cont'd)

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Pharmaniaga Berhad  
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**EMERITUS PROF. DATO' WIRA IR. DR. MOHAMMAD  
NOOR BIN HJ. SALLEH**

Independent Non-Executive Director  
63 Years of Age, Malaysian

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

Prior to his present position as a Professor in the Kulliyyah of Engineering of the International Islamic University of Malaysia, he was the President of Kuala Lumpur Infrastructure University College and the Vice President of Open University Malaysia. He held the position of Vice Chancellor of Universiti Pendidikan Sultan Idris and a similar position in Universiti Utara Malaysia and was the Deputy Vice Chancellor in Universiti Teknologi Malaysia before that.

Emeritus Prof. Dato' Wira Ir. Dr. Mohammad Noor has a Ph.D. in Civil Engineering from the University of Strathclyde, Glasgow, UK. He is currently a Fellow of the Academy of Science Malaysia, Fellow Member of Institution of Engineers Malaysia and a member of the Malaysian Institute of Management.



**MR. OH KIM SUN**

Independent Non-Executive Director  
62 Years of Age, Malaysian

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

An accountant by training, he began his career in 1972 with Coopers & Lybrand in London. He has over 39 years of experience in finance and has held various positions such as Finance Director of Taiko Plantations Sdn Bhd, Financial Controller of ICI Malaysia and Finance Manager (Secondment) of ICI Headquarters in London; responsible for Northern Europe. Mr. Oh led a successful management buyout of ICI's Malaysian operations in 1994 and was appointed Group Executive Director of Chemical Company of Malaysia Berhad until 2003.

His directorships in other public companies include Faber Group Berhad, UEM Land Holdings Berhad and Nikko Electronics Berhad.



#### MR. DANIEL EBINESAN

Non-Independent Non-Executive Director  
65 Years of Age, Malaysian

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

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

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

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



#### EN. IZZAT BIN OTHMAN

Independent Non-Executive Director  
50 Years of Age, Malaysian

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

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

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

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#### Note:

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

## **Reenergising our Presence**

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







## CHAIRMAN'S STATEMENT

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Pharmaniaga Berhad  
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### DEAR SHAREHOLDERS,

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

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

#### CORPORATE DEVELOPMENTS

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

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

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

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

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

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







## CHAIRMAN'S STATEMENT (cont'd)

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

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

### THE PHARMACEUTICAL AND HEALTHCARE INDUSTRY IN MALAYSIA

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

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

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

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

### FINANCIAL PERFORMANCE

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

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



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

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## CHAIRMAN'S STATEMENT (cont'd)

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

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

### STRENGTHENING OPERATIONS

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

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



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

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

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



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

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## CHAIRMAN'S STATEMENT (cont'd)

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Pharmaniaga Berhad  
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### FOCUSING ON THE ENVIRONMENT, THE COMMUNITY AND ORGANISATIONAL DEVELOPMENT

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

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

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

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

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

### OUR FUTURE

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







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

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

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

#### IN APPRECIATION

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

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

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

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

Yours faithfully,

AZMAN YAHYA



# CHARTING A NEW COURSE

## **Repositioning our Leadership**

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





## STATEMENT ON CORPORATE GOVERNANCE

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### INTRODUCTION

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

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

With its collective and overall responsibility in leading and directing Pharmaniaga's strategic affairs, the Board has the ultimate responsibility for corporate governance and plays a key role in charting the vision, strategic direction, development and control of Pharmaniaga Group as well as overseeing the investments of the Company. The Board believes that effective corporate governance is premised on three important cornerstones namely, independence, accountability and transparency.

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

### 1. BOARD OF DIRECTORS

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

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

#### Composition of the Board

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

- a. Dato' Farshila binti Emran
- b. Mr. Daniel Ebinesan
- c. En. Izzat bin Othman

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

#### Process of Appointment to the Board

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

#### Roles and Responsibilities

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

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

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

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

#### Directors' Code of Conduct

In performance of the Board duties, the Board also observes a Directors' Code of Conduct which continues to govern the standard ethics and good conduct expected from the Directors. The Directors' Code of Conduct, which forms part of the Board Policy Manual sets out the performance of Directors' duties and conducts in relation to the Corporate Governance, its relationship with the shareholders, employees, creditors and customers as well as its social responsibilities.

#### Operation of the Board

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

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

#### Executive Committee (EXCO)

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



## STATEMENT ON CORPORATE GOVERNANCE (cont'd)

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### Audit Committee

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

### Risk Management Committee

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

### Nomination and Remuneration Committee

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

### Investment Committee

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

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

### Executive Committee (EXCO)

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

### Audit Committee

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

#### Risk Management Committee

- To provide oversight, direction and counsel to the risk management process.
- To establish risk management guidelines.
- To evaluate the structure for the Group risk management, risk management processes and support system.
- To consider the half yearly report on risks, major findings and management responses thereto on material issues, highly significant risks, changing environments and required urgent changes in the risk management programmes.
- To review and approve action and contingency plans developed to mitigate key significant risks.
- To advise the Board on risk related issues and recommend strategies, policies and risk tolerance for Board approval.

#### Nomination and Remuneration Committee

- To annually examine the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness.
- To assist the Board in the annual review of the required mix of skills, experience and other qualities, including core competencies, which Non-Executive Directors should bring to the Board and disclose the same in the Annual Report.
- To annually carry out the process to be implemented for evaluating the effectiveness of the Board as a whole, the Committees of the Board and the performance and contribution of each individual Director based on the process implemented by the Board, and to identify areas for improvement.
- To recommend suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.
- To ensure that the appointment of any Executive Director or Managing Director shall be for a fixed term not exceeding 3 years at any one time with the power to reappoint, remove or dismiss thereafter.

- To identify and recommend new nominees to the Board of Pharmaniaga Berhad and its subsidiaries and associated companies, whether to be filled by Board members, shareholders or executives. It is also to identify and recommend for all directorships proposed by the Managing Director, any Director or shareholder to fill the seats on the Audit, Nomination and Remuneration or other Committees.
- To identify and recommend Senior Management position i.e Chief Operating Officer and Chief Financial Officer and its terms and conditions, for the Board's approval.
- To consider the following when recommending candidates for directorship:
  - skills, knowledge, expertise and experience
  - professionalism
  - integrity
  - ability to discharge functions/responsibilities
- To set, review, recommend and advise the policy framework on all elements of the remuneration such as reward structure, fringe benefits and other terms of employment of Executive Director and the Managing Director.
- To advise the Board of the performance of the Managing Director and an assessment of his/her entitlement to performance related pay. The Committee also should advise the Managing Director on the remuneration and terms and conditions of senior management staff holding Grade UT2 and above.
- To represent the public interest and avoid any inappropriate use of public funds when considering severance payments for senior staff.
- To review the history of and proposals for the remuneration package of each of the Company's committees.

## STATEMENT ON CORPORATE GOVERNANCE (cont'd)

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### Investment Committee

- To review and recommend to the Board the investment policies and strategies.
- To receive quarterly reports, deliberate and decide on the compliance with the overall investment policies and strategies. Subsequently to report the findings to the Board.
- At the initial Investment Initiation stage:
  - to review and approve for the Company to proceed with the Investment Initiation activities, if the Committee is satisfied that the investment is viable and for overseas ventures, is in line with the overall Expansion Strategy adopted by the Group.
- the Committee is given the power to authorise the Company to enter into any agreements, understanding and/or contracts with potential partners initiation stage and approve such terms in relation to the said agreement, understanding and/or contracts which may include equity participation of the Company.
- Following the Detailed Appraisal/Evaluation:
  - to review and recommend to the Board for final decision, the investment proposals, to review the terms of reference of the Committee and recommend the changes to the Board.
  - to review other investment matters as the Board deems appropriate and in the best interest of the Company.

### Board Meetings

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

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



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

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

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

During the financial year ended 31 December 2010, the Board reviewed and/or approved and considered, amongst other matters, the following:

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

The Agenda for each Board meeting, together with detailed Board papers and supporting documents are circulated to all Board members for their prior review in advance of the meeting dates, to ensure that they are fully apprised on matters or key issues affecting the Company as well as to enable the Directors to make well-informed decisions on matters arising at the Board meetings. Agenda items for

which the resolution is sought are identified and clearly stipulated in the Board paper to ensure that matters are discussed in structured manner. It has always been the Company's practice that a standardised format of Board paper is circulated for ease of reference during meetings.

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

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



## STATEMENT ON CORPORATE GOVERNANCE (cont'd)

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### Supply of Information to the Board

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

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

### Board Balance and Independence

The requirement of the Code for a Board balance is fulfilled with Independent Directors forming more than one third of the Board. The current Board consists of four (4) Independent Non-Executive Directors who are independent of Management and free from any business relationships that could materially interfere with exercise of their independent judgement.

The presence of Independent Directors assures an additional element of balance to the Board as they provide unbiased and independent views, advice and judgement to all Board deliberations. Datuk Sulaiman bin Daud is the Senior Independent Non-Executive Director. He acts as a facilitator for communication between the shareholders, the public and the Board and he ensures that the Board is aware of any shareholder concerns not resolved through the existing mechanisms of investor communication. He also represents and acts as a spokesperson for the Independent Directors as a group.

### Board Effectiveness Assessment

The formal Performance Evaluation Framework ("Framework") adopted in 2006, comprises a Board Effectiveness Assessment ("BEA") and a Board of Directors' Self/Peer Assessment. The Framework is designed to maintain cohesiveness of the Board and, at the same time, serves to improve the Board's effectiveness.

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

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

### Directors' Training

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

All Directors, except for Dato' Farshila binti Emran and En. Izzat bin Othman (the newly appointed Directors), have completed the Mandatory Accreditation Programme (MAP) and during the year, the Directors have from time to time attended trainings.

### Re-appointment and Re-election of Directors

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

The Articles of Association also state that one-third of the Directors retire from office at each AGM and are eligible to offer themselves for re-election. Section 129(2) Companies Act, 1965 requires that all Directors aged 70 or above go forward for re-appointment each year.

Retiring Directors may offer themselves for re-election or re-appointment to hold office until the next AGM. Each of these Directors who are due to go forward for re-election or re-appointment at this year's AGM has been identified in the Notice of AGM. Particulars of Directors submitted to shareholders for re-election are enumerated in the Statement Accompanying Notice of AGM.

#### Number of Directorships

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

#### Directors' Remuneration

The Nomination and Remuneration Committee recommends to the Board the framework and the remuneration package for the Executive Director and Senior Management. The determination of the remuneration of the Non-Executive Directors is a matter for the Board as a whole.

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

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

#### Remuneration Package

The remuneration package of the Directors is as follows:

##### a Basic Salary

The basic salary (inclusive of statutory employer contributions to the Employees Provident Fund) for the Managing Director is recommended by the Nomination and Remuneration Committee, taking into account the performance of the individual and information from independent sources on the rates of salary for a similar position in a selected group of comparable companies.

##### b Fees

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

##### c Bonus Scheme

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

##### d Benefits-in-kind and other Perquisites

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

##### e Retirement Plan

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

##### f Service Contract

The Managing Director shall sign a service contract for a period of 3 years with the Company. As a director to the Board, the Managing Director shall retire from the Board at least once in 3 years but shall be eligible for re-election.

## STATEMENT ON CORPORATE GOVERNANCE (cont'd)

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### Disclosure on Directors' Remuneration

The details of the remuneration received by each category of Directors for the financial year ended 31 December 2010 are as follows:

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

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

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

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

### Whistle Blower Policy

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

This Whistle Blower Policy provides a platform and act as a mechanism for parties to channel their complaints

or to provide information on fraud, wrongdoings or non-compliance to any rules/procedures by the employee or management of the Company. The policy outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance and allows the whistle-blower the opportunity to raise a concern outside their management line and in confidence. The identity of the whistle blower is kept confidential and protection is accorded to the whistle blower against any form of reprisal or retribution. Any concerns raised will be investigated and a report and update is provided to the Board.

## 2. SHAREHOLDERS

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

### Investor Relations

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

### Annual Report

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

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

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

Besides the key channels of communication through the Annual Report, general meetings and announcements to Bursa Malaysia as well as analyst and media briefings, there is also continuous effort to enhance the Company website ([www.pharmaniaga.com](http://www.pharmaniaga.com)).

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

### General Meeting

The Annual General Meeting ("AGM") is the principal avenue for shareholders to communicate and engage in dialogue with the Board and Management of Pharmaniaga. The highlights of the Company's operational and financial performance which is made via visual presentation is made by the Chairman and Managing Director at the AGM.

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

At the AGM, the shareholders can exercise their voting rights and the meeting is convened in strict compliance with the laws and procedures of general meeting. Separate resolutions are proposed for separate motions and the Chairman will declare the outcome of each resolution after proposal and secondment are done by the shareholders. Shareholders are also given the opportunity to put forward their questions on the proposed resolutions and on the Group's operations. The Chairman will provide sufficient time for a Question and Answer session.



## STATEMENT ON CORPORATE GOVERNANCE (cont'd)

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### 3. ACCOUNTABILITY & AUDIT

#### Financial Reporting

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

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

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

#### Internal Control

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

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

#### Relationship with External Auditors

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

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

### 4. OTHER COMPLIANCE INFORMATION

#### Related Party Transactions

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

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

A list of significant related party transactions is set out in Note 34 to the Financial Statements on page 185 of this Annual Report.

#### Non-Audit Fees

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

#### Sanctions and/or Penalties

On 1 March 2010, manufacturing license of the plant in Bangi was revoked due to a certain non-compliance found during routine checks by the Pharmaceutical Services Division of MOH. However, Pharmaniaga managed to address the audit issues in a relatively short time. Following a satisfactory follow-up audit on the Good Manufacturing Practices on 10 March 2010, the manufacturing license was re-issued on 15 March 2010.

#### RESPONSIBILITY STATEMENT IN RESPECT OF THE FINANCIAL YEAR UNDER REVIEW

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

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

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

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

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

The Board considers that it has complied throughout the financial year with Best Practices as set out in the Code, except for disclosure on Directors' remuneration that complies with Appendix 9C Part A (11) (a) and (b) Chapter 9 of the Main Market Listing Requirements of Bursa Malaysia.

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



## STATEMENT ON INTERNAL CONTROL

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### BOARD RESPONSIBILITY

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THE BOARD OF DIRECTORS (“BOARD”) IS RESPONSIBLE FOR THE ADEQUACY AND EFFECTIVENESS OF THE PHARMANIAGA GROUP’S (“THE GROUP”) SYSTEM OF INTERNAL CONTROLS. HOWEVER, SUCH A SYSTEM IS DESIGNED TO MANAGE THE GROUP’S KEY AREAS OF RISK WITHIN AN ACCEPTABLE RISK PROFILE, RATHER THAN ELIMINATE THE RISK OF FAILURE TO ACHIEVE THE POLICIES AND BUSINESS OBJECTIVES OF THE GROUP. ACCORDINGLY, THE SYSTEM OF INTERNAL CONTROLS CAN ONLY PROVIDE REASONABLE BUT NOT ABSOLUTE ASSURANCE AGAINST MATERIAL MISSTATEMENT OF FINANCIAL INFORMATION AND RECORDS OR AGAINST FINANCIAL LOSSES OR FRAUD.

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

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the financial statements is sound and sufficient to safeguard the shareholders’ investment, the interest of customers, regulators and employees and the Group’s assets. In enhancing the internal control system, the Investment Committee continues to evaluate, monitor and making recommendations to the Board in respect of any investment prior to its approval.

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

A formal Management Control Policy (“MCP”) spells out the internal control responsibilities of the Audit Committee, the Internal Audit function and Operating Management. The MCP was disseminated to all members of the senior management team to ensure that they are at all times fully aware of their internal control responsibilities. The MCP complements the Terms of Reference of the Audit Committee, the Internal Audit Charter and this Statement on Internal Control.

### KEY ELEMENTS OF INTERNAL CONTROL FRAMEWORK

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

#### MANAGEMENT CONTROL

##### Risk Management

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



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

As provided for in the Group's risk management framework, the Risk Management Committee ("RMC") and Risk Management Work Group Committee ("RMWGC") meet up at least twice a year to review and update the risk registers, review the impact and likelihood of all risks identified, and to follow up and monitor status of action plans put in place to address these risks. In the year under review, risk assessment reports as well as the minutes of RMC meetings were presented to the Board as a whole at Board meetings.

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

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

#### Policies, Procedures and Discretionary Authority Limits

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

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

#### Performance Management

A structured Performance Management System ("PMS") which is linked to and guided by established Key Performance Indicators ("KPIs") and Key Result Areas ("KRAs") parameters has been implemented. The Group adopted the Balance Scorecard quadrants ("FCIO") to measure the KPIs achievements through PMS online:

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

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



## STATEMENT ON INTERNAL CONTROL (cont'd)

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

### Staff Recruitment and Termination

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

### Code of Conduct

Staff handbook containing the human resource policies and code of conduct is available to all employees either in bound copies or on the intranet. All employees are required to renew their declaration of non-conflict of interest every year. Induction programmes are conducted for all new employees to ensure that they are immediately aware of the accepted code of ethical conduct and employee's obligations and responsibilities under the Safety and Health policies.

### Strategic Business Planning, Budgeting and Reporting

The Board plays an active role in strategic planning sessions held with Management to discuss and review the plans, strategies, performance and risks faced by the Group. Strategic concerns were deliberated. Strategies and action plans were then reviewed and mandates were given to Management by the Board to carry out the agreed strategies and action plans.

Based on strategies identified, the Annual Operating and Five-Year Business Plans together with KPIs were drawn up and approved by the Board on 16 December 2010. This is to ensure accountability and achievement of the Group's objectives and strategies. Strategies are also revised based on the changes in business and operating environments. Inputs from the Board Strategic Planning Sessions are used to develop the Annual Operating and Five-Year Plans.

Business plans, budgets and KPIs are aligned to the Group's Five-Year Strategic Plan, which guide the Group in achieving its vision of becoming among the preferred brand in healthcare. Monitoring of actual achievements of financial and non-financial indicators against the approved budget and explanations are provided for significant variances at monthly operations meetings and quarterly Board meetings. Effective utilisation of the budget is attained through regular monitoring by Management.

### Regular Monthly Reporting

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

### Tender Award System

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

### Insurance

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

### GROUP INTERNAL AUDIT

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

The Internal Auditors have the responsibility for ascertaining that the ongoing processes for controlling operations throughout the organisation are adequately designed and are functioning in an effective manner, taking into account the Group's objectives and policies in the context of evolving business and regulatory environment. Internal audits are conducted to identify and report risks in units under the Group's major core activities.

### AUDIT COMMITTEE

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

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

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

### MONITORING AND REVIEW OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

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

### CONCLUSIONS

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

### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed this Statement on Internal Control for inclusion in the Annual Report of the Company for the year ended 31 December 2010 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

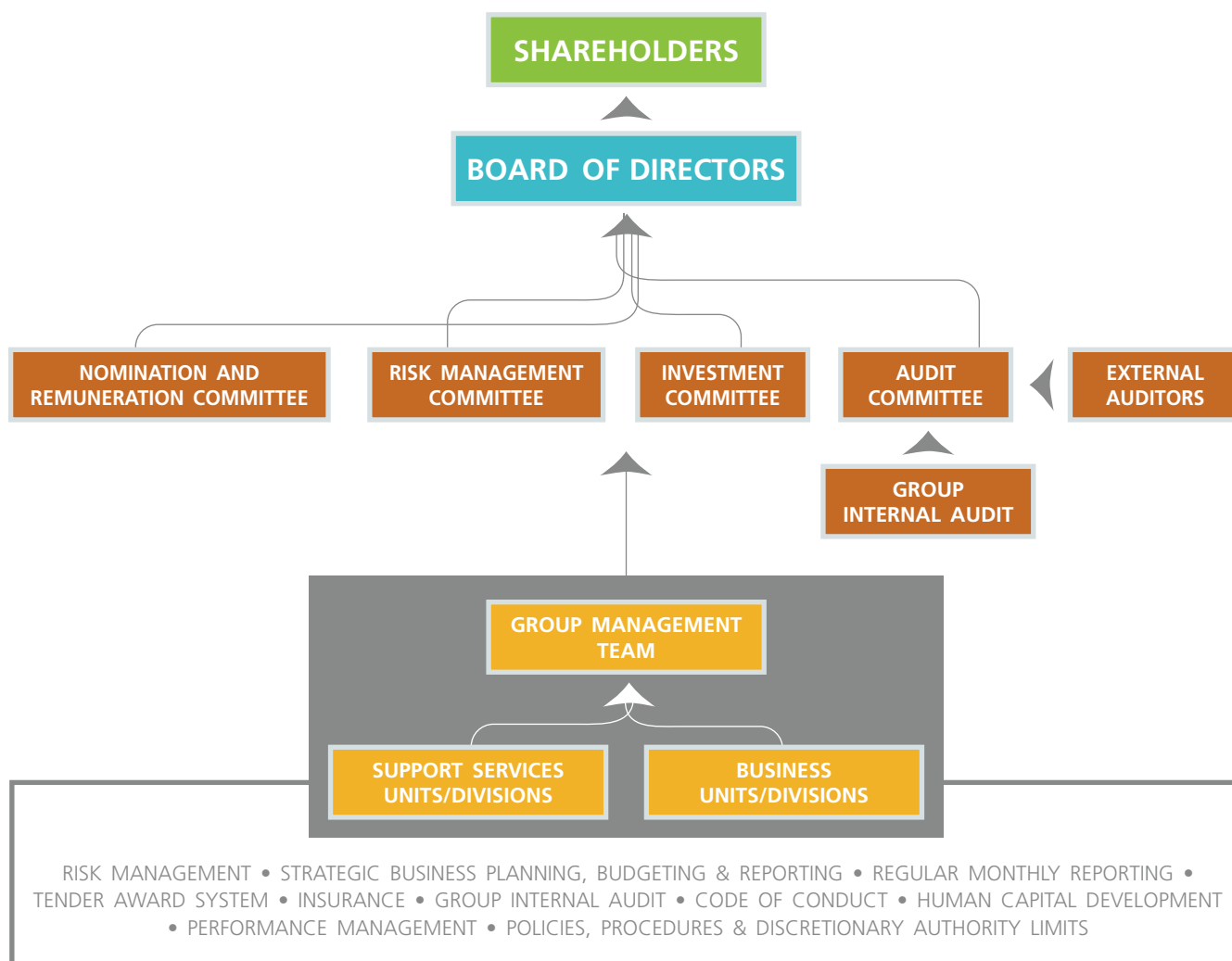
**This Statement on Internal Control is made in accordance with the resolution of the Board of Directors dated 12 April 2011.**

## STATEMENT ON INTERNAL CONTROL (cont'd)

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### INTERNAL CONTROL FRAMEWORK OF PHARMANIAGA BERHAD GROUP



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

MANAGEMENT TEAM

KEY INTERNAL CONTROL ELEMENTS

# REPORT ON CORPORATE RISK MANAGEMENT



## OVERALL RISK MANAGEMENT FRAMEWORK

THE PHARMANIAGA GROUP'S RISK MANAGEMENT INFRASTRUCTURE PROVIDES CLEAR ACCOUNTABILITY AND RESPONSIBILITY FOR THE RISK MANAGEMENT PROCESS WHICH SETS OUT THE PRINCIPAL RISK MANAGEMENT AND CONTROL RESPONSIBILITIES.

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

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

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

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

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

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

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

## MEETINGS

The RMC had two meetings during the financial year ended 31 December 2010. Representative from Group Internal Audit from UEMGM also attended the meeting upon invitation.

For Pharmaniaga Group, the practice of risk management is not designed to stop employees from taking risks but rather to create value by enhancing the chances of achieving corporate success and enabling managers and shareholders to understand the level of risks undertaken and to manage the risk profile accordingly. Risk management is firmly embedded in the Group's management system and is every employee's responsibilities.

## RISK MANAGEMENT FRAMEWORK ("RMF")

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

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

## REPORT ON CORPORATE RISK MANAGEMENT (cont'd)

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The Group RMF has the following key attributes:

- **Risk Governance and Strategy**

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

- Day-to-day risk management residing at the business units and divisions
- RMWGC taskforce headed by the Managing Director, Heads of Business Unit and Division is entrusted to drive the Risk Management of the Group. The RMWGC's responsibilities are to:
  - Conduct quarterly review of the business risks
  - Coordinate the development of risk mitigation action plans

- Update Business Continuity Plan for key business risks
- Monitor the results of KPIs
- Ensure good corporate governance

- The RMC retains the overall risk governance responsibility and risk oversight for the Group and its subsidiaries

- **Risk Management Portfolio**

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

### LIKELIHOOD

Common	Medium Low	Moderate	Significant	High	High
Likely	Low	Medium Low	Moderate	Significant	High
Possible	Low	Medium Low	Moderate	Significant	High
Unlikely	Low	Medium Low	Moderate	Significant	High
Remote	Low	Low	Medium Low	Moderate	Significant

Insignificant

Minor

Moderate

Major

Catastrophic

IMPACT

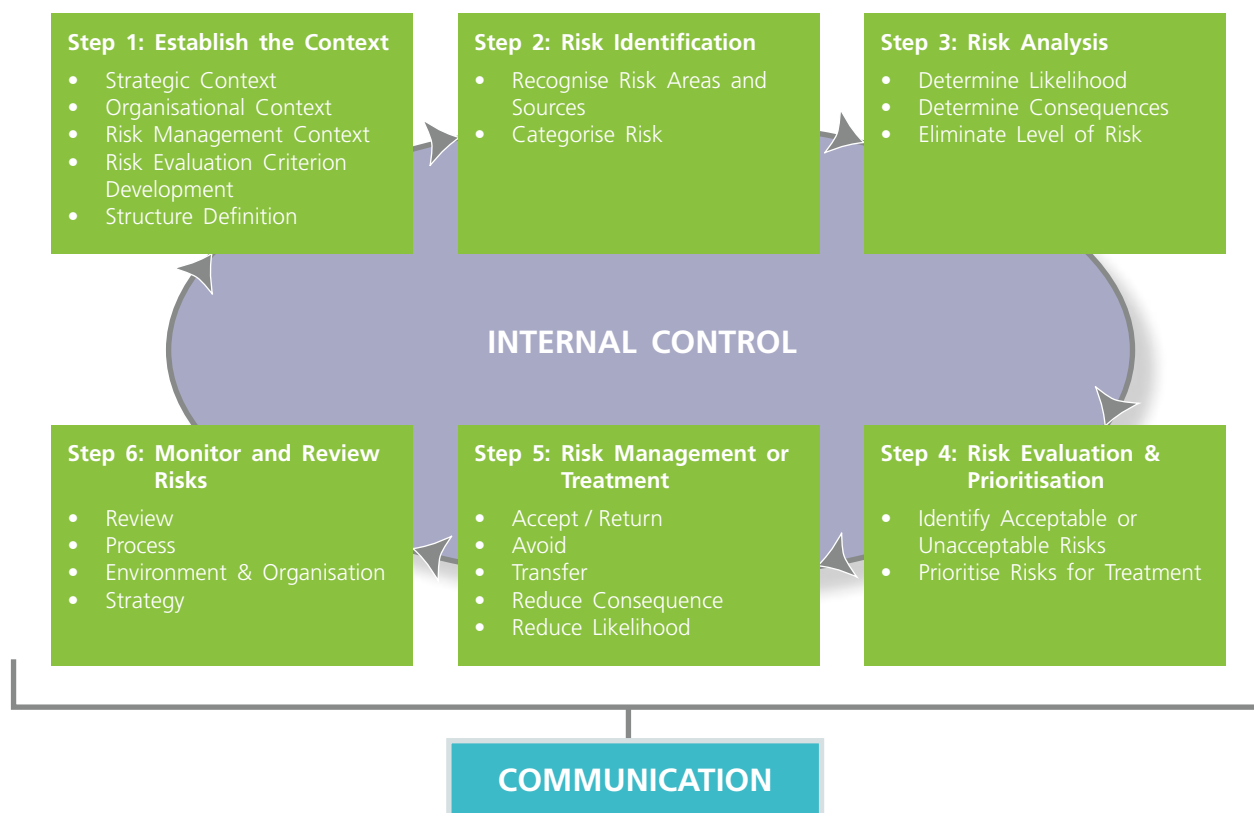
- **Risk Control Assurance**

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

### RISK MANAGEMENT PROCESS

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

### RISK MANAGEMENT FRAMEWORK PROCESS





## REPORT ON CORPORATE RISK MANAGEMENT (cont'd)

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

- **Likelihood of the risk crystallising**

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

- **Severity or impact of the consequence**

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

- **Degree of internal control and risk management measures in place**

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

The key elements of the process are:

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

### REVIEW OF THE GROUP'S RISK MANAGEMENT PROFILE

Risk review is conducted to review the effectiveness of individual components of the Group Risk Management and implement improvements where necessary. These are complemented by internal control practice such as the statement of compliance with the Malaysian Code on Corporate Governance (Revised 2007).

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

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



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

RISK RATING	
Significant	13
Moderate	35
Medium Low	17
Low	2
<b>TOTAL RISKS</b>	<b>67</b>

#### Group Risk Profile

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

- **Logistics Business Risks**

Pharmaniaga Logistics Sdn Bhd, one of the Group's subsidiaries, manages the concession of supplying drugs and medical disposables to government hospitals in Malaysia, the agreement of which ended in December 2009. MOH has agreed to extend the concession for a further 10 years and the agreement has been signed between the Government of Malaysia ("the Government"), represented by MOH and Pharmaniaga on 16 March 2011.

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

- **Manufacturing and Marketing Business Risks**

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

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

- **Other Risks**

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



## REPORT OF THE AUDIT COMMITTEE

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

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### MEMBERSHIPS AND MEETINGS

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

The members of the Audit Committee are:

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

During the financial year under review, the Audit Committee held four (4) meetings. The meetings were appropriately structured through the use of agenda, which were distributed to members with sufficient notification. The details of attendance of each member at the Audit Committee meetings held during the financial year are stated below:

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

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

## SUMMARY OF ACTIVITIES

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

### Financial Reporting

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

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

- provisions of the Companies Act, 1965;
- Main Market Listing Requirements of Bursa Securities;
- applicable approved accounting standards in Malaysia; and
- other relevant legal and regulatory requirements.

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

### Internal Audit

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

- Reviewed the adequacy and effectiveness of corrective actions taken by Management on all significant matters raised. Monitored the corrective actions on the outstanding issues to ensure that all the key risks and control lapses have been addressed.
- Reviewed the Group's 2010 objectives/plans/budgets.
- Reviewed the staffing requirements of GIA, skills and the core competencies of the internal auditors.
- Reviewed effectiveness of audit process, resource requirements for the year and assessed the performance of GIA.
- Reviewed internal audit reports which were tabled during the year, audit recommendations made and Management's response to those recommendations. Where appropriate, the Audit Committee had directed Management to rectify and improve control and workflow procedures based on the Internal Auditors' recommendations and suggestions for improvement.
- Reviewed GIA's audit methodology in assessing and rating risks of auditable areas and ensured that all high and critical risks were audited annually.

### External Audit

- Reviewed with the External Auditors:
  - their audit plan, audit strategy and scope of work for the year.
  - the results of the annual audit, their audit report and Management Letter together with Management's response to the findings of the External Auditors.
- Assessed the independence and objectivity of the External Auditors during the year and prior to the appointment of the External Auditors for adhoc non-audit services. The Committee also received reports from the External Auditors on their own policies regarding independence and the measures taken to control the quality of their work.
- Deliberated and reported the results of the annual audit to the Board.
- Recommended to the Board the appointment and remuneration of the External Auditors.
- Met with the External Auditors without the presence of Management to discuss any matters that they wished to present.



## REPORT OF THE AUDIT COMMITTEE (cont'd)

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### Related Party Transactions

- Reviewed the updates on the related party transactions entered into by Pharmaniaga Group and/or its group of companies.
- Reviewed the Circular to Shareholders relating to shareholders' mandate for recurrent related party transactions of a revenue or trading nature prior to recommending it for Board's approval.

### Annual Reporting

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

### Risk Management

- Noted and report to the Board on the risk management report by the Risk Management Committee.

### INTERNAL AUDIT FUNCTIONS

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

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

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

Further details of the activities of the Internal Audit Division are set out in the Statement on Internal Control.

### TERMS OF REFERENCE

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

#### Composition of the Audit Committee

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

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

The members of the Audit Committee shall elect a Chairman from among themselves who will be an Independent Director. All members of the Audit Committee, including the Chairman, will hold office only so long as they serve as Directors of Pharmaniaga Berhad. The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every three (3) years to determine whether the Audit Committee has carried out its duties in accordance with its Terms of Reference.

#### Secretary of the Audit Committee

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

#### Objectives of the Audit Committee

- To assist the Board to carry out their responsibilities and with the primary objective of assisting the Board of Pharmaniaga Berhad in fulfilling its fiduciary responsibilities relating to corporate accounting, system of internal controls and risk management processes, and management and financial reporting practices of the Group.
- To assure the shareholders of the Company that the Directors of Pharmaniaga have complied with specified financial standards and required disclosure policies developed and administered by Bursa Malaysia and other approved accounting standard bodies.

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

#### Duties & Responsibilities of the Audit Committee

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

- Recommend to the Board on the appointment and annual re-appointment of the External Auditors and their audit fee, after taking into consideration the independence and objectivity of the External Auditors and the cost effectiveness of their audit.
- Discuss with the External Auditors before the audit commences, the nature and scope of the audit, the audit plan and ensure co-ordination where more than one audit firm is involved.
- Review the quarterly interim results, half year and annual financial statements of the Company and the Group prior to approval by the Board whilst ensuring that they are prepared in a timely and accurate manner complying with all accounting and regulatory requirements and are promptly published.
- Discuss problems and reservations arising from the interim and final audits and any matter the auditor may wish to discuss in the absence of the Management where necessary.
- Review the External Auditor's Management Letter and Management's response.
- Review the Internal Audit and thereafter report the same to the Board the adequacy of the scope, strategic and annual internal audit work plans, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.
- Review any related party transactions and conflict of interest situation that may arise within the Company or the Group and its related companies and ensure that such transactions are undertaken at arm's length, normal commercial, on terms not favourable to the related party than those generally available to the public and are not to the detriment of the minority shareholders and in the best interest of the Company and its subsidiaries.

- Review and approve the Annual Internal Audit Plan and ensure adequate risk and governance coverage.
- Review the results of the internal audit process and where necessary, ensure that appropriate actions are taken on the recommendations made by the Internal Auditor.
- Review the terms of the shareholders' mandate for recurrent related party transactions of a revenue or trading nature.
- Engagements:
  - Meet External Auditors at least twice a year without senior management present.
  - Engage continuously with Managing Director, Chief Financial Officer and Head of Internal Audit.
- Consider other topics as defined by the Board.

#### Powers of the Audit Committee

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

- Have explicit authority to investigate any matter within its Terms of Reference.
- Have the resources required to perform its duties.
- Have full, free and unrestricted access to any information, records, properties and personnel of the Company and of any other companies within the Group.
- Have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any). Head of Internal Audit should report directly to Audit Committee.
- Have authority to obtain independent professional or other advice and to invite outsiders with relevant experience to attend the Committee's meetings (if required) and to brief the Committee.
- Have discretion to invite other Directors and employees of the Company to any particular Audit Committee meeting with specific relevance.
- Have authority to convene meetings with External Auditors, Internal Auditors or both, excluding the attendance of other directors, executive members of the Committee and employees of the Company, whenever deemed necessary.

# SHAPING ON STRATEGIC RELEVANCE

## **Realigning our Objectives**

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











## LOGISTICS (MALAYSIAN OPERATIONS)

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



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





## LOGISTICS (cont'd)

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

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

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

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



## THROUGHPUT RATES

### BUKIT RAJA

↑ **RM1,170**

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

### JURU

↑ **RM1,580**

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



#### OUTLOOK

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

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

#### KOTA KINABALU

↑ **RM619**

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

#### KUCHING

↑ **RM737**

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



## LOGISTICS (INDONESIAN SUBSIDIARY)

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

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

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

### OUTLOOK

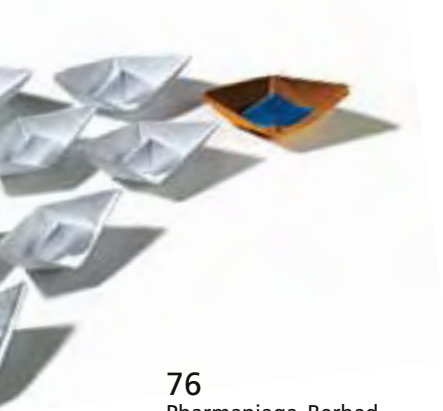
Moving forward, MPI is evaluating the viability of opening additional premises throughout Indonesia to strengthen the current network of 29 branches. This expansion plan will allow MPI to build a wider presence to further support the growth aspirations of its principals at a time when the rally in the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



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

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# MEDICAL PRODUCTS & SERVICES

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







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





## MEDICAL PRODUCTS & SERVICES (cont'd)

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

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

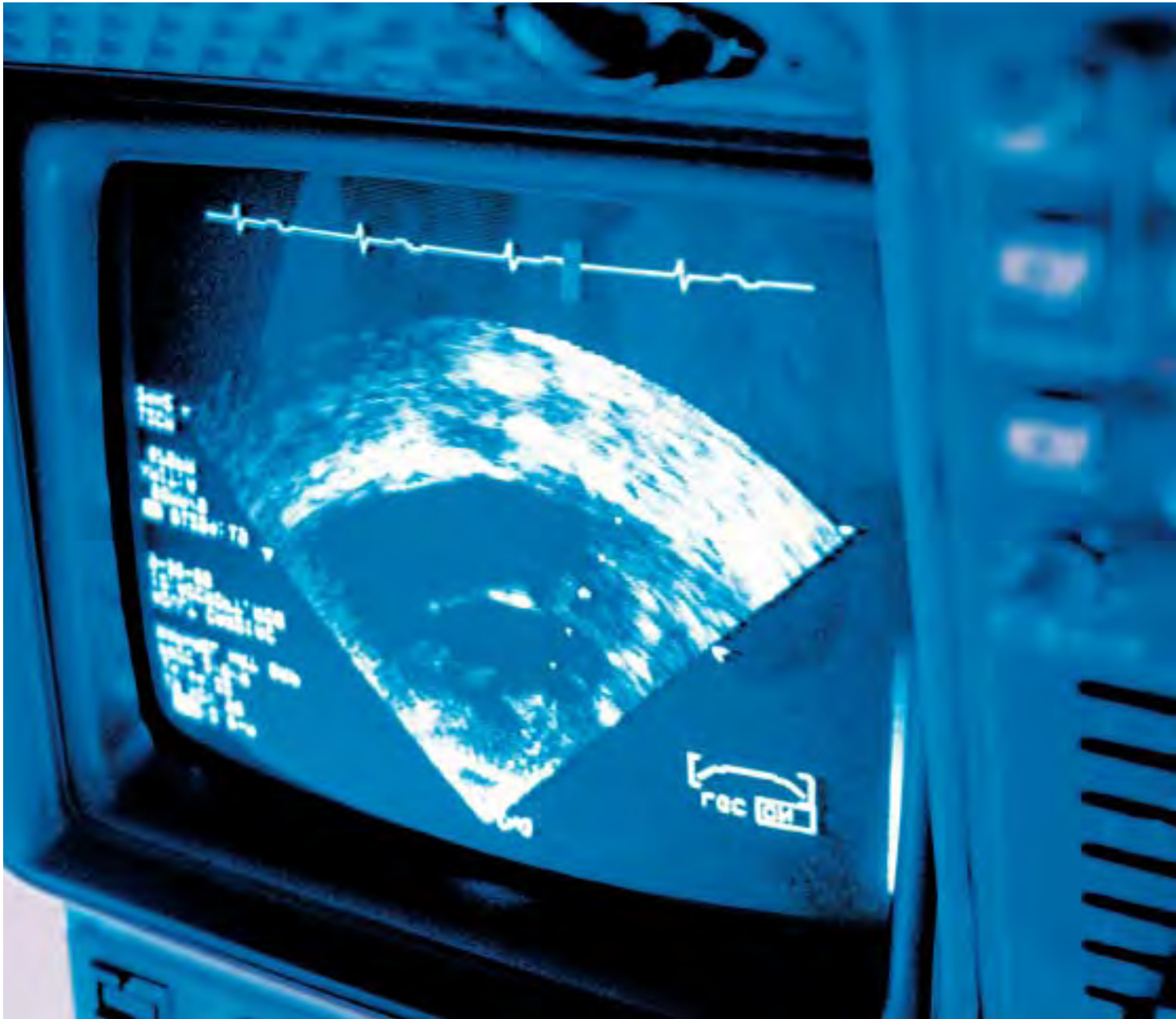
### OUTLOOK

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



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

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# MANUFACTURING

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







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



## MANUFACTURING (cont'd)

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

The lesson learned from this experience has resulted in a heightened awareness and renewed zeal to be vigilant in the pursuit of management and organisational excellence with the aim of achieving quality in every sense of the word. To drive these objectives forward, we embarked on a variety of

initiatives, including increasing awareness of Good Manufacturing Practice (GMP), through effective communications, enhancing the effectiveness of our training programmes, and conducting technical and personal development programmes.

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

## OUTLOOK

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

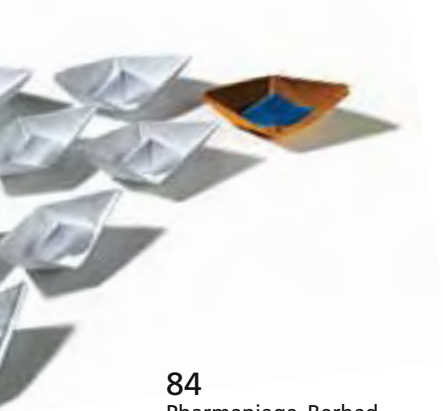




WITH THE RIGHT APPROACH IN COHESIVENESS,  
WE HAVE THE INGREDIENTS TO ACCELERATE  
THE MARCH OF MEDICAL ADVANCES.

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# LIFESCIENCE

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



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





## LIFESCIENCE (cont'd)

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

The team at Pharmaniaga LifeScience have worked hard over the last 20 months and are proud of achieving a facility that has some of the best technology and quality systems in the world to supply Malaysian hospitals with product of the highest quality. A high performance team has been trained to market

pharmaceutical products that the world will look up to for quality and customer service. Making medicine, particularly injectable products, carries with it a huge responsibility for quality and presents a great technical and managerial challenge. This is one of the most highly regulated industries in the world and we intend to establish a reputation ranked among the best for quality and service.

### OUTLOOK

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





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

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# COMMERCIAL

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

