



Statement on Corporate Governance

“Corporate Governance Lies in our Heart...” the Board

“The board must have responsibility for the company as a whole. This covers not only shareholders as the owners of the company but also those who work for the company and all who may be affected by the operations of the company”

(Source: The Walkinson Committee on Company Affairs, Interim Report, CBI 1973)

“A strong sense of corporate identity is as important as slavish adherence to financial results”

Source: Michael Porter
Professor, Harvard Business School
Author, Competitive Strategy & Competitive Advantage, 1985

OVERVIEW

Corporate Governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders.

Malaysian Code on Corporate Governance (Revised 2007)

The presence of an effective Corporate Governance framework provides the confidence necessary for the proper functioning of a market economy. Poor governance undermines corporate integrity and can expose the company to risk through fraud and ultimately weakens a company's potential.

The global financial meltdown which was precipitated by the sub-prime mortgage crisis in the US in 2007 underscores the requirement for sound corporate governance so that the interests of stakeholders are not undermined, or even worse, eroded. While it is fortunate that Bursa Malaysia Securities Berhad (Bursa Malaysia), Securities Commission and various other regulators in Malaysia have established standards and guidelines on corporate governance, what is of critical importance is that these standards and guidelines are fully complied with.

The Board members are delighted to state that Pharmaniaga, since its inception in 1998, has been

steadfast in its adherence to the concepts of sound corporate governance: openness, honesty and transparency, integrity, independence, accountability, responsibility, fairness, reputation and social responsibility.

Pharmaniaga's Corporate Governance structure has been built based on the Principles and Best Practices prescribed in the Malaysian Code on Corporate Governance (Revised 2007) (the Code) as well as in line with international best practices.

Pharmaniaga recognises the importance of Corporate Governance in enhancing stakeholders' value, increasing investors' confidence, establishing customers' trust and building a competitive organisation to support its **Vision**: *“The preferred pharmaceutical brand in regional markets”* and **Mission**: *“Provide quality products and superior services by professional, committed and caring employees”*. To achieve this, the Group is guided by its High Performance Culture (HPC) Shared Values, simply known as **TOPIC** (Teamwork • Open Communication • Passion for Excellence • Integrity & Honesty • Caring). The Board of Directors (Board) is fully supportive of this Vision and Mission, as well as the HPC Shared Values and have given full commitment to ensure the achievement of this via high standards of Corporate Governance throughout the Pharmaniaga Group. Moreover, the sustainability of the Group's future is contingent on a strong adherence to high standards of Corporate Governance.

The Board has consistently throughout the year, instituted appropriate framework and structure to develop sound Corporate Governance in the Group.

As a leading pharmaceutical company in the stable of Government-Linked Companies (GLC) in Malaysia, Pharmaniaga, apart from abiding to the principles and best practices as set out in the Code, also subscribes to the principles introduced by the Putrajaya Committee on GLC High Performance (PCG) which comprise the Guidelines to Enhance Board Effectiveness. These Guidelines, as codified in the Green Book and launched on 26 April 2006, reinforce the recommendations contained in the Code.

The PCG recommended changes and improvements to the governance of GLC based on the following objectives:

- Refocus the role and mandate of GLC Boards
- Strengthen GLC Board composition
- Intensify GLC Board performance management
- Upgrade Board structure and processes

Pharmaniaga also subscribes to the Bursa Malaysia Securities Berhad Listing Requirements (BMLR) as well as international best practices.

Pharmaniaga has also taken cognizance of and adhered to the Code which came into effect on 1 October 2007, aimed at strengthening the roles of the Board of Directors and Audit Committee and the effective discharge of their respective roles and responsibilities. The Code generally sets out principles and best practices on structure and processes that companies may use in their operations towards achieving the optimal governance framework. Key amendments under the Code include key amendments to strengthen the board of directors, to enhance the independence and quality of the audit committee and internal audit function with its overall purpose to align Malaysia's Corporate Governance framework with globally accepted best practices. The Government Linked Companies Transformation Program (GLCT) is also high on the agenda to enhance Corporate Governance. Pharmaniaga has embarked on several initiatives as set out in the Guidelines to Enhance Board Effectiveness which are published in the Green Book.

The Board is pleased to share the manner in which the principles of the Code were applied throughout the Pharmaniaga Group and the extent to which Pharmaniaga has complied with the Best Practices of the Code during the financial year ended 31 December 2008. The Board believes that the Principles and the Best Practices as outlined in the Code have, in all material respects, been adhered to and complied with.

COMPLIANCE STATEMENT

The Board will continue to strengthen governance practices to safeguard the best interests of shareholders and other stakeholders. The Company has fully complied with the Principles and Best Practices of the Code and its amendments, which took effect on 1 October 2007. This statement, together with the Statement on Internal Control, sets out the manner in which Pharmaniaga Group has applied the Principles and Best Practices of the Code.

The Board considers that it has complied throughout the financial year with Best Practices as set out in the Code, except for disclosure on Directors' remuneration that complies with Appendix 9C Part A (10)(a) and (b) Chapter 9 of the Listing Requirements.

Best Practices adopted by Pharmaniaga Group over and above the recommendations prescribed in the Code are those recommended by PCG and other global standards, which the Board has deemed to be suitable for the Group.

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

BUILDING WORLD-CLASS BOARD

Optimum Board Composition

In 2008, the Board consisted of 8 members, comprising a Non-Independent Non-Executive Chairman, an Executive Director designated as the Managing Director (MD), 3 Non-Independent Non-Executive Directors and 3 Independent Non-Executive Directors. The Board believes that its current size, which is in line with the GLC guidelines, is appropriate for its Vision and Mission.



Statement on Corporate Governance (cont'd)

To ensure good governance it is necessary to form the right mix of board members and to make sure it works effectively and efficiently. The size of the Board is appropriate for the complexity and scale of operations of the Group. The optimum proportion of Independent Non-Executive Directors provides for effective check and balance and able to carry sufficient weight in the functioning of the Board. There is a strong cadre of independent and non-executive directors in our unitary board structure. The present size and composition of the Board is optimum and well balanced. As presently constituted, the Board has the stability, continuity and commitment as well as capacity to discharge its responsibilities effectively.

The Board of Pharmaniaga Berhad, being the ultimate decision-making body, leads and controls the Group. There is diversity among the Board members, as the Board comprises members from various fields of knowledge ranging from business, industry, financial, technical, corporate, management and government relations. This well-balanced pool of expertise contributes towards making the Board effective, able and competent in discharging its duties and responsibilities.

In terms of Board structure, composition and processes, Pharmaniaga has an explicit design that is consistent with requirements mandated by the BMLR and as prescribed by the Principles and Best Practices of the Code.

The Board believes that it has the right blend of skills, knowledge and business experience around the Board table given the size and nature of the business of the Pharmaniaga Group.

The size of the Board is in line with the recommendation of the GLC Green Book, which states that the Board is preferably no larger than 10 directors.

Influence is balanced within the Board by virtue of 7 Non-Executive Directors whose skills and business experience are invaluable in constructively challenging and developing the Group's strategy and direction. No one individual or group has unrestricted powers of decision. The Board is satisfied that all of the Independent Non-Executive Directors were independent throughout the year, being free from any relationship with

the executive management which could result in any conflict or affect their independent judgment, and that they remained independent in character and judgment. All Directors take decisions objectively and in the best interest of the Company. The balance of skills and experience of the Board is continually reviewed through the annual Board Effectiveness Assessment.

The Board continued to be well balanced, in which the substantial shareholders are adequately represented, whilst the interest of the minority shareholders are represented by the Independent Directors. Although all the directors have an equal responsibility for the Group's operations, the role of these Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined, and take account of the long term interests, not only of the shareholders, but also of employees, customers, suppliers, and the many communities in which the Group conducts its business.

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.

The Independent Directors provide considerable depth of knowledge collectively gained from experience in a variety of public and private companies. The Independent Directors do not engage in the day-to-day management of the Pharmaniaga Group and do not participate in any business dealings and are not involved in any other relationship with the Group, which could materially interfere with the exercise of their independent judgement as defined under Rule 1.01 BMLR : Definitions & Interpretations. This is to facilitate the Independent Non-Executive Directors in discharging their duties and responsibilities effectively and also to avoid conflict of interest situations. They provide unbiased and independent views, advice and judgement in ensuring that the strategies proposed by the management are fully deliberated and examined, in the interest of shareholders,

employees, customers and the many communities in which the Group conducts its business. The presence of Independent Directors fulfills a pivotal role in corporate accountability.

In addition, the Board has set up a Board Advisory Panel which consists of local and international industry experts in order to enhance the Board in providing an independent view and advice with regards to the pharmaceutical and biotechnology industries.

Code of Ethics & Business Conduct

It is essential for corporations to promote, develop and cultivate an ethical system of doing business that has high moral and ethical standing among all levels of the organisation structure, namely its executives, the workforce and the Board of Directors. The essential key words in developing a morally sound and ethical system fall into the following categories:

- Ethics
- Codes of Best Practices
- Building an integrity system
- Implementation of governance system with appropriate ethical, procedures
- Continuous review and updating

The Directors in the Group continue to adhere to a code of ethics based on the code of conduct expected of Directors of a public listed company as set out in the Companies Act 1965 and the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia.

The Board's Role

The unique blend of various backgrounds of the Board brings depth and diversity in expertise and perspectives to the leadership of a highly regulated pharmaceutical business. Directors' biographies appearing on pages 32 to 35 inclusive, of this annual report, represent an impressive range of experiences, which are vital to providing strategic direction and guidance in the management of a public listed Government-Linked pharmaceutical company.

The Board has assumed the following 6 core responsibilities in discharging its stewardship:

- Review and adopt a strategic plan
- Oversee and evaluate the conduct of the Group's business so that the business is being properly managed
- Identify and manage principal risks by implementing appropriate systems
- Succession planning : appointing, training, fixing the compensations of and where appropriate, replacing senior management
- Develop and implement an investor relations program
- Review adequacy and integrity of the Company's internal control system, management information systems (MIS), including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Apart from the above specific responsibilities, the Board also takes full, independent responsibility and accountability for the smooth functioning of core processes, involving board governance, business value and ethical oversight. To facilitate effective discharge of these responsibilities, dedicated Board Committees have been established with clear terms of references, comprising Directors who have committed time and effort as members. The Board Committees are chaired by Non-Executive Directors who exercise their leadership with the benefit of in-depth knowledge of the industry.

The Board meets regularly. In addition to 5 scheduled meetings during the year to decide on core issues, 1 special meeting was also held where immediate decisions were warranted. This includes consideration of proposals in relation to acquisition, joint venture and quarterly financial results.

The Directors are at liberty to obtain independent professional advice when deemed necessary for the proper discharge of their duties; such professional fees will be borne by Pharmaniaga.



Statement on Corporate Governance (cont'd)

The Board recognises that there is value in each Board member's knowledge and experience in providing effective oversight for the Company. The Board's role includes providing effective leadership and setting of the Group's strategic business directions. It assesses business opportunities and seeks to ensure that appropriate controls are in place to assess and manage risks. It is responsible for reviewing management's performance and oversees senior management appointments and succession planning within the Company. The Board is responsible for setting the Company's values and standards, ensuring Pharmaniaga's obligations to shareholders are fulfilled.

Within the powers accorded to the Company's Articles of Association and Discretionary Authority Limits (DAL), the Board is charged with among others, the development of corporate objectives, review and approval of corporate plans, annual budgets, acquisitions and disposals of undertakings and properties of substantial value, major investments and financial decisions, changes to the management and control structure within the Group including key risk management, treasury, financial and operational policies and delegated authority limits. The Board has a formal schedule of matters which are reserved for its decision, including approval of the strategic direction of the Group and policy issues, approval of quarterly results and annual financial statements, major acquisitions and disposals, major capital expenditure, related party transactions, dividend policy, changes to membership of the Board and its committees and overall governance issues. Matters outside the scope of the formal schedule are decided by the Board Committees and the management in accordance with delegated authorities approved by the Board.

The Board members are mindful to apply high ethical standards, acting in good faith, with due diligence and taking into account the interests of all stakeholders, in their decision making. The Directors, in discharging their duties and responsibilities, are constantly mindful of the public interests and concerns of the business community, particularly those of customers, shareholders and all other stakeholders.

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

Chairman, Managing Director & Senior Independent Director

There is a clear division of responsibilities between the Chairman and the Managing Director. The Chairman is primarily responsible for organising the business of the Board, setting the agenda and ensuring the effective running of the Board. He facilitates the contribution of the Non-Executive Directors and the constructive relations between the Executive and Non-Executive Directors. The Managing Director is primarily responsible for managing and supervising the day-to-day businesses of the Group and the development and implementation of strategy.

The terms of reference of the Non-Independent Non-Executive Chairman are distinct and separate from the duties and responsibilities of the Managing Director. This ensures a balance of power and authority in an effective Board which, in case of Pharmaniaga, is both supportive of and challenging for the Management. The Managing Director is also obliged to report and discuss at Board meetings all material matters currently or potentially affecting the Group and its performance, including all strategic projects and regulatory developments.

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

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.

The broad performance indicators, on which Board Effectiveness is evaluated, include board composition, board administration, board accountability and responsibility and board conduct. The performance indicators for individual directors include their interactive contributions, understanding of their roles and quality of input.

The Board believes it is appropriate to undertake a regular performance evaluation. This exercise covered the performance and effectiveness of the Board, its Committees and individual Directors, using an internal formal process of evaluation, the approach of which is appropriately tailored. Every Board member is provided with the results of the self-evaluation marked against peer evaluation to allow for comparison. The Board has determined that this process is appropriate to enable first hand and full and honest input from individual Directors to be obtained each year.

Pharmaniaga's BEA played an important role in drawing the Board's attention to key areas which needed attention.

Succession Planning

Ensuring that the Group has the right people running it is one of the Board's core governance duties. A review of management resources is carried out annually in conjunction with the annual remuneration review. The Group has in place a career development plan including succession plan at all levels of management. The annual management review process is the key to performance improvement as well as the succession plan.

Pharmaniaga strongly acknowledge the need to make contingencies for appointing a new Managing Director sooner than expected (for example, because of an underperformance by the company, loss of investors' confidence, or illness). Succession planning is an area that requires sensitive handling, both with the incumbent Managing Director and the potential successors. If there is an overt battle for succession or senior staff believes that they are no longer contenders, major difficulties may arise.

The Group's succession planning involves key individuals being given opportunities to gain a breadth of experience within the business, as part of an executive development program, and the chance for them to be visible to the Board if they are not a member to it.

Appointments to the Board

Appointments to the Board are the responsibility of the full Board on the recommendation of the Nomination & Remuneration Committee. Any new nomination received is forwarded to the Board for assessment and endorsement. There is a formal and transparent procedure for the appointment of new Directors, which is made against objective criteria. There has been no new appointment to the Board during 2008.

Governance on Board Meetings & Supply of Information

A Snapshot on Conducting Board Meetings

In conducting board meetings Pharmaniaga upholds the following pillars as listed below :

- Board agenda focusing on the right issues, with long term strategies and shorter term goals
- Papers are distributed so that Directors have sufficient time for perusal
- Regular meetings of 5-6 times a year, with specific annual retreats to discuss strategic issues
- High attendance at meetings is expected and achieved
- All directors would come to meeting well prepared
- Size of board facilitates effective decision making
- Full discussion at board meetings before major decisions taken
- All board members feel able to and do contribute at meetings
- Effective chairmanship focusing discussion around principal issues in each agenda paper



Statement on Corporate Governance (cont'd)

Board meetings are conducted regularly, at least 5 times a year. Between meetings, the Directors can be in frequent contact to advance the Group's business and if necessary, additional board meetings can be called whenever warranted by situations such as to deliberate urgent proposals or matters that require the expeditious direction of the Board.

At the quarterly Board meetings, the Board reviews management reports on the business performance of the Group and major subsidiaries, and reviews, inter-alia, the results compared to the preceding quarter, year-to-date and previous year's corresponding period, and also whenever relevant, the comparison against the pro-rated business targets and against the industry. As part of the integrated risk management initiatives, the Board also peruses the decisions and salient issues deliberated by Board Committees. Members of the Board deliberate, and in the process, evaluate the viability of business propositions and corporate proposals and the key risks that have significant impact on Pharmaniaga's business or on its financial position, and the measures to mitigate such risks.

The Chairman of the Audit Committee would inform the Directors at Board meetings, of any salient matters noted by the Audit Committee and which require the Board's notice or direction.

The Board meetings are chaired by the Non-Independent Non-Executive Chairman, Dato' Mohamed Azman bin Yahya.

Board meetings are conducted in accordance to a structured agenda. In line with the GLC Green Book, the agenda for each meeting and papers relating to the agenda items are disseminated to all Directors at least 5 days before the Board meeting. This is to accord sufficient time for the Directors to review the Board papers and seek clarifications that they may require from the Management or the Company Secretaries.

The Board papers are comprehensive, with specific format and encompass all aspects of the matters being considered, enabling the Board to look at both quantitative and qualitative factors so that informed decisions are made. In cases where the contents are lengthy, an Executive Summary is being provided. Progress on key initiatives are presented at every meeting and properly minuted.

The presentation of Board papers is led by the Managing Director who provides comprehensive explanation of significant issues and briefs the Board on the activities of the Group while the Senior General Manager, Group Corporate Services presents updates on the Group's financial performance. These presentations help increase the Non-Executive Directors' understanding of the business.

All proposals and recommendations made by the Management are tabled and deliberated comprehensively by the Board before any decision is made.

The Board recognises that the Chairman is entitled to the strong and positive support of the Company Secretaries in ensuring the effective functioning of the Board. All Directors have access to the Group's information through the management team and the services of the Company Secretaries, who serve, guide and advise the Board regularly on any updates to the statutory and regulatory requirements and any other matters related to the affairs of the Group. The Directors may request to be provided with further insights, clarifications and information on matters tabled at Board meetings. The Board members are encouraged to undertake site visits. The Chief Operating Officer and Senior Management Officers are invited to attend the Board meetings to update the Board on their respective areas of responsibilities and business, and also to brief and provide details to the directors on proposals submitted for the Board's consideration. The Directors are notified of any corporate announcements released to Bursa Malaysia Securities Berhad and any investment in Pharmaniaga's listed subsidiary. The Company Secretaries also serve notice to Directors on the closed period for trading in Pharmaniaga shares, in accordance with the black-out periods stated in Chapter 14 BMLR : Dealings in Securities. The Board and its Committees have full and unrestricted access to all information necessary in the furtherance of their duties, which is not only quantitative but also other information deemed suitable such as customer satisfaction, product and service quality, market share and market reaction.

The commitment and dedication of the Board of Directors are reflected from the attendance record which well surpassed the 50% attendance requirements of the BMLR as tabulated below:

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

Board meetings attendance analysed into the type of Directors:

Date of Board Meeting	% Attendance	
	Independent Directors	Non-Independent Directors
27 February 2008	100%	100%
4 April 2008	100%	80%
28 May 2008	100%	100%
14 August 2008	100%	80%
20 October 2008 (Special)	100%	80%
24 November 2008	100%	100%



Statement on Corporate Governance (cont'd)

Board meetings for the ensuing financial year are scheduled in advance before the end of each financial year so as to enable Directors to plan ahead and fit the year's Board meetings into their respective schedules.

In order to maintain confidentiality, issues or corporate proposals which are material information and price-sensitive, would be handed out to Directors at the Board meeting itself, with written papers being tabled at the meeting.

The Directors will make a declaration to that effect at the Board meeting in the event that they have interest, direct and indirect, in the business proposals considered by the Board. The interested Director shall abstain from deliberations and decisions of the Board on the transaction. This process is duly recorded in the minutes of the proceedings. In the event a proposal is required to be approved by shareholders, the interested Directors will abstain from voting in respect of their shareholdings in Pharmaniaga on the resolutions relating to the corporate proposal, and will further undertake to ensure that persons connected to them similarly abstain from voting on the resolutions.

Minutes of each Board meeting are circulated to all Directors within a month after the meeting, for their review and comments prior to confirmation of the minutes before the commencement of the next Board meeting. The Directors may request for clarification or raise comments on the minutes prior to its confirmation as a correct record of proceedings of the Board.

Directors' Training

Consistent with the recommendations of the Code, the Board views directors' trainings as an integral element of the process of appointing new directors. The Nomination & Remuneration Committee would coordinate with the MD's Office and Organisational Developmental Division to ensure that there is an orientation and education program for new Board members in order to provide the Director with first-hand knowledge of the Group's operations.

All Directors have attended the Mandatory Accreditation Program as required by BMLR. The training must be one that aids the Director in the discharge of his duties as a Director of a listed GLC. Specific trainings are also provided to the Directors, relevant to the issues affecting the Group.

The Directors have participated in conferences, seminars and training programs to keep abreast with inter-alia pharmaceutical issues, updates and future challenges, current and future developments in the region and global pharmaceutical markets. These provide platforms to disseminate emergent strategic directions and ideas as well as intellectual directions which enhance the knowledge and relevance of the Directors.

The Directors possess the commitment to quality and to create value by being relevant at all times, consistent with evolving changes and challenges in the pharmaceutical environment, domestically, regionally and also globally.

The Board of Directors of each listed issuer has a duty to evaluate and determine the training needs of its Directors on a continuous basis.

UEM Group, the immediate holding company of Pharmaniaga had also organised in-house training programs locally and regionally, facilitated by industry experts, for Directors of listed companies in the UEM Group and senior management.

Based on the feedback on the Board/Board Committees Half Year Assessment Survey 2008 (1/2008 BEA) and the status of the progress of Actionable Improvement Program, it was reported that the trainings requested by the Board are as follows :

- international trend in healthcare
- international merger & acquisition (case study style)
- exposure in overseas business, risk and legal environment especially in China, Indonesia and new emergent economies.

Following thereto, a list of the relevant trainings as requested above have been recognised and circulated during the Company's 1/2009 Nomination & Remuneration Committee Meeting in February 2009 for the Directors' onward action. This task comes under the joint responsibilities of MD's Office, Company Secretaries and Organisational Development Division. In this case, specific trainings are also provided to the Directors, relevant to the issues affecting the Pharmaniaga Group.

The training needs of the Board are annually reviewed. The trainings are developed and tailored to the Directors' needs through in-house and external programs. During the year, the Directors have attended trainings and courses as listed below:

Corporate Governance	<ul style="list-style-type: none"> • Director's Gathering for UEM Group of Companies : Post Election Scenario, Director's Duties and Liabilities Beyond Compliance, Director's Performance Evaluation - Building a High Performance Board <i>(in-house, held at UEM Academy)</i> • UEM Group Chairman's Forum
Leadership	<ul style="list-style-type: none"> • Malaysian Director's Academy (MINDA) Luncheon Talk 2008 : Chairman's Forum • High Performance Culture (HPC) Workshop for Senior Management • HPC Workshop for Senior Management - Follow Up • HPC Review Session • Khazanah Megatrends Forum 2008
Investment	<ul style="list-style-type: none"> • Gulf Venture Capital 2008 (Riyadh, Saudi Arabia) • Islamic Venture Capital (VC) & Private Equity, Kuala Lumpur, organised by Islamic Banking & Finance Institute Malaysia
Pharmaceuticals & Biotechnology	<ul style="list-style-type: none"> • Leadership & Strategy in Pharmaceuticals and Biotech, Harvard Business School • IFA Crossroads Asia-Pacific 2008, Melbourne, Australia
Taxation	<ul style="list-style-type: none"> • Malaysia Packaging Berhad Single Tier Tax System, Horwath CPE Sdn Bhd
Market Strategy	<ul style="list-style-type: none"> • Indonesia : Market Outlook & Entry Strategies

Re-appointment & 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 Annual General Meeting 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. The Managing Director also ranks for re-election by rotation. Particulars of Directors submitted to shareholders for re-election are enumerated in the Statement accompanying the Notice of AGM.

Number of Directorships

As verified by the method of computation of number of directorships prescribed in BMLR, each of the Directors of the Company holds not more than 25 directorships in companies ñ a maximum of 10 directorships in public listed companies and 15 in non-listed companies. This ensures the Directors' commitment, resources and focus for an effective input to the Board. The directorships of each Director are set out in the Profile of Directors.

Directors' Remuneration

The framework for the remuneration of Executive and Non-Executive Directors is reviewed regularly against market practices. The remuneration of Non-Executive Directors is based on a standard fixed fee. Additional allowances are also paid in accordance with the number of meetings attended during the year.



Statement on Corporate Governance (cont'd)

The Managing Director is paid a basic salary, annual performance related bonus, contribution to the national pension fund and other customary benefits as appropriate to Senior Management members, benefits-in-kind such as private medical care, car allowance and fuel, Group's club membership and share options. The package is designed to support the Group's strategy and to provide an appropriate incentive to maximise individual and corporate performance, whilst ensuring that overall rewards are market competitive. Pharmaniaga carries out salary benchmarking of equivalent jobs in the market of similar-sized companies to arrive at appropriate base pay levels.

The Managing Director's remuneration is benchmarked against the remuneration of CEOs of other GLCs, taking into account the job size as determined by Hay Management Consultant (M) Sdn Bhd. Subsequently, other salary benchmarks were also considered with adjustments provided for the industry and its regional exposure. For the senior management directly reporting to the Managing Director, the same salary benchmarks are also done but against both internally equivalent jobs and also external jobs in similar-sized companies.

Pharmaniaga has also implemented guidelines set out in the Blue Book applicable to GLCs : "Intensifying Performance Management Practices and Performance-linked Compensation" introduced by PCG. According to these guidelines, a significant portion of Pharmaniaga's compensation package for executives has been made variable in nature, to be determined based on performance. This is determined by how well the individual has performed in the year based on the approved individual Key Performance Indicators (KPIs), which are aligned to the Group Scorecard. The actual size of the Company's performance bonus pool is dependent on how well the Group has performed on its Scorecard and will be determined and endorsed by the Board.

The Managing Director and his direct reports would be rewarded according to a combination of how well they have delivered their KPIs and their ratings on their 360 degrees feedback, which is then moderated within a peer group in order to arrive at a relative ranking according to a normal distribution curve.

The remuneration of the Non-Executive Directors takes the form of fees which is agreed by the executive members of the Board and approved by the shareholders. The fees are

designed to attract experienced individuals and reflect the responsibilities of the role. The fees stated are in respect of all responsibilities undertaken by the Non-Executive Directors, including membership of Board Committees. The Directors are also covered under the Directors' and Officers' Liability Insurance Policy. Further details of the Directors' remuneration are given on page 55.

The Nomination & 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.

Further details of Directors' remuneration are set out below and in Note 6 (page 160) to the financial statements.

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 & 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 & Remuneration Committee and approved by the Board.

d Benefits-in-kind and other Perquisites

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

e Retirement Plan

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

f Service Contract

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

g Director's Share Options

The Managing Director's share options during the year ended 31 December 2008 is set out below.

Disclosure on Directors' Remuneration & Share Options

The details of the remuneration received by each category of Directors for the financial year ended 31 December 2008 are as follows:

Directors	Basic Salaries, Bonus & EPF (RM)	Fees (RM)	Allowance & other emoluments (RM)	Sub-Total (RM)	Perquisites (RM)	EES (RM)	Benefits-in-kind (RM)	Total (RM)
Executive Director	961,212	–	34,800	996,012	56,605	1,572,880	7,800	2,633,297
Non-Executive Directors	–	356,700	62,300	419,000	5,194	–	7,200	431,394
Total	961,212	356,700	97,100	1,415,012	61,799	1,572,880	15,000	3,064,691

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

Remuneration Band	No. of Directors	
	Executive	Non-Executive
RM50,000 and below	–	2
RM50,001 - RM100,000	–	4
RM100,001- RM150,000	–	1
RM950,001 - RM1,000,000	1	–

Note: None of the Directors' remuneration falls within the RM150,001 - RM950,000 band.



Statement on Corporate Governance (cont'd)

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

Name	Type	No. of Unexercised EES	
		31 December 2008	31 December 2007
Mohamad bin Abdullah	Managing Director	–	667,900
Dato' Ahmad Pardas bin Senin	Non-Executive Director	–	5,240,000

* EES - Employee Equity Scheme of UEM World Berhad, the former immediate holding company of Pharmaniaga Berhad. The Scheme has expired on 22 October 2008.

Further details on the above EES are set out on pages 141 to 142.

Board Committees

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

The Board Committees in Pharmaniaga Group are as follows:

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

Full report on the above Committees are set out on pages 57 to 69.

WHISTLEBLOWER POLICY

There is a strong correlation between Corporate Governance and whistleblowing. In recognition of the risks taken by honest whistleblowers, the Securities Commission in Malaysia has developed new securities law to protect professional people in the accountancy profession engaged as financial controllers, internal auditors and external auditors to whistleblow and including any official in management, such as the company secretary to be accorded legal protection.

The amendment to the Companies Act 1965 in August 2007 provides for an officer of a company to report to the Companies Commission of Malaysia on corporate wrong doings, fraud or defaults against the provision of company law in good faith. The officer shall be protected by law from being punished, demoted or be disciplined by the employer.

This practice gained prominence since the passing of the Sarbanes Oxley Act 2002 in the United States and previously, the Public Interest Disclosure Act 1999 in United Kingdom.

Since the introduction of Pharmaniaga's Code of Conduct, the employees have become much more aware of what is acceptable business conduct and become better acquainted with the channels through which reports of violation of the Code of Ethics can be made. Adequate protection is provided for whistleblowers against reprisals.

BOARD ADVISORY PANEL

CHAIRMAN

YBhg. Tan Sri Musa bin Mohamad

Tan Sri Musa, a Malaysian, is a pharmacist and both a former Minister of Education as well as Vice Chancellor of Universiti Sains Malaysia (USM).

MEMBERS

Dr. Piero L. Olliaro
International Advisor

Dr. Piero, an Italian, Manager of Task Force for Research on Drug Resistance and Policies (RAP); and is a member of the editorial and advisory boards of the Cochrane Infectious Diseases Collaboration, Trends in Parasitology, Médecine Tropicale and BioMed Central.

MEMBERS

Prof. Dr. V. Navaratnam
Senior Advisor

Prof. Dr. V. Navaratnam, a Malaysian, is a Professor of Clinical Pharmacology & Addiction Studies (USM) and Head of National Centre for Drug Research.

MEMBERS

Dr. Yves Champey
International Advisor

Dr. Yves Champey, a French, is an Advisor to the French Government on Biotech & Healthcare. He is the Founding President - Drugs for Neglected Diseases Initiative (DNDi) and former Senior Vice President of Rohne Poulenc.

The Committee was established on 21 November 2007.

Objective

- In relation to healthcare industry, to assist and advise the Management Committee and Board of Directors in fulfilling its obligations by receiving reports and making recommendations to, in respect of the industry which is pharmaceutical and biotechnology and matters related thereto.
- Plays a key role in the Business Expansion & Growth strategies of the Pharmaniaga Group by reviewing the viability of proposals or projects or investments at the initial stages and providing appropriate direction to the Investment Committee and Board.

Composition

The Panel shall comprise of a Chairman, a Senior Advisor and 2 International Advisors.

The Chairman of the Panel shall be nominated by Pharmaniaga at its discretion.

All Panel members including the Chairman will hold office as determined by Pharmaniaga.

Panel members may relinquish their membership with prior written notice to the Chairman.

In the event of any vacancy in the Panel it must be filled at Pharmaniaga's discretion.

The Panel consists of local and international experts in pharmaceutical and biotechnology fields.



Statement on Corporate Governance (cont'd)

Secretary

The Legal & Secretarial will also act as the Secretariat to the Panel.

Duties and Responsibilities

The duties and responsibilities of the Panel, among other things, shall include:

- To review and recommend to the Management Committee and Board the direction and priorities of the pharmaceutical and biotechnology industry.
- To make recommendations on the mechanisms, capabilities and procedures that will enhance company's competitiveness in the industry.
- To make assessment Management's assumptions, priorities, directions of actions and give guidance for improvement.
- To advise on knowledge and information about current development, regulatory requirements, opportunities available according to relevant expertise.
- To receive reports, deliberate and decide on the compliance with the overall pharmaceutical and biotechnology policies and strategies. Subsequently to report the findings and recommendation to the Management Committee and Board.
- At the product/pharmaceutical evaluation stage, upon recommendation by the Management Committee.
- Following the Detailed Appraisal/Evaluation, to review and recommend to the Investment Committee and Board for final decision of the product/pharmaceutical proposals.
- To review other investment and R&D manufacturing matters as the Investment Committee and the Board deem appropriate and in the best interest of the Company.

Meetings

- The full panel (inclusive of international and local panel) shall meet at minimum once a year.
- Local Panel shall meet on quarterly or as and when required by the Secretary and authorisation by the Chairman.
- The Chairman has the right to invite other personnel or parties to the meeting of the Committee.
- Reasonable notice of meeting and the business to be conducted at the meeting shall be given to members together with the relevant documents.
- The quorum for any Committee meeting is two (2) members with the Chairman having the sole executive decision.
- The Secretary is responsible for circulating the meeting agenda and supporting documents to all members of the Committee and any other person as advised by the Chairman. The Secretary shall also prepare minutes for each meeting.
- Committee members must declare their interests in any matters that are tabled before it and abstain from deliberation of the said matter.

Report to the Board

The Committee shall report its recommendations to the Investment Committee and/or Board and where appropriate verbal presentation will be conducted.

Summary of Activities for 2008

- Reviewed the Product Pipeline Strategy
- Reviewed manufacturing strategy of Pharmaniaga
- Reviewed the Herbal Blueprint and research and development (R&D) of Pharmaniaga
- Reviewed the R&D Roadmap of Pharmaniaga
- Reviewed the strategic direction of Pharmaniaga

THE AUDIT COMMITTEE

CHAIRMAN

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

Independent Non-Executive Director

MEMBERS

Datuk Sulaiman bin Daud

Senior Independent Non-Executive Director

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

Independent Non-Executive Director

COMPOSITION

- a** The Audit Committee was established and appointed by the Board of Directors and shall consist of not less than 3 members, all of whom shall be non-executive directors, a majority of whom must be independent directors.

All 3 members of the Audit Committee of the Board are Independent Non-Executive Directors of the Board.

b Chairman

Chairman of the Committee, who shall be approved by the Board of Directors, shall be an independent non-executive director and also a member of the Malaysian Institute of Accountants (MIA).

YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin's professional accounting qualification meets the requirement of Rule 15.10 of the Bursa Malaysia Listing Requirements. He is a member of Chartered Institute of Management Accountants (CIMA), Malaysian Institute of Accountants (MIA) and Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).

- c** At least one member of the Committee:
- i** must be a member of the MIA; or
 - ii** if he is not a member of MIA, he must have at least 3 years working experience and:
 - have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or

Such member shall also fulfil any other additional requirements, which Bursa Malaysia may from time to time prescribe.

- d** No alternate director shall be appointed as a member of the Audit Committee.
- e** All members of the Audit Committee, including the Chairman, will hold office only so long as they serve as Directors of Pharmaniaga Berhad.



Statement on Corporate Governance (cont'd)

MEETINGS

a Frequency and Attendance of Meetings

As stated in the Committee's Terms of Reference, meetings shall be held not less than 4 times during the financial year and that the Committee shall convene meetings as and when required at the discretion of Chairman.

The details of attendance of each member at the 4 Audit Committee meetings held during the year of 2008 are tabulated as follows:

	1/2008 25.02.2008	2/2008 23.05.2008	3/2008 11.08.2008	4/2008 14.11.2008
YM Dato' Raja Nong Chik bin Dato' Raja Zainal Abidin	■	■	■	■
Datuk Sulaiman bin Daud	■	■	■	■
Dato' Wira Prof. Ir. Dr. Mohammad Noor bin Hj Salleh	■	■	■	■

b Quorum

A quorum shall consist of 2 members, a majority of whom must be independent directors.

c Secretary

The Secretary to the Committee shall be the Company Secretaries, or in their absence, any person appointed by the Audit Committee.

d Reports/Minutes

Minutes of the meeting shall be distributed to each member of the Committee and of the Board.

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

e Venue

The Committee met 4 times, and all of the meetings were held at the Company's head office/corporate office. The meetings at the head/corporate office enabled the Audit Committee members and operating management to interact and facilitated feedback to improve systems and performance.

f Attendees/Invitees

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

g Review

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 3 years to determine whether the Audit Committee has carried out its duties in accordance with its terms of reference.

TERMS OF REFERENCE

1 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.
- In addition, the Audit Committee needs to ensure consistency with Bursa Malaysia commitments to encourage high standards of corporate disclosure and transparency. The Audit Committee will endeavour to adopt certain practices aimed at maintaining appropriate standards of corporate responsibility, integrity and accountability to Pharmaniaga's shareholders.

2 Duties & Responsibilities of the Audit Committee

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

- a 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.
- b 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.
- c 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.
- d 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.
- e Review the external auditor's management letter and management's response.
- f In relation to the Internal Audit, to review 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.
- g Review any related party transactions and conflict of interest situation that may arise within the Company or the Group and its related companies and ensure that such transactions are undertaken at arm's length, normal commercial, on terms not favourable to the related party that those generally available to the public and are not to the detriment of the minority shareholders and in the best interest of the Company and its subsidiaries.
- h Review and approve the Annual Internal Audit Plan and ensuring adequate risk and governance coverage.
- i Review the results of the internal audit process and where necessary ensuring that appropriate actions are taken on the recommendations made by the internal auditor.
- j Review the terms of the shareholders' mandate for recurrent related party transactions of a revenue or trading nature.
- k Engagements:
 - Meet external auditors at least twice a year without senior management presence.
 - to engage continuously with CEO, Senior General Manager, Finance and Head of Internal Audit.
- l Consider other topics as defined by the Board.



Statement on Corporate Governance (cont'd)

3 Powers of the Audit Committee

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

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

SUMMARY OF ACTIVITIES (2008)

1 Financial Reporting

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

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

- provisions of the Companies Act 1965
- Bursa Malaysia Listing Requirements
- applicable approved accounting standards in Malaysia
- 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.

Release of Quarterly Financial Results in 2008

	Date of Issue/Release	No of Days before the Deadline	Bursa Securities Deadline
Annual Report 2008	30 April 2009	61	30 June 2009
2008 Quarterly Results			
1Q2008	28 May 2008	3	31 May 2008
2Q2008	14 August 2008	17	31 August 2008
3Q2008	24 November 2008	6	30 November 2008
4Q2008	26 February 2009	1	27 February 2008

2 Internal Audit

- Reviewed and approved Group Internal Audit (GIA)'s 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 2008 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 are tabled during the year, audit recommendations made and management's response to those recommendations. Where appropriate, the Committee has 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.

3 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 Group External Auditor.
- Met with the Group External Auditor without the presence of management to discuss any matters that they wish to present.
- During the year the Management, after conducting an internal investigation had uncovered a misappropriation of monies in its subsidiary Pharmaniaga Logistics Sdn Bhd, in which a total of RM15,607 was identified as missing from the daily cash collection. In view of this incident, the Management is reviewing the framework for reporting on fraud incidents.

4 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 approval.



Statement on Corporate Governance (cont'd)

5 Annual Reporting

- Reviewed and recommended the Statement on Corporate Governance, Statement on Internal Control, Audit Committee Report and Circular to Shareholders on Related Party Transactions to the Board for approval, and thereafter for disclosures in Annual Report 2008.

6 Risk Management

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

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

INTERNAL AUDIT

The Committee is strongly supported by the Internal Audit Division of UEM Group Management Sdn Bhd (UEMGM) in the discharge of its duties and responsibilities. UEMGM's role is to evaluate and report on the adequacy, integrity and effectiveness of the Group's overall system of internal control. Internal Audit Division provides independent assurance on the adequacy and effectiveness of the risk management, internal control and corporate governance.

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

A structured risk assessment approach is used to examine all of the Pharmaniaga Group's activities and its inherent risks. The high-risk activities in each auditable area are audited annually. Audits are prioritised according to an assessment of the potential risk exposures.

The internal audits cover the review of the adequacy of risk management, operational controls, compliance with established procedures, guidelines and statutory requirements, quality of assets, management efficiency, amongst others. These audits ensure that the instituted controls are appropriate, effectively applied and achieve acceptable risk exposures consistent with Pharmaniaga Group's risk management policy.

Internal Audit Division also audits the various computer hardware and application systems and telecommunications network of Pharmaniaga Group.

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

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

Statement on Employees' Share Option Scheme (ESOS)

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

THE RISK MANAGEMENT COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud

Senior Independent Non-Executive Director

MEMBERS

Mohamad bin Abdullah

Managing Director

Dato' Wira Prof. Ir. Dr. Mohammad

Noor bin Hj Salleh

Independent Non-Executive Director

Stephen Sze Kwong Yew

Chief Operating Officer

Abdul Rahman bin Abdullah Thani

President Director, PT Millennium

Pharmacon International Tbk

Ramlan bin Abdul Rahman

Senior General Manager, Group Corporate Services

Errman Zuhady bin Zainal

General Manager, Organisational Development

(Appointed wef 16 May 2008)

TERMS OF REFERENCE

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

On risk management, the RMC updates the Audit Committee the significant changes in the business and the external environment which affect the key risks. The Audit Committee then reports to the Board on the status of the risk management. The Audit Committee then reports to the Board significant changes in the business and the external environment, which affect the key risks. The Board monitors the implementation of the risk strategies and any changes to the risk profiles are

highlighted to the Board for consideration. In this way, the Board will ensure that the risk strategies are progressing according to the implementation plan.

Functions

- 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



Statement on Corporate Governance (cont'd)

Meetings

Meetings are held as and when necessary and/or required to review specific matters, and at least twice a year. The RMC had 2 meetings during the financial year ended 31 December 2008. A representative from Group Internal Audit Department UEM Group Management Services Sdn. Bhd. also attended the meetings upon invitation.

SUMMARY OF ACTIVITIES (2008)

- Considered the Pharmaniaga Group Risk Management Report as at 30 June 2008 (1H2008) to the Committee for its deliberation.
- Considered and noted the 1H2008 Risk Management Report of PT Millennium Pharmacon International Tbk (MPI) tabled to the Risk Management Committee and Board of Commissioners of MPI .
- Considered the Pharmaniaga Group Risk Management Report as at 31 December 2007 (2H2007) to the Committee for its deliberation.
- Summary of Risk Review for 2H2008:

Total risks identified	65
New risks identified	0
Changes to the net risks rating	1
Significant risk	19

Top 3 risks :

- 1 Logistics Division - Due to its significant contribution of revenue, non-renewal of the concession is a major risk.
- 2 Manufacturing Division - The Group has a new manufacturing facility that is in preparation for production and is subjected to stringent regulatory controls.
- 3 Medical Equipping Division - The medical equipping business is based on projects, any change in Government procurement policies can affect its order book and bring potential loss of business.

During the year the Management, after conducting an internal investigation had uncovered a misappropriation of monies in its subsidiary Pharmaniaga Logistics Sdn Bhd, in which a total of RM15,607 was identified as missing from the daily cash collection. Appropriate disciplinary action has been taken against the staff involved and in view of this incident, the Management has tightened the controls and procedures and reviewed the framework of reporting on fraud incidents.

NOMINATION & REMUNERATION COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud
Senior Independent Non-Executive Director

MEMBERS

Dato' Ahmad Pardas Bin Senin
Non-Independent Non-Executive Director

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

The Nomination Committee and Remuneration Committee were merged into a single committee on 28 May 2008.

TERMS OF REFERENCE

Functions

- 1 To annually examine the size of the Board with a view to determine the number of Directors on the Board in relation to its effectiveness.
- 2 To assist the Board in 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.
- 3 To annually carry out the process to be implemented for evaluating the effectiveness of the Board as a whole, the Committees of the Board and the performance and contribution of each individual Director based on the process implemented by the Board, and to identify areas for improvement.
- 4 To recommend suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.
- 5 To ensure that the appointment of any Executive Director or Managing Director shall be for a fixed term not exceeding 3 years at any one time with the power to reappoint, remove or dismiss thereafter.
- 6 To identify and recommend new nominees to the Board of Pharmaniaga Berhad and its subsidiaries and associated companies, whether to be filled by Board members, shareholders or executives. It is also to identify and recommend for all directorships proposed by the Managing Director, any Director or shareholder to fill the seats on the Audit, Nomination & Remuneration or other Committees. A description/specification of the new Directors should be drafted before identifying possible candidates. Candidates shall be evaluated against this specification.
- 7 To identify and recommend Senior Management position ie Chief Operating Officer and Chief Financial Officer and its terms and conditions, for the Board's approval.
- 8 To consider the following when recommending candidates for directorship:
 - skills, knowledge, expertise and experience
 - professionalism
 - integrity
 - ability to discharge functions/responsibilities
- 9 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.



Statement on Corporate Governance (cont'd)

- 10 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.
- 11 Represent the public interest and avoid any inappropriate use of public funds when considering severance payments for senior staff.
- 12 Review the history of and proposals for the remuneration package of each of the Company's committees.

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

Meetings and Procedures

Meetings are to be held as and when necessary. The quorum for each meeting shall be 2. The Managing Director shall attend and make presentations at meetings, whenever the matter for consideration is not related to his own remuneration. The Committee will decide its own procedures and other administrative arrangements. Minutes of each meeting shall be kept by the Company Secretaries as evidence that the Committee has discharged its functions. The Chairman of the Committee will report to the Board after each Nomination and Remuneration Committee Meeting.

The Committee carries out the annual review of the overall performance of the Executive Director and other Senior Management positions (Grade UT2 and above) whereupon recommendations are submitted to the Board for approval; on the overall remuneration policy such as terms of employment, reward structure and fringe benefits with the aim to attract, retain and motivate individuals of the highest quality. The Committee and the Board ensure that the Group's remuneration policy remains supportive of the Group's corporate objectives and is aligned with the interest of shareholders, and further that the remuneration packages of Directors, Managing Director and key Senior Management officers are sufficiently attractive to draw in and to retain persons of high calibre.

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

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

The Committee met thrice (3 times) during the year ended 31 December 2008 and all members attended all the meetings.

Summary of Activities (2008)

- Discussed and recommended the Succession Management Plans for Pharmaniaga Group and PT Millennium Pharmacon International Tbk (MPI)
- Discussed and recommended the 2008 Key Performance Indicators (KPIs) of Pharmaniaga Berhad's Managing Director
- Discussed and recommended the new senior management of MPI.
- Discussed and recommended the appointment of the new Chief Operating Officer of Pharmaniaga Berhad
- Reviewed and recommended the feedback on the Board Effectiveness Assessment (BEA) of the Board, various (Board) Committees and peer evaluation for the year 2007.
- Discussed on the status of the progress of Actionable Improvement Program of the Board, following the BEA.
- Recommended the merger of Nomination and Remuneration Committees of Pharmaniaga Berhad
- Recommend the Implementation of Succession and Advancement Planning of Pharmaniaga Berhad
- Discussed and reported the update of the Follow-up Program for High Performance Culture
- Considered and recommended the appointment of the Chief Financial Officer of Pharmaniaga Berhad
- Considered and recommended the training programs for Directors for 2008.
- Considered and recommended the revised terms and conditions of employment for executives and non-executives

THE INVESTMENT COMMITTEE

CHAIRMAN

Datuk Sulaiman bin Daud

Senior Independent Non-Executive Director

MEMBERS

Encik Ismael Fariz bin Ali

*Non-Independent
Non-Executive Director*

Oh Kim Sun

*Independent
Non-Executive Director*

Mohamad bin Abdullah

Managing Director

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

Functions

- 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.

Meetings

Meetings are held as and when necessary and/or required to review specific matters. During the financial year, 5 meetings were held in which one (1) of them was Special Investment Committee Meeting. Except for 2 meetings held, the members registered full attendance at all the 5 meetings held by the Committee in 2008.

Summary of Activities (2008)

- Discussed and monitored the Business Plan of Small Volume Parenterals (SVP) plant progress : updates of the plant operations, appointment of plant consultants.
- Deliberated on the proposed Expansion Plans/merger and acquisition activities to our target markets.
- Discussed on the disposal of non-performing/idle assets/land/properties ie for Safire Pharmaceuticals (M) Sdn Bhd and Pharmaniaga LifeScience Sdn Bhd.
- Proposed outsourcing activities by Pharmaniaga Manufacturing Berhad.
- Monitoring the progress of the following investments/projects by Pharmaniaga:
 - Amcare Labs (Malaysia) Sdn Bhd
 - Herbal Initiatives
 - Wuxi Worldbest Treeful Pharma Pharmaceutical Co. Ltd.



Statement on Corporate Governance (cont'd)

ACCOUNTABILITY & AUDIT

Financial Reporting

The Group has a detailed budgeting system and a comprehensive system for reporting financial results to the Board. Each business unit maintains financial controls and prepares monthly results with a comparison against budget. There are clearly defined guidelines for the review and approval of capital expenditure projects. These include annual budgets, periodic reviews and designated levels of authority. The Group's centralised internal audit function reviews the systems and procedures in all business units and reports regularly to the Audit Committee who reports to the Board.

The Board is satisfied that it has met its obligations in presenting a balanced and clear assessment on the Group's position and prospects.

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

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

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

The Statement on Directors' Responsibilities in respect of the preparation of the annual audited financial statements of the Group is set out on page 71.

Internal Control

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

Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing significant risks across the Group.

The Risk Management Committee considers and reports to the Audit Committee the key risk indicators of each business unit and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the business units and reinforced by risk awareness training. The Audit Committee also receives reports from the internal audit function and, where appropriate, recommendations for improvements are also considered. The Board's agenda includes consideration of risk maps and controls, and it receives reports thereon from the Audit Committee. The emphasis is on obtaining the relevant degree of assurance.

The work undertaken by the internal audit function and the Audit Committee helps to enable the Board to make the statement relating to internal control in the Statement on Internal Control.

The Group's Statement on Internal Control pursuant to Rule 15.27(b) BMLR : Corporate Governance Disclosure - Additional statements by the board of directors is set out on page 74 to 83.

Related Party Transactions

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

Details of these transactions are set out under Notes to the Financial Statements on pages 186 to 188.

Relationship with External Auditors

An appropriate relationship is maintained with the Auditors through the Audit Committee. The Audit Committee has been explicitly accorded the power to communicate directly with both the external and internal Auditors. The role of the Audit Committee in relation to the External Auditors is stated in pages 61 to 62 in the Audit Committee Report.

Non-Audit Fees

The amount of non-audit fees paid and payable to external audit firms by Pharmaniaga Berhad and its subsidiaries for the financial year ended 31 December 2008 are as follows:

External Auditor	Total Paid (RM)
PricewaterhouseCoopers	174,341
Ernst & Young Tax Consultants Sdn Bhd	68,885
KPMG	50,000
Total	294,226

Statement of Director's Responsibility

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

In preparing the financial statements, the Directors have:

- ensured that all applicable approved accounting standards in Malaysia and the provisions of the Companies Act 1965 have been followed
- applied suitable and appropriate accounting policies and applied them consistently
- made reasonable and prudent judgements and estimates
- prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that Pharmaniaga keeps accounting records, which disclose with reasonable accuracy the financial position of the Pharmaniaga Group, which enables them to ensure that financial statements comply with the requirements of the Act. The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

RELATIONSHIP & COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Shareholders & Investor Relations

The Board considers effective communication with shareholders and investors as extremely important.

Pharmaniaga embarks on an active Investor Relations (IR) programs aimed at fostering high quality dialogue as well as building credibility and trust with the broad investment community. The Managing Director and/or the IR personnel is primarily responsible for all IR activities.

Key IR activities carried out during the year include hosting teleconferences, responding to email/telephone enquiries, catering to numerous requests for private meetings with investors and analysts, and organising trips for investors to visit our warehouses, plant and factories. Through these channels too, Pharmaniaga has communicated to investors and shareholders the solid oneness of the Board and management, auguring well for the continuity of current and future business.



Statement on Corporate Governance (cont'd)

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

Annual Report

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

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

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

Briefing to Analysts

The Board of Directors acknowledged the importance of communication with shareholders/investors and conduct regular dialogues and briefings with financial analysts, brokers and institutional fund managers and investors on the Group's financial results, performance and business strategies. During the year, management has met and briefed several fund analysts on the development and progress of the Group.

Website

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

AGM : A Vital Link

Our meeting this year will be held on Tuesday, 26 May 2009, 10.30 a.m. at Zamrud Ballroom, The Saujana Kuala Lumpur, Jalan Lapangan Terbang SAAS, 40150 Shah Alam, Selangor Darul Ehsan. The counter for registration will open at 12.30 noon. The Board regards the meeting as an opportunity to communicate directly with shareholders. Wherever possible, all Directors will attend the meeting. As always, there will be opportunities for questions-and-answers during the meeting. Shareholders are invited to ask questions and are encouraged to attend the meeting, where they are able to meet the Directors. For investors who are unable to attend, Pharmaniaga offers proxy-voting.

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

The AGM provides an open forum at which shareholders and investors are informed of current developments and where ample time is allowed for questions to be raised to Board members and the Chairman. Pharmaniaga supports the Code's principle to encourage shareholders participation. Its Articles of Association allow a member who is entitled to attend and vote, to appoint a proxy, to attend and vote instead of the member and also provide that a proxy needs not be a member of the Company. A press conference is held immediately after the AGM where the Chairman, senior management and representatives of external auditors are present to clarify and explain issues raised by the media.

Code of Practice

The Board is committed to ensuring that all its business activities operate with the highest standards of business ethics and integrity as summarised in the Company's written code on business practices/ethics, which are applicable Group-wide including Group facilities overseas.

Corporate Social Responsibility (CSR) Reporting

The Group's annual CSR Report is published on page 118 to 121.

OTHER INFORMATION

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

1 Sanctions

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year ended 31 December 2008.

2 Material Contracts

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

- a Memorandum of Understanding (MOU) dated 5 February 2008 entered into between Pharmaniaga Berhad and Visor Holding LLP for Collaboration and Participation in Healthcare Projects in the Republic of Kazakhstan. Pharmaniaga Berhad and Visor Holding LLP of the Republic of Kazakhstan have agreed to mutually terminate the MOU on 30 July 2008, as allowed under Clause 3 of the MOU.

Both parties have agreed to the termination as no mutual agreement could be reached between both parties on some key commercial terms of the collaboration.

- b On 25 November 2008 Safire Pharmaceuticals (M) Sdn Bhd, a wholly-owned subsidiary of the Company entered into a Sale and Purchase Agreement for the sale of land and assets with Idaman Pharma Sdn Bhd for a total consideration of RM35 million. The transaction is expected to be completed by end of June 2009.