

**dear shareholders,**

The year under review ended 31 December 2005 opened a new chapter in Duopharma Biotech Berhad's (Duopharma) corporate history. Following the completion of an acquisition exercise, Duopharma has now come under the corporate umbrella of the Chemical Company of Malaysia Berhad (CCM) Group.



# > chairman's

s t a t e m e n t



As a combined entity, Duopharma and CCM are a formidable force in Malaysia's growing healthcare and pharmaceutical industry. Duopharma is now strategically positioned to realise its long-term vision: to be a global player and leader in the pharmaceutical industry both in Malaysia and in the Asean region.

We also look back with satisfaction on Duopharma's operational performance in 2005. For the sixth consecutive year, your Company set new records in revenue and profitability. Despite a challenging operating environment, we continued to achieve significant market growth at home and in the international market place.

In all that we have set out to achieve, we are keenly aware of our responsibility as a corporate citizen. Enhancing quality of life has always been one of our key social objectives and remains a driving force. By bringing to our customers innovative, quality products at competitive prices, our aim is to enhance the quality of life of every Malaysian. We are making the difference, but it is a challenge that will continue into the future.

## FINANCIAL PERFORMANCE

Bucking the trend of slower global growth, the Malaysian economy has demonstrated its resilience, with gross domestic product (GDP) expanding by 6% in 2005. Against this backdrop, the development of the Malaysian health sector remained on course to fulfil the targets of the Eighth Malaysia Plan (2001-2005). The Government considers the country's healthcare industry as one of its top priorities, and emphasis is given to improve the quality in the provision of health services to the population. This has translated into a healthcare industry that is presently valued at around RM2-3 billion and growing steadily by between 6% and 8% annually.

Duopharma continued to reap the benefits of a growing healthcare industry. For the year under review ended 31 December 2005, the Group achieved a revenue of RM94.30 million, an increase of 19% from RM79.14 million recorded in 2004. Profit before tax (PBT) also improved by 25.7% to RM33.46 million, compared with RM26.61 million posted the previous year. The growth in revenue and PBT was attributed mainly to an increase in sales to the private and government sectors.



## ...how we innovate our products



### DIVIDENDS

Duopharma has a distinguished record of increasing dividend payment since making its debut on Bursa Malaysia. The year under review will be no exception. The Board is pleased to recommend a final dividend of 35% (17.50 sen) per share less 28% tax amounting to approximately RM17.56 million, subject to the approval of shareholders at the forthcoming Annual General Meeting on 18 May 2006.

If approved, this means that the total dividend payable in respect of the financial year 2005 will represent an increase of 105% from dividend paid in the previous year.

### CORPORATE DEVELOPMENTS

As mentioned, the acquisition of Duopharma by CCM was the major development on the corporate front. The chronology of events dates back to early 2005, when negotiations were carried out by representatives of both parties. This led to the signing of a conditional Sale and Purchase Agreement on 20 July 2005 by Tekan Maju Sdn

Bhd (TMSB), an investment arm of CCM to acquire a 36% stake in Duopharma for RM134.21 million. The acquisition was completed on 29 August 2005.

In accordance with the regulatory requirements, CCM subsequently made a mandatory general offer (MGO) to all other shareholders. With the completion of the MGO exercise in November 2005, CCM's stake in Duopharma was increased to approximately 74%.

As part of the CCM Group, Duopharma can now reap the following benefits:

- Inherent synergies derived from the operation, product and customer base of the combined entity
- Sharing of technology, knowledge and capacity leading to greater operational efficiency and economies of scale
- Collaborative research and development (R&D) efforts to increase product range
- Both CCM and Duopharma will also be able to expand its distribution channels both in Malaysia as well as gain access to new export markets

With the acquisition exercise completed, the last few months of 2005 saw the assimilation of Duopharma into CCM's organisation, corporate culture, work ethics and norms. I am aware that in these times of transition, managing the change process can often be stressful. However, I am pleased to report that this has not been the case. Being the true professionals we are, our people have responded admirably to the challenge of managing change.

### OPERATIONAL HIGHLIGHTS

Under CCM's new structure, Duopharma's principal activities continue to be the manufacturing, distribution, import and export of pharmaceutical products and medicines. Our pharmaceutical facilities and manufacturing process are certified to the 'current Good Manufacturing Practice' (cGMP) endorsed by the National Pharmaceutical Control Bureau, Ministry of Health (MoH) Malaysia.



> enhance, innovate and  
deliver >

## producing quality products



During the year in review, Duopharma scored two major successes on the operational front. On 24 November 2005, Duopharma was awarded a contract from the MoH to supply SLN 30 and SLN 40 drugs for the treatment of HIV/AIDS to all government hospitals in Malaysia for a period of two years. These drugs are a 3-in-1 fixed dose antiretroviral product manufactured using three types of active ingredients. Recommended by the World Health Organisation (WHO), the new life-prolonging drugs are cost-effective, being only one-fifth the cost of existing treatments. Duopharma is the only company in Malaysia permitted by the patent holder and approved by the MoH to produce SLN 30 and SLN 40 tablets. The supply of these drugs will commence in 2006.

The other major success was a contract to supply the drug Methadone to the MoH for its drug rehabilitation programme, commencing in 2005. As reported last year, clinical trials and private studies have proven the efficacy of Methadone as a drug substitution therapy. There are an estimated 130,000 registered drug addicts in the country, but if we include the non-registered addicts, the figure could be much higher.

# > paving the way towards global opportunities >

To improve its competitive edge, the Group continued to place emphasis on product innovation. Several new products were launched in 2005. They included Cool Melon (herbal lozenges), Proactive (energy booster) and Tempol (pain relief). Duopharma continued to make headway in the internationalisation of its business. To date, we export to no less than 18 countries all over the world. Overseas sales accounted for 10% of revenue in 2005.

No report would be complete without mention of our efforts in the key areas of corporate governance; safety, health and environment (SHE) and quality. Duopharma abides by all the mandatory rules and regulations set by the relevant authorities in the areas of corporate governance and SHE. The stand we have taken on SHE is simply that there can be no compromises. The Group already has a good SHE record and we will continue to build on what has been achieved. We are also committed to nothing less than excellence to ensure that our products are safe, effective and of the highest quality. Apart from Malaysian guidelines, we adhere to stringent guidelines set by WHO's Code

of GMP and Good Storage Practice. These internationally recognised quality standards have paved the way for our products to enter the international marketplace.

#### **MOVING FORWARD**

Duopharma moves forward from a new position of strength. As part of the CCM Group, your Company will reap the benefits of operational synergies and greater economies of scale. CCM has already made known its intentions to grow its pharmaceutical division to be the principal revenue earner for the Group. In doing so, it will also strive to be the leading pharmaceutical company in the country. Duopharma will no doubt be a lynchpin towards the attainment of its parent company's objective.

As we stand in the industry today, Duopharma has many strengths it can build on. Since commencing business more than 20 years ago, Duopharma has established a niche market in specialised and ethical products especially injectable items.

As the concept of a global village becomes a reality, we are increasingly turning our attention to the international marketplace. We will concentrate on ways to capture a larger slice of the growing market for pharmaceutical products in the region as well as global markets. The foothold we have already established in existing markets will be further enhanced. Simultaneously, we are targeting emerging new markets in the African continent and the Middle East. Naturally, we will also be able to benefit from CCM's overseas customer base.

In an industry known for its rapid technological changes, we need to maintain our competitive edge through the R&D effort to ensure a continual stream of innovative products to meet demand. CCM has strong R&D capabilities and we are exploring ways in which we can work together to increase our product range.

## ...how we build our environment



Having already gained a captive market via product differentiation of its Small Volume Injectables (SVI) items, our strategy in moving forward is to venture into the highly specialised field of biotechnology and other new value-added product innovations to further enhance our position in the industry. Biotechnology is still at a developmental stage in Malaysia, but across most of the developed world it is currently the fastest growing and leading industry with an estimated global wealth of USD6 billion (Economic Report 2005/2006). The Government expects the private sector to take on a leading role in the commercialisation and development of biotechnology products.

### OUTLOOK & PROSPECTS

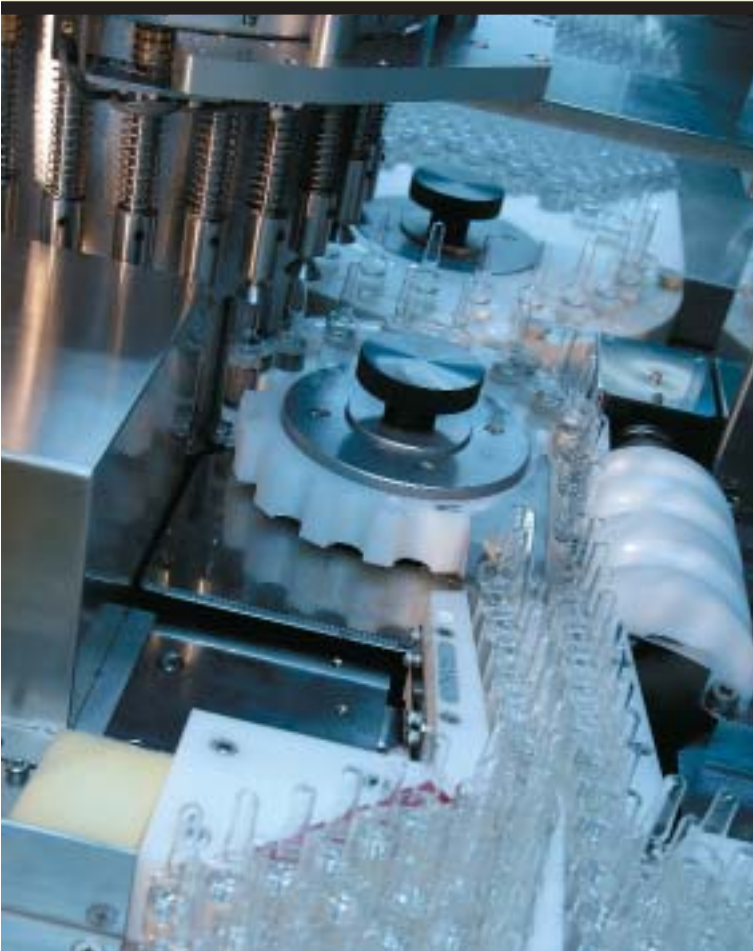
Progressing into the new financial year, the prospects for 2006 look promising. The Malaysian economy is expected to maintain its growth momentum, with real GDP growth forecast to expand by 5.5% and per capita income envisaged to rise further by 7.1%.

As Malaysia forges ahead to join the ranks of developed nations, growing affluence, rising living standards and the increasingly sophisticated needs of its population will spur an increase in demand for pharmaceuticals and healthcare products. Empirical studies point to this growing trend in countries all over the world, and in particular, the emerging markets. In many of these countries, pharmaceuticals have increasingly become a necessity item.

In the face of this growing demand, I am confident that your Company will be able to live up to the expectations of our stakeholders to continue delivering value. The award of the two contracts to supply drugs to the MoH for its HIV and drug rehabilitation programmes are expected to contribute positively to Duopharma's revenue earnings in the coming financial year. The year 2006 will also see Duopharma reaping the synergistic benefits of belonging to a large entity such as the CCM Group. I am hopeful that this will be reflected in the Company's performance in 2006.



> let us embark together  
as we unleash our full potential  
with each year >



Duopharma has an illustrious record of achievements. But as I see it, the best years for Duopharma are yet to come. I invite you to journey with us as we strive to unlock our full potential, raising the Company to new heights of achievement.

#### **DIRECTORSHIPS**

During the year, Mr. Chia Ting Poh and Madam Ang Bee Lian resigned from the company on 28 November 2005. Mr. Valliyappan, Dato' Dr. Yap Thong @ Yap Yit Thong and Mr. Lee Siew Kuan also ceased their directorship on 14 March 2006. On behalf of the Board of Directors, I wish to record our sincere appreciation to them for their services to the company.

I would also like to welcome Dato' Haji Mizanur, Dr. Mohamad Hashim, Datuk Alias bin Ali, Tuan Haji Ghazali and Datuk Dr. Jegathesan to the Board.

#### **APPRECIATION**

Duopharma would not have come this far without the hard work, commitment and professionalism of management and staff. We are also fortunate in having a great support group comprising our business associates, government regulatory authorities, advisers, our customers in Malaysia and abroad, and of course, our shareholders. On behalf of the Board, I thank all of you.

Thank you.

**TAN SRI DATO' DR. ABU BAKAR SULEIMAN**  
Chairman