



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

## Dear Shareholders,

In what was a busy and eventful year, I am pleased to report that CCMD has lived up to expectations outlined in our Independent Advice Circular to shareholders dated 6 October 2005. As explained, the overriding goal of this exercise was to increase shareholder value over the long-term growth, and in this respect we are delivering on our promises. During the year, your Company continued to achieve significant market expansion both at home and abroad and this was reflected in its financial performance, where we recorded double-digit growth rates.

CCMD is also reaping a myriad of synergistic benefits since coming under the CCM banner. Having grown from strength to strength, we are positioning the Company to realise its long-term vision: to be a global player and leader in the pharmaceutical industry both in Malaysia and beyond. Guided by our corporate vision and with a road-map that will take us there, CCMD is moving forward with confidence.

**The year under review ended 31 December 2006 marked our first full year of operations as a subsidiary of the Chemical Company of Malaysia Berhad (CCM) Group. In line with our new corporate standing, we embarked on a rebranding exercise during the year. As a result, we are now known as CCM Duopharma Biotech Berhad (CCMD), a name that reflects the corporate identity of our parent company and allows for immediate brand recognition.**

### OPERATING ENVIRONMENT

Despite formidable challenges posed by the global environment, the Malaysian economy continued to demonstrate its resilience to achieve a healthy growth rate of 5.8% in 2006. Malaysia's sustained economic growth augurs well for the pharmaceutical industry, which is an important component of the healthcare sector. The industry has been projected to register growth of between 6% and 8% annually over the next several years.

In 2005, the domestic pharmaceutical market was estimated at RM2.7 billion, of which 70% to 80% was met by imports. Local production of pharmaceuticals mainly consisted of generic drugs, health supplements and injectables. Such empirical data points to the potential for local producers to significantly increase their market share. However, in 2006, the domestic industry had to contend with increasing imports from foreign generic manufacturers as well as rising costs of raw

## chairman's statement (cont'd)

materials and packaging. In the face of these challenges, CCMD responded via a three-fold strategy of emphasising cost containment, productivity improvements and aggressive marketing. CCMD is benefitting from the synergy derived from coming under the CCM Group's corporate stable vis-à-vis the sharing of technology, knowledge, collaborative research and development (R&D); and expansion of distribution channels to gain access to new markets.

### FINANCIAL PERFORMANCE

I take pride in informing you that for the seventh consecutive year, your Company has chalked up record earnings. CCMD posted a profit after tax of RM28.98 million for the financial year ended 31 December 2006 (FY 2006), an increase of 23.3% from RM23.51 million recorded in 2005.

For the same period, gross profit also grew by 17.1% to RM56.95 million from RM48.65 million. This was achieved on the back of an 11.5% increase in revenue to RM105.1 million, compared to RM94.30 million registered previously. CCMD's improved financial performance was attributed mainly to stronger sales to both the private and government sectors, as well as the launch of an array of new and diversified products during the year.

On the strength of its financial performance, the Group's earnings per share rose by 19.1% to 20.89 sen from 17.54 sen recorded in the previous corresponding period.


### DIVIDENDS

To show our appreciation to shareholders for their support and loyalty, the Board of Directors is pleased to recommend a final dividend of 29% (14.5 sen) per share less 27% tax for the FY 2006. The total dividend for FY 2006 is 43% (21.5 sen) per share, consisting of the above final dividend and an interim dividend of 14% (7 sen) less 28% tax, which amounts to approximately RM21.7 million.

### CORPORATE DEVELOPMENTS

The Company assumed its present name on 8 June 2006 in line with the CCM Group's strategy to enhance brand image and identification. By adding on CCM's name, we are riding on an established brand for the past 40 years. Integral to the re-branding exercise, the CCM logo has now been incorporated on all packaging materials allowing for better product recognition among customers and instilling brand loyalty. CCMD's market development team also reviewed and redesigned some of the packaging for over-the-counter (OTC) products to reflect the CCM identity.



A large, high-resolution background image showing a dense array of blue plastic water bottles. The bottles are arranged in a grid-like pattern, with their rounded tops and caps visible. The lighting is bright, creating highlights on the plastic surfaces.

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**chairman's statement** (cont'd)

The change management process has entailed a review and subsequent upgrading of organization structures, systems, methods and procedures to comply with those of our parent company. Our IT system has been revamped and upgraded in compliance with the standards set by CCM. It was also a year of adapting to a new corporate culture, a process facilitated through participation in corporate activities organised by the CCM Group, such as the Sports Carnival, Quality Convention and other recreational activities. In summary, CCMD staff have adapted remarkably well to the challenge of the new corporate culture and work ethics introduced by CCM.

CCMD continued to place emphasis on optimising its portfolio of assets, divesting those that are no longer performing or in line with our core pharmaceuticals business.

Thus, on 24 November 2006, we divested our 40% equity stake in Altratec Sdn Bhd, a company whose principal activity is the repackaging of food products.

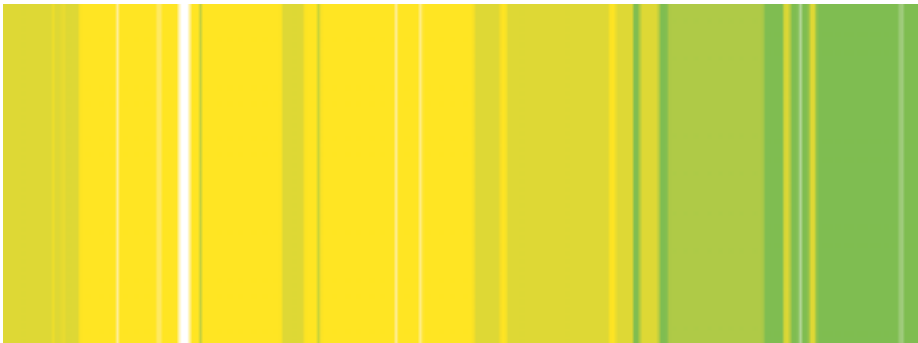
**OPERATIONAL HIGHLIGHTS**

CCMD is reaping the benefits of operational synergies and economies of scale by way of the enhancement of its R&D activities. We are now able to tap into the expertise of CCM's pharmaceutical R&D company, Innovax Sdn Bhd, and this has resulted in the development of a wider range of products introduced to the market.

During the year in review, 3 new ethical products were launched further increasing our product range. Among these were ACE inhibitors for reducing blood pressure, anesthetics, contraceptives and anti-

retroviral drugs for the treatment of HIV-infected patients.

CCMD also launched 5 new OTC herbal products traditionally used to maintain general health and well being. CCMD took two years to develop Diamelon, which was launched on 18 December 2006. The product is derived from bitter melon (bitter gourd), traditionally used to manage blood sugar levels. Three other herbal products were launched by the Deputy Prime Minister YAB Dato' Sri Mohamad Najib Tun Razak in September 2006. Sunlax is a food supplement that rejuvenates, refreshes and relaxes through an active ingredient commonly found in green tea. The other two products, Pygenol, nourishes the skin while Lipasu Plus is a herbal fat blocker containing flavanols extracted from plants.





As reported last year, CCMD won tender awards to supply SLN 30 and SLN 40 tablets and Methadone to the Ministry of Health (MOH). We are the only company in Malaysia permitted by the patent holder to produce SLN and SLN 40, and supplies of these 3-in-1 anti-retroviral drugs for the treatment of HIV/AIDS patients commenced in 2006. Methadone is a well-tested medication used for the treatment of narcotic withdrawal and has proven highly successful in an initial 6-month government pilot programme to wean drug users from their addiction. The Government has decided to extend this programme to three years and CCMD will be a supplier of Methadone to the MOH up to the year 2009.

We have embarked on a major promotional advertising campaign to reach out to a larger customer base and tap into sectoral markets by participating in nationwide media events and exhibitions.

On the international front, CCMD's products already enjoy a strong presence in ASEAN markets. ASEAN markets will continue to be the mainstay of our export business, but by tapping into CCM's distribution network, we are moving further down the path towards becoming an international rather than a mere regional

player. We have already started export sales to new markets in the Middle East and Africa, and we plan to consolidate our presence in these regions. Meanwhile, markets in Central Europe and Central Asia are being developed.

#### **SUSTAINING INNOVATIVE GROWTH**

CCMD is in a much stronger position today than ever before to realise its ultimate goal encapsulated in its corporate vision. Nonetheless, given the competition and the challenges that lie ahead, sustaining our momentum will be no mean feat.

Further internationalisation of the Group's activities is a major challenge we have to master to continue to enhance shareholder value. Among strategies adopted, CCMD is establishing direct supply channels to government hospitals overseas and is also seeking strategic partnerships with established agents and distributors in the

host countries. Our participation in trade fairs in targeted regions will also help increase brand and product awareness.

We also need to continually improve and expand our product range. In this regard, CCMD plans to invest around three percent of its revenue for R&D activities annually. CCMD's niche lies in the manufacture of small volume injectables, but we are also venturing into another niche market catering to the growing demand for herbal and OTC products. To cite an example, Donna is currently exported to the ASEAN markets, but by 2007, we plan to export the product to countries in the Middle East as well. More herbal and OTC products will be launched in 2007, with many others in varying stages of development. CCMD is also in discussions with the relevant authorities to obtain the 'halal' certification for some of its products. This will ensure a smoother entry into Muslim markets, which is another rapidly expanding niche market.

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Knowledge skills revolve around the operational and technical knowledge required to perform the job competently, and would include courses on sales and marketing, management techniques and financial analysis among others.

The past year has seen a steady increase in CCMD's business activities and the range of products being manufactured. We anticipate the up-trend is likely to continue in tandem with the growing demand for pharmaceutical products at home and abroad. Taking a proactive stance, we have initiated plans to set up additional manufacturing and warehousing facilities.

In all that we strive to achieve, CCMD has long recognised the strategic importance of the human capital as the key driver for growth. That is why the Company expends considerable resources each year in training and developing its human capital. Our training programmes are tailored towards the development of the employees' knowledge and soft skills. Knowledge skills revolve around the operational and technical knowledge required to perform the job competently, and would include courses on sales and marketing, management techniques and financial analysis among others. On the other hand, soft skills addresses aspects of how individuals relate

to others, such as interpersonal skills, team building and leadership development, just to cite a few examples.

CCMD deploys both internal and external trainers. For operational and technical-specific programmes, we rely on our pool of in-house trainers as well as trainers from the CCM Group of Companies. Our external trainers comprise mainly consultants, lecturers and specialists drawn from academic institutions and Government bodies. Key personnel also undergo rigorous training and gain local and overseas exposure through collaboration with related institutions and vendors.

We cannot afford to slacken in the pursuit of quality excellence. Our operations are based on the internationally recognised current Good Management Practice (cGMP). During the year, CCMD embraced Total Quality Management (TQM) as the management tool to continually improve processes, products and services. To

ensure maximum participation by employees, we have set up Quality Improvement Teams, who have been tasked to develop and fine-tune programmes that are customer-centric, flexible and responsive to improving quality. We continue to enhance our reputation as a manufacturer and supplier of quality products.

While sustaining the momentum of our business, we are not neglecting our responsibility in the key areas of Safety, Health and Environment (SHE). CCMD is justifiably proud of its SHE record, and this has been reinforced through the formation of SHE committees, comprising staff from various departments and all levels of the corporate hierarchy. During the year, a slogan campaign was organised in addition to SHE plant audit and training programmes. A SHE policy has also been formally drawn up and displayed prominently at various locations to remind all employees that SHE is everybody's responsibility.

#### **A NEW ERA OF GROWTH**

The extent of the Group's earnings growth in the coming financial year will be considerably influenced by general economic conditions. Already, the financial

**chairman's statement** (cont'd)

year 2007 is shaping to be a good one. Analysts have shrugged aside the minor hiccup in global equity markets experienced in March 2007, and the global economy is projected to remain on track to achieve growth of 4.7%. The Malaysian economy is expected to remain resilient, given its endowment of crude oil resources and through effective macroeconomic policies. Against this favourable backdrop, demand for healthcare products is expected to remain robust in Malaysia and markets throughout the world.

Going forward, our growth in Malaysia and around the world will continue in FY 2007 barring any unforeseen circumstances. We have a strong operating cash flow and our solid financial base has contributed greatly to our competitiveness. More importantly,

we have the human capital edge measured in terms of knowledge and years of experience in the business. From this position of strength, we will continue to seize opportunities coming our way and consolidate the foothold we have established in selected areas. In the coming year, CCMD has plans to introduce more OTC, ethical and herbal-based products and medication. Over the longer term, earnings from the Group's overseas ventures could provide a steady stream of recurring earnings and we are stepping up our export drive to new markets in the South Pacific, West Asia and the African continent.

CCMD remains very much an unfolding story, with many more exciting chapters to be written.

**APPRECIATION**

High levels of performance, professionalism and sheer hard work on the part of our management and staff were vital success factors. We have a great team and I thank all of you for your contributions. We also owe our success to the support and cooperation received from several quarters, namely, our business associates, government regulatory authorities and advisers. The many loyal customers of CCMD at home and abroad and of course, our shareholders deserve special mention. To all of you, please accept my gratitude and sincere appreciation.

Thank you.

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