

Chief executive officer's review

Since assuming our current name in mid-2006 to reflect being part of the CCM Group, the Company has gained greater recognition through the Group identity and has been given an excellent rating from preferred suppliers. The integration of people and systems with those of the Group proceeded smoothly and, for the first time, we adopted CCM's Key Performance Indicators for its pharmaceutical business for the year 2007.

These included:

- Growing our share of the domestic market, especially for over-the-counter [OTC] products
- Increasing our business to the government sector
- Expanding exports
- Launching new innovative products.

For the year under review, we have achieved an increase of about 18% in our production output and approximately 10% in our sales.

We are in line with industry growth of 8% to 10%.

Growing the business

Since 2005, the Malaysian Government has been using methadone in Drug Substitution Therapy [DST] programme as part of its harm reduction therapy for heroin addicts. Methadone has been used globally for 40 years with a high level of efficacy and the Malaysian Government was able to achieve a 90% success rate in its pilot project. Administered orally, it has minimal side effects and reduces withdrawal symptoms. This prompted the Government to place 5,000 more heroin addicts under the Methadone DST programme in 2007.

CCM Duopharma had won the tender to supply methadone to the Ministry of Health [MOH] in 2006. With the Government extending its programme, we will continue to supply to the Government until 2009.

09.05.2007

2007 Year of Innovation

CCM Duopharma participates in Group's innovation programme

Chemical Company of Malaysia Berhad [CCM] launched its Year of Innovation at the office of CCM Duopharma Biotech Berhad. The event was officiated by the Group Managing Director, Dato' Dr Mohd Hashim Tajudin, and was attended by managers from various subsidiaries and regional offices.

The 2007 Year of Innovation is aimed at inculcating a quality-driven and innovative culture and workforce within the Group. This is in line with the aspirations of CCM Duopharma to remain competitive and become a leader in the industry.

Innovation plays an important role in a company's quantum leap in business to gain higher growth. According to Dato' Dr Mohd Hashim, the innovation culture in CCM must be across the board. Innovation must be looked at and addressed from all angles on products, processes as well as services provided to customers internally and externally. The Group also launched an Employee Innovative Suggestion Scheme [EISS] to encourage and promote outside the box and innovative thinking and ideas among all employees.

The DST programme helps heroin addicts to control their addiction and lead a normal life, enabling them to re-enter society in a productive manner. To familiarise medical practitioners with the programme and dispel notions of its efficacy, we sponsored the Methadone Maintenance Therapy Workshops organised by Pusat Perubatan Universiti Malaya. Endorsed by the MOH, the workshops were held on 13 May and 11 November during the year under review. The programme also drew attendees from non-governmental organisations.

The government sector is an important market for us. We were awarded a contract to supply 63 items to the MOH for the period 2007 to 2009. This tender award, worth approximately RM30 million a year, is in addition to one that we had won in 2006 to supply SLN 30 and SLN 40 tablets to the Ministry. We are the only company in Malaysia permitted by the patent holder to produce these 3-in-1 anti-retroviral drugs that are used to treat HIV/AIDS patients.

While the main driver of our business is the small volume injectables, we continue to enhance our range of other products. In 2007, two new ethical products, i.e. Precose and Nordipine, were introduced; these are products that require prescription by medical doctors. Two new OTC products were also launched during the year – Legarin, a herbal remedy that can help improve the liver's ability to detoxify and burn fat in the body, and Donna Forte 500mg, an extension of Donna 250mg that was developed to help reduce discomfort and pain among osteoarthritis patients.

We will also see an addition of about 30 new products to our range as a result of the acquisition of the assets and brands of Malayan Pharmaceutical by the CCM Group. Products such as Chewies, Cosmos and Milidon will be rebranded and relaunched in 2008.

A Customer Awareness Team [CAT] was set up in 2007 to create customer awareness of our OTC products through health-related activities. CAT also served to strengthen our on-going advertising and promotional campaign as well as complement our sales and marketing initiatives. Activities that included health screenings and product samplings were held at more than 29 chain and independent pharmacies around the Klang Valley. Visits were also made to a number of hospitals.

Already exporting our products to about 20 countries, our strong presence in the ASEAN region has helped us to post double-digit growth in export sales for the year under review. We, through the CCM Group, maintain sales offices in Bangkok, Ho Chi Minh City, Jakarta, Manila and Singapore, and have appointed agents in other markets.

About 10% of our business is attributable to exports, a ratio that we plan to increase by penetrating new markets in the Middle East and Africa as well as exploring opportunities in Central Europe, Central Asia and the South Pacific. Towards this end, we participated in trade exhibitions in Kazakhstan, Vietnam and Indonesia. We also took part in a trade show in USA and an international trade show in Malaysia. At the same time, we are also tapping into the CCM Group's distribution network to expand export sales internationally.

We are committed towards expanding our range with new innovative products, as reflected in our target to invest an approximately 3% of revenue annually towards research and development [R&D]. As part of the CCM Group, we are leveraging on the R&D services provided by Innovax Sdn Bhd, a subsidiary of Chemical Company of Malaysia Berhad. Its cutting-edge facilities give us a competitive advantage, providing us with a pipeline of ethical and OTC products that will address new health concerns. We have identified an increasing demand for haemodialysis and irrigation solutions and will expand our resources towards helping those affected in managing these conditions.

Improving quality

Our membership in the CCM Group has brought us under the umbrella of the Group's Total Quality Management programme. Quality Improvement Teams [QITs] were formed during the year under review followed by the launch of the QIT Awareness Campaign on 1 March 2007.

Participating in the CCM Group QIT Convention for the first time on 6 September 2007, our teams succeeded in taking home three of the five Special Category awards – Most Innovative Team, Best Use of QCC Tools and Techniques, and Best Presentation. In addition, we won the Gold in the Services as well as the Marketing and Sales categories, and the Silver in the Manufacturing category.

We have also won recognition from outside the Group for the quality and efficacy of our products. In the Guardian Choice Customer Awards for 2007, we were the winner in the Joint Relief category. Encouraged by all these achievements, we plan to leapfrog our quality drive towards Six Sigma.

Helping the community

Being part of a conglomerate such as CCM has created greater awareness of our responsibilities as a corporate citizen. In December 2006, during the launch of Diamelon, a product that is able to help control blood glucose levels, we had made a pledge to donate 50 sen to the National Diabetes Institute [NADI] from the proceeds of the sale of every bottle of the product. During that launch, we had donated RM5,000 to NADI for the Institute's educational programmes. On 14 November 2007, we carried through with our promise, donating an additional amount of RM7,000 to the Institute at a presentation ceremony held in conjunction with 'World Diabetes Day'.

Our support of NADI represents the first of several initiatives in our Corporate Social Responsibility programme. We are committed towards promoting greater public awareness on diabetes prevention. NADI was selected as the beneficiary of our programme to recognise and appreciate its efforts in educating the public on diabetes. In further support of the Institute's work, we have also provided a link to its website via our own corporate website. This should help to facilitate access to information for people living with diabetes and the general public.

Time and again, we have contributed supplies of our products to help certain sectors of the community. During the year under review, we pledged a year's supply of Donna Forte 500mg, a product to alleviate the symptoms of osteoarthritis, and other related products to the aged residents of Penjagaan Warga Tua Sri Tanjung, Kuang, Selangor. This is not a one-off affair as we are in constant communication with the retirement home to help it in its future activities.

Developing our human capital

Our emphasis on quality goes hand-in-hand with our ongoing commitment to human capital development. This has been further strengthened by the harmonisation of our human resource policies and procedures with the CCM Group. Our compensation and benefits are being aligned with that of the Group, particularly in regard to its performance-oriented philosophy, so that our vision, mission and strategic plans reflect that of the Group's organisational culture.

Performance-based tools, such as the Balanced Score Card and Key Performance Indicators, are being implemented to measure competencies and performance. Succession planning is being introduced at top and middle management levels to ensure continuity and provide a definite career ladder to retain our talents. The effectiveness of such initiatives, which require critical statistics and accurate data relating to human resource, is ensured by further improvements in our human resource information system and processes.

To promote harmonious employer-employee relations and minimise disputes, we organised industrial relations training, provided effective disciplining and counselling processes, and introduced grievance-handling procedures.

The knowledge and skills development of our people remained high on our priority list during the year under review, with staff at all levels undergoing training in both technical areas and soft skills. Developmental activities were undertaken to prepare them for the operational, technical and individual requirements to support our expansion and growth. The Personal Effectiveness Programme was held for management staff to help them in moving towards the Group's organisational culture. While most training and development is now held at the Group level, more specific training in Good Manufacturing Practices as prescribed by the MOH is organised at the manufacturing floor.

16.05.2007



CCM Duopharma in Kazakhstan

At the KIHE 2007 Exhibition

CCM Duopharma Biotech Berhad participated in one of Central Asia's biggest international health exhibition, the Kazakhstan International Healthcare Exhibition [KIHE] 2007, in Almaty to reinforce the Company's presence as an international player.

With exhibitors from more than 25 countries worldwide, exhibition space had to be increased by 30% increase from the previous year.

The exhibition provided CCM Duopharma a platform to establish business contacts into new markets, gather market information and study competitors' activities. More importantly, the exhibition gave the Company an opportunity to showcase its products, which included a wide range of small volume injectables and over-the-counter tablets and capsules.



Looking ahead

We will continue to face challenges brought about by rising raw material costs and competitive imports. Our main challenge will be in developing a strong management team with a strategic outlook, one that is also capable of revamping the organisation in accordance with the Government-linked Companies Transformation Programme, which will bring us on par with the multinationals.

Our immediate focus will be on expanding our facilities, not only with additional manufacturing and warehousing facilities but also with better staff amenities, at our plant in Klang, Selangor. We will be expanding our packing line for small volume injectables to improve output. In terms of our market, we succeeded in obtaining our Halal certification for a range of products in early January 2008, which will pave the way for inroads into the Middle East.

For the medium-term, we will be looking at further incorporating our operations into the Group's divisional strategy by rationalising our product range. Having completed our second year within the CCM Group, the integration work is almost done and the emphasis would now be on gearing up our business. We operate in a resilient industry that caters to the health and well-being of the general public. As such, we expect our future prospects to continue being robust.

Leonard Ariff bin Abdul Shatar
Chief Executive Officer