

Chairman's Statement

Remaining Focused

We are committed to achieving our Company's objectives whilst simultaneously realising the government's call to enhance Malaysia's position as a high quality pharmaceuticals producer.



Tan Sri Dato' Dr. Abu Bakar bin Suleiman
Chairman





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Dear Shareholders,

The global economic downturn has made 2009 a tough year not only for CCM Duopharma Biotech Berhad (CCMD) but also for the pharmaceutical industry as a whole. Despite all the challenges and difficulties, we managed to show improvements and are cautiously optimistic for the year ahead. On behalf of the Board of Directors, I am pleased to present you the annual report and financial statements of the Company for the financial year ended 31 December 2009.

During the year under review, we undertook various strategic initiatives to strengthen our performance as a leading player in the local pharmaceutical market and increase our regional presence. Our existing business model that focuses on meeting the demands of both the government and private sectors has proven to be beneficial for our operations as we continue to remain as one of the most profitable pharmaceutical manufacturer in Malaysia with a 12% revenue market share in the local generics business but with a larger share in terms of profitability.

With Challenges Come Opportunities

The global economic crisis has hit the United States, Europe and Japan the hardest with the US plunging into its worst recession since the Great Depression, causing the fall of asset prices and a decline in global demand. Subsequently, the economic downturn affected developing economies worldwide in early 2009.

However, the world economy showed signs of recovery during the second half of the year, stimulated by the strengthening performances of China, India and other countries in Asia. On the local front, the

Government had facilitated various efforts to ease the effects of the crisis and steer the country out of the seas of uncertainties while ensuring the completion of all programmes under the financial stimulus packages and the Ninth Malaysia Plan.

With the announcement of the 2010 Budget, the Government aims to strengthen and maintain the recovery process of the economy by increasing domestic demand and drive the country towards a high-income economy by supporting private sectors' development projects. The Government also focuses on the importance of intensifying niche growth areas in the services and manufacturing industries while enhancing human capital development to achieve its goal. We are confident of the country's initiatives to continuously sustain Malaysia's economic stability especially since the Government is strongly emphasising on key performance indicators in the public sector to further boost greater accountability and efficiency.

Although other industries felt the pinch in 2009, the local pharmaceutical demand was more resilient albeit with higher demand from the Government sector. The influenza A(H1N1) outbreak has also further boosted the pharmaceutical industry's performance. The slow economic climate has also heightened the sales of generic pharmaceutical products which are much more affordable than branded products. Although the pharmaceutical sector remained buoyant, industry players had to face intense competition and high costs of imported raw materials following the unpredictable foreign exchange rates. This inevitably resulted in lower profit margins for manufacturers but we took this as a challenge to develop medicines at lower costs while maintaining the high quality standards to sustain a modest growth in an increasingly competitive industry.

The year under review also saw the growth of Malaysia's pharmaceutical exports partially assisted by Malaysia's membership of the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Cooperation/Scheme (PIC/S) in 2002. Other PIC/S member countries include Canada, Australia and the European Union. Malaysia is recognised for its high quality pharmaceutical products as the majority of local industry players have met the strict worldwide requirements of Good Manufacturing Practices (GMP). This not only offers an opportunity for Malaysia to explore new markets in the international scene but also spurs the growth of contract manufacturing businesses. 2009 saw many international pharmaceutical companies contracting out research and development of their products to Malaysia as a result of the global economic slump. Malaysian standards and technology, excellent infrastructure and high level of cost efficiency were the main attributes that attracted foreign companies to Malaysia to increase their global competitiveness compared to other developing countries.

Our Performance

Despite experiencing a tough economic environment, CCMD managed to improve its revenue to RM123.8 million in 2009 from RM122.9 million in the corresponding period in the previous year.

The Company's profit before tax (PBT) also grew 8.2% to RM38.2 million during the year under review from RM35.3 million in the same period in 2008. The increase in PBT was due to our recovery from the one-off stocks write off undertaken in 2008.

Although our revenue and PBT results have been growing consistently, we have no plans to rest on our laurels as we

foresee a very challenging year ahead. One of the main challenges that CCMD will be facing in 2010 is obtaining import permits to bring in raw materials for the production of products that are classified as psychotropic and dangerous drugs. We may not be able to obtain permits up to the quantity purchased and used by the Company in 2009 and this may affect CCMD's 2010 profitability.

In spite of this, we hope to rise above the challenges to deliver value to our shareholders.

Positive Prospects

In 2010, the global pharmaceutical market is expected to grow between 4% and 6%, in excess of US\$825 billion. Factors that contribute to the global industry growth include higher near-term growth in the US market, the varying combination of innovative and mature products, greater healthcare access and funding on market demand. Meanwhile, the Asia-Pacific region is anticipated to become the fastest growing pharmaceutical market mainly due to the lower costs of production and favourable regulatory settings.

The prospect for the Malaysian pharmaceutical market is expected to be positive in 2010. The Asia-Pacific Business Environment Rating matrix which evaluates 115 key regional markets places Malaysia in the eighth spot for the first quarter of 2010. Malaysia is also ranked as the 29th most attractive market out of 71 countries assessed in a global survey. According to the Malaysian Organisation of Pharmaceutical Industries (MOPI), the domestic pharmaceutical industry is projected to gain a positive growth in 2010 due to the changing demographics, expectations for better healthcare and the rise in disposable

income. The high prevalence of major chronic diseases among Malaysians such as diabetes and cardiovascular diseases also boosts the demand for prescription medicines. The intense competition among pharmaceutical players in the industry as well as the Government, medical fraternity and consumers' preference for generic medicines over branded drugs to reduce cost will also significantly contribute to the domestic market's growth. Export sales are also expected to grow between 15% and 30% in the next two years as local generic pharmaceutical producers are rapidly exploring opportunities in other countries.

A greater emphasis on research and development (R&D) also drives the growth of the local pharmaceutical industry. In 2009, the Asia-Pacific pharmaceutical industry reached an estimated market size of about US\$187 billion following an increase in R&D activities in the region. Market reports foresee an increase in compound annual growth rate (CAGR) of about 12.6% between 2010 and 2012 for the regional industry and the region even has the potential to become the global hub for the production of active pharmaceutical ingredient (API) in the near future.

R&D promotes product innovation and accelerates the growth of biotechnology. Biotechnology is a major driver of Malaysia's economic advancement that encourages the development of better healthcare products and treatments. In this regard, the Government is aggressively pushing for local pharmaceutical manufacturers to undertake higher value-added activities and venture into new growth areas. Efforts to elevate the biotechnology sector include encouraging more players to obtain the BioNexus status which makes them eligible for Government incentives such as grants and tax reliefs.

To this end, your Company is actively working on Biosimilars to complement its current range of pharmaceutical products.

Pharmaceutical players are also investing in R&D to develop halal pharmaceutical products as they heed the Government's call to position Malaysia as an international halal industry hub. Since Muslims make up 1.6 billion of the world community, the value of the global halal trade exceeds RM7 trillion and is the fastest growing business in the world with a forecast growth rate of 7% per annum. The global halal market offers huge business potential and more local pharmaceutical players are utilising their R&D skills and expertise to capture a bigger share of the foreign market. As both Muslims and non-Muslims alike are becoming more discerning and conscious about what they consume, they want to know how pharmaceutical products are being manufactured and where the ingredients originate. Halal pharmaceutical products offer consumers the highest level of quality, safety, hygiene and efficacy that strictly adheres to Islamic preparation and handling guidelines. With that, the halal market is set to expand and meet the demands of consumers who are constantly on the lookout for products that provide them with peace of mind when they make their purchases.

2010 will also see the completion of our capital expenditure projects to ensure compliance with ever increasing GMP requirements. Among these are the new warehouse next to our current site in Klang, the upgrading of our Sterile Production Unit and also the installation of our Fill & Finish lines. These investments bode well for the future growth of your Company.

Our Appreciation

In line with our goal of providing long-term value for our shareholders, the Board of Directors is recommending a final tax exempt dividend of 10% (5.0 sen) per share and final dividend of 14% (7.0 sen) per share less 25% income tax for the year under review. The total dividend for the year is 36% (18.0 sen) per share amounting to approximately RM22.56 million.

Acknowledgement

We entered 2010 with confidence and optimism and we are committed to leverage our skills to continue to implement strategic initiatives to further expand our business and improve our earnings while meeting and exceeding the expectations of our shareholders. We look forward to the year ahead and will continue to seize greater opportunities to meet our long-term goals and deliver sustainable value to our shareholders.

2009 was a commendable year for us despite the challenges that we faced. Encountering the highs and lows is part and parcel of the business world. In an increasingly globalised world, competition is inevitable and we have no choice but to step out of our comfort zone and take risks in order to achieve greater success. It is up to us to either ride the wave of change or sink into a sea of anguish. Overcoming adversity during tough times makes us stronger and more experienced to face the challenges that lie ahead.

On behalf of the Board of Directors, I wish to thank our dedicated management and employees who have contributed tremendously to making 2009 a laudable year despite facing the difficulties posed by

the economic downturn. I am also grateful to my fellow Directors for sharing their priceless views and knowledge in ensuring the Company's success throughout the year under review. A special note of thanks to Dr. Mohd. Nasir bin Hassan for his dedicated service and invaluable contribution to the Board for the past 6 years and we wish him all the best in the future. Last but not least, I would like to extend our deepest appreciation to our shareholders, stakeholders, customers, business associates and partners for their continuous support and confidence in the Company.

**Tan Sri Dato' Dr. Abu Bakar bin Suleiman
Chairman**