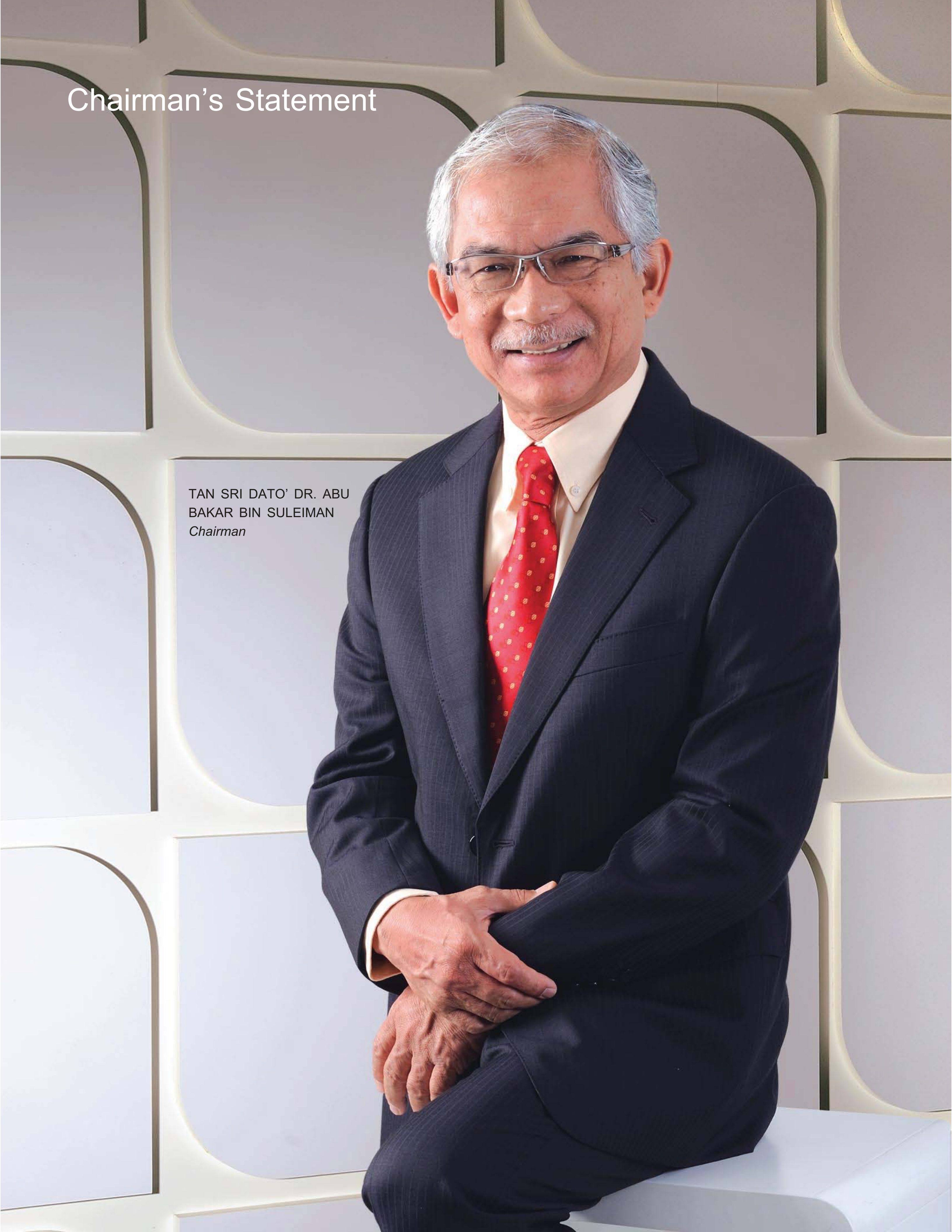
Chairman's Statement



TAN SRI DATO' DR. ABU BAKAR BIN SULEIMAN
Chairman

During the year under review, we continued to explore growth strategies to accelerate our performance and gain the competitive edge to enhance our market position in the ever-changing pharmaceutical industry.

DEAR SHAREHOLDERS,

The Malaysian economy has rebounded and showed signs of improvements in 2010 following the Government's efforts in implementing economic stimulus packages to overcome the challenges of the financial crisis in 2008 and 2009. The economic recovery has significantly helped to spur and sustain the growth of the local pharmaceutical industry and provided a positive outlook for CCM Duopharma Biotech Berhad (CCMD) 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 2010.

During the year under review, we continued to explore growth strategies to accelerate our performance and gain the competitive edge to enhance our market position in the ever-changing pharmaceutical industry. Our emphasis on research and development (R&D) initiatives enabled us to meet and exceed our customers' expectations who are constantly seeking better value for money products. Greater demand from customers inevitably raises the bar for product innovation and we aim to take the lead in improving our efficiency and developing new products to increase the quality of life for every Malaysian.

WITH CHALLENGES COME OPPORTUNITIES

Various industries including the pharmaceutical sector felt the pinch of the global economic downturn in 2008 and 2009. The tough economic conditions have prompted the Government to devise stimulus packages to cushion the immense challenges faced by the country.

The announcement of the 10th Malaysia Plan in 2010 calls for the transformation of Malaysia into a high income nation with a sustainable economy that is driven by rising productivity and innovation to steer the economy back on track. Under the 10th Malaysia Plan, the Government aims to grow the pharmaceutical industry which has been identified as one of the 12 National Key Economic Areas (NKEAs) and has the potential to drive the Malaysian economy forward. The country currently spends 5% of its gross domestic product (GDP) on healthcare and the recent economic decline did not decrease the demand for quality healthcare due to factors including rising consumer awareness, extended longevity and increasing lifestyle illnesses such as diabetes and cardiovascular diseases. The healthcare and pharmaceutical industry alone contributes to RM15 billion in gross national income (GNI) and the Government targets the contribution to reach RM50 billion by 2020. The Government believes that the implementation of these economic policies will boost the pharmaceutical industry's effectiveness and competitiveness in order to achieve the transformation goals.

As part of the Government's plan to develop and promote the pharmaceutical industry as well as to ensure that healthcare remains accessible and affordable for all, the country has recognised the importance of manufacturing generic drugs and encourages local pharmaceutical players to seek opportunities to export their products overseas. In the highly competitive globalised world, local pharmaceutical companies need to manufacture high quality and cost effective products to cater to the local needs and look beyond Malaysia to sustain their growth. Other emerging countries such as Korea, China and India are also competing for a share of the global market and Malaysian companies should take up the challenge to pursue international markets to remain competitive.

Chairman's Statement

OUR PERFORMANCE

For the financial year ended 31 December 2010, CCMD recorded a revenue increase of 6.2% to RM131.4 million from RM123.8 million in the corresponding period last year. The Company's revenue showed improvements mainly due to increase sales to Government hospitals as well as export market.

However, the Company's profit before tax (PBT) dropped 7.3% to RM35.4 million from RM38.2 million in the same period in 2009 due to sales to Government hospitals which generated lower margin coupled with limitation of import permits for importation of controlled drug raw materials during the year.

Despite the challenges in the world economy, we are optimistic about the financial year ahead following the Government's support and efforts to create a conducive economic environment and execute its projects under the 10th Malaysia Plan that are set to have a positive impact on the local pharmaceutical industry in the long run.

POSITIVE PROSPECTS

The outlook for the Malaysian pharmaceutical industry looks promising. Despite a relatively small population of 27 million people, Malaysia ranks fifth in healthcare spending compared to other Asian countries and it is growing at about 13% annually. This indicates an increasing trend towards healthy lifestyle amongst Malaysians and offers local pharmaceutical companies the opportunity to deliver innovative and high quality healthcare products at affordable prices to consumers. According to Business Monitor International's (BMI) Pharmaceutical Expenditure Forecast Model, the Malaysian pharmaceutical industry is expected to expand by 8% between 2009 and 2014 with growth driven by various reasons including the expanding economy and ageing population.

BMI's forecast also reveals that the generic and over-the-counter (OTC) markets are poised for greater development in the coming years and play an important role in boosting the local pharmaceutical industry. The expiry of patents of blockbuster drugs, Government support and initiatives as well as rising healthcare costs will greatly fuel the demand for generic pharmaceuticals. In order to reduce the cost of healthcare financing and managing the increasing number of public hospitals, the Government will continue to be the main buyer of generic products. The high demand for generics also opens up the opportunity for local manufacturers to explore the biogenerics or biosimilars market which promotes lower cost and generic versions of normally highly priced biological drugs. Frost & Sullivan reports that the high profits generated from biological therapeutics will bring greater competition between international and local pharmaceutical companies, aiming to seize control of the biogenerics market. The global biogenerics market has grown at an annual average rate of 70% between 2007 and 2011, and has the potential to generate a total revenue of over US$16 billion by 2011.

Malaysia is one of the 12 most bio-diverse countries in the world and offers great potential for bioactive compounds from medicinal plants for the treatment of diseases such as cancer, hypertension and diabetes. The worldwide biotechnology industry is expanding at a fast rate and Malaysian companies would benefit immensely by increasing R&D investment and productivity in the local biotechnology sector including collaborating with foreign companies to enhance their R&D capabilities. CCMD invested about 2% of the Company's 2010 revenue in R&D and we hope to step up our efforts to explore opportunities in the niche and emerging areas of the biotechnology sector, including the manufacturing and commercialisation of biosimilar products. We have been in talks with international companies from the USA, Korea and India to explore several collaboration initiatives to manufacture biosimilars, especially inert vaccines and erythropoietin (EPO) biosimilars. Our investment in the biotechnology industry is a long term process and we anticipate a 5-year gestation period before we can enjoy the fruits of our labour.

Besides that, a more health conscious society also stimulates the demand for OTC products especially vitamins and dietary supplements as Malaysians are moving towards preventive healthcare to maintain overall well-being and prevent illnesses. More Malaysians are also seeking alternative therapies and non-conventional approaches in light of the increasing prevalence of chronic diseases that cannot be cured by synthetic allopathic drugs. This trend coupled with Malaysia's rich biological heritage and multicultural background provides a huge potential for local pharmaceutical manufacturers to take the lead in the herbal market that is valued at RM330 million in 2006 and growing at 15% to 20% annually.
The Government also encourages the participation of local players in the herbal market and offers numerous incentives including research grants to heighten R&D activities.

The Malaysian pharmaceutical industry currently relies deeply on imported drugs which fulfill 70% of the local demand as consumers are opting for established international brands instead of the more affordable local products. These imported drugs are mostly drugs used to treat ailments such as cancer, cardiovascular diseases and diabetes. The reliance on imported drugs has caused stiff competition between imported and locally-made products, resulting in local manufacturers to explore export markets. Malaysia's membership in Pharmaceutical Inspection Cooperation Scheme (PIC/S) exhibits that the country has established high pharmaceutical manufacturing standards and this presents endless opportunities for local companies to augment their exports to both PIC/S and non-PIC/s countries. The total export value of drugs from Malaysia is estimated at RM494 million in 2005 and is projected to rise at a rate of 5.4% between 2006 and 2013.

Export opportunities not only increase companies' revenues but also serve as a gateway to penetrate the halal market in Muslim countries, in line with the Government's goal to establish Malaysia as the global halal hub for goods and services. Therefore, Malaysian companies should leverage the country's R&D capacities and strategic location in the centre of Southeast Asia that acts as a good distribution point for halal pharmaceuticals to satisfy the needs of the local and international Muslim communities.

OUR APPRECIATION

In tandem with our commitment to grow value for our shareholders, the Board of Directors is recommending a final tax exempt dividend of 22% (11.0 sen) per share for the financial year ended 31 December 2010. The total dividend for the year under review is 31% (15.5 sen) per share consisting of a final tax exempt dividend as stated above and an interim tax exempt dividend of 9% (4.5 sen), totalling to approximately RM21.5 million.

We are also pleased that Bursa Malaysia has implemented eDividend, a service that enables us to electronically pay our shareholders' cash dividend entitlements directly into their bank accounts instead of making payment via bank cheques. Shareholders can now register with their stockbrokers to ensure their dividends are paid quickly.

ACKNOWLEDGEMENT

Malaysia's economy slowly gained its momentum in 2010, symbolising the country's tenacity to bounce back despite volatile fiscal conditions in the past two years. As an organisation that is dedicated to delivering the best products and services to our consumers, CCMD took the right initiatives to manoeuvre the Company through the challenging year. We continued to carry out strategic measures to increase productivity, operational efficiency and innovation to achieve near-term performance while aiming to win over long-term goals.

Asia is fast emerging as an important location for the thriving healthcare and pharmaceutical industry notwithstanding the economic downturn. It is also reported that Asia has the potential to progress beyond just being a market, an outsourcing or a manufacturing centre but also to becoming a capital of drug discoveries and innovation with the high possibility of overtaking the US and Europe in the area of R&D in years to come. With that in mind, we aspire to focus our strategy on R&D and innovation, and take whatever challenges in stride, turning them into opportunities to advance our market position and create value for our shareholders. We are confident of the prospects that lie ahead for our Company and the pharmaceutical industry, and will continue to maximise our ability to effectively accomplish our targets.

On behalf of the Board of Directors, I would like to extend my thanks to our dedicated management and employees for their efforts in propelling the Company forward during the year under review. I also wish to thank my fellow Directors who have been instrumental in imparting their guidance and wisdom for the betterment of the Company. Last but not least, I would like to express our deepest gratitude to our shareholders, stakeholders, customers, business associates and partners for their unwavering support for the Company.

Tan Sri Dato' Dr. Abu Bakar bin Suleiman
Chairman