



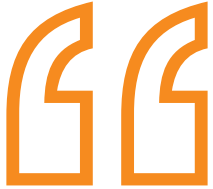
**Chief Executive Officer's
OPERATIONS REVIEW**



Leonard Ariff bin Abdul Shatar
Chief Executive Officer



Chief Executive Officer's OPERATIONS REVIEW cont'd



We entered 2012 realising that it was going to be a challenging year as market volatility and global economic uncertainties continued to affect the business of CCM Duopharma Biotech Bhd (CCMD). Demand for our products remained strong, although the increasing competition within the domestic pharmaceutical industry affected our margins in some products.

Our strategy remained to penetrate new markets and consciously make the move to higher margin products that are more complex, including biosimilar drugs, vaccines and high potency drugs for oncology.



Following the Company's 5.1% revenue growth at the end of 2011, we were pleased to note that our revenue in the first half of 2012 registered a 3% increase, totalling RM70.4 million as at 30 June 2012 compared to the corresponding period in 2011. Revenue grew on the back of improved sales to Government hospitals. Unfortunately, the second half of 2012 saw our revenue falling relative to the previous year, and as at the end of the financial year, we recorded RM135.3 million in revenue – a 2% dip from the previous year, largely due to reduced demand from the private sector.

Despite the marginal dip in revenue, CCMD's profit before tax (PBT) increased by 1.6% to RM35.3 million for the financial year ended 31 December 2012, compared to RM34.7 million in the corresponding period of 2011. This increase in profits was due to the increase in our gross profit margins driven by selective changes in our channel strategy.

We faced cost pressures from the cost of utilities and our proactive compliance to the national minimum wage policy requirements, in addition to some capital expenditures required for new projects and Good Manufacturing Practices (GMP) compliance. The increase in expenses seen during the year was largely offset from gains from the disposal of warehouses and recognition in changes of fair value in investment property.

One of our key strategies for the year was to leverage on collaborations with multi-national pharmaceutical companies to capitalise on opportunities arising from the expiry of Innovator Patents, or what the industry refers to as the "Patent Cliff", to build a rich portfolio of generic blockbuster drugs.

During the course of the next decade, innovator blockbuster drugs with a global value of about RM435 billion in annual sales are expected to go off-patent. We want to ensure that CCMD is at the forefront of this changing landscape, and have started to aggressively focus our energies on tapping into these opportunities.

Our core strategy is two-fold: to increase investment channelled towards Research & Development in developing new generics to fill our pipeline; and to establish mutually beneficial collaborations with multinational players, enabling us to leverage off their innovations while offering them CCMD's established manufacturing expertise, available plant capacity and strong distribution channels, as they are compelled to participate in generic segments upon expiry of their Innovator Patents.

Other strategies that we continue to pursue include commercialising niche high value products such as biosimilars and High Potency Active Products. One of our milestones in 2012 was the inking of our collaboration with Korea's PanGen Biotech Inc., at the Malaysian Pavilion during the 2012 BIO International Convention in Boston, Massachusetts, USA, to pioneer a clinical trial of Erythropoietin (EPO) in Malaysia. Used in the treatment of end-stage renal failure patients, this will add to our portfolio of renal products. The rise in incidence of renal patients in Malaysia, high market value, and well-structured domestic renal market that facilitates easy distribution, were among the contributing factors for us to venture into this territory. This initiative kicked off our foray into biosimilars, in line with our commitment to drive innovation and pioneer technology-driven processes.

Aspiring to be the first in Malaysia to conduct "Fill and Finish" operations for vaccines and biosimilars, CCMD has already invested RM7 million to establish Malaysia's first National Pharmaceutical Control Bureau-certified GMP Biological Fill & Finish facility in Klang. A further sum will be potentially invested for a pre-filled syringe suite for Biologicals, should the Clinical Phase III trials for EPO prove successful.

Separately, we continue to engage with various multinationals to identify opportunities in niche therapeutic areas especially in the area of Oncology. These initiatives are in line with the government's aspirations to encourage more partnerships between multinational and local companies, enabling the sector to achieve its fullest potential. We believe that this is just the beginning for us in our journey in biosimilars.

Due to the relatively small size of the Malaysian pharmaceutical market, branching into new markets has always been a priority for CCMD. So while we continued to expand our offerings locally, we have also expanded our market reach through collaborations and investments in international markets, including Indonesia, Vietnam and Singapore. We enhanced our presence by appointing a full-time business head from Malaysia to be based in Indonesia. We continued our exports to over 20 countries, with a primary focus on the abovementioned countries.

HALAL

During the year under review, CCMD continued to leverage on its leadership in the Halal segment to add value to its pharmaceutical manufacturing. The Halal accreditation and branded products will be a key differentiator for the Company, especially in the ASEAN region, Middle East and North African countries.

This leadership position was further augmented when CCMD emerged as the first company in Malaysia to receive the world's first Halal Pharmaceutical Standard certification under the new standard MS2424:2012 Halal Pharmaceuticals General Guidelines.

RESEARCH & DEVELOPMENT (R&D)

On the R&D front, 2012 saw the completion of the Company's Pipeline Strategy for 2012-2015 designed to be more strategic and aligned with future market demands. The product portfolio map with clear forward-looking decisions to invest, innovate and prioritise is intended to steer the Company's R&D pipeline towards achieving the utmost in market capability.

As part of our strategy to tap into new innovation resources through collaborations, the Company signed agreements with three local universities to partner in developing new product formulation and delivery systems. CCMD outsourced its research and development activities to an ISO17025 certified R&D facility, Innovax Sdn. Bhd. The R&D facility completed the development of 10 generic products.

We continue to be fully committed to meeting or surpassing requirements from the Malaysian National Pharmaceutical Control Bureau. On the requirements for Bio-Equivalence (BE) studies for registered immediate release ethical oral solid dosage, we remain committed to ensuring that identified registered products will meet the requirements of regulatory authorities.



Chief Executive Officer's OPERATIONS REVIEW cont'd

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Promoting Sustainability

The Malaysian Code on Corporate Governance 2012 recommends for the Board of companies to formulate strategies that address sustainability. In this regard, the Group has adopted the guidelines under the Securities Commission CSR Framework 2006 focusing on the following areas, to achieve its sustainability objectives:

- i. Stakeholders and Marketplace expectations;
- ii. Environment;
- iii. Workplace sustainability; and
- iv. Community needs.

The Corporate Sustainability Policy can be accessed from the Company's official website at www.duopharma.com.my

CCMD's Sustainability and Corporate Responsibility is embedded within the Company's culture as we recognise the importance of integrating our business values and operations to meet the expectations of our shareholders. We strive to make a difference in the community that we operate in and continuously seek to enhance our corporate values and adopt ethical business practices, with the ultimate aim of enhancing the quality of life.

• Sahabat Korporat Tabung Haji

CCMD contributed 40,000 personal health kits to the pilgrims performing the Haj through the *Sahabat Korporat Tabung Haji* programme. These health kits are used to treat minor ailments that could arise during the course of their pilgrimage and comprised our Halal-certified products.

• 13th MSAM, Sabah

Sabah was the location for the 13th Minggu Saham Amanah Malaysia (MSAM) where CCMD set up a booth at the event. We took the opportunity to provide *Sahabat Sihat* and *Chit Chat Diet* – free health checks and diet consultancy services for the visitors, which received overwhelming response. It was also an ideal platform to promote our pharmaceutical products which were almost sold out by the end of the event.

• CCM JATI Programme

In heeding the Government's call to the industry to engage with local universities, CCMD kicked-off the CCM JATI (*Jalinan Universiti dan Industri*) programme, with the aim of building and moulding entrepreneurial capacity among local pharmacy graduates. Our aim is to pioneer 500 new entrepreneurs in community pharmacy by 2020. This is in line with the Government's plans to license the dispensing of prescription medicines at the retail level. Students in this programme will be exposed to various aspects of marketing, business management, retail and Halal pharmaceuticals through their interaction with the Company's experienced professionals and industry members.

In October 2012, we expanded our CCM JATI initiative by successfully collaborating with Universiti Teknologi Mara (UiTM) following our strategic tie-ups with Universiti Sains Malaysia (USM) and Universiti Malaysia Sabah (UMS) previously. Through this, UiTM will identify 50 students annually from their Faculty of Pharmacy to take part in the CCM JATI programme to prepare them for a future as community pharmacists.

SAFETY, HEALTH & ENVIRONMENT

The Company regards Safety, Health and Environment (SHE) matters very seriously. In addition to complying with regulatory requirements, we conduct various initiatives annually to promote and reinforce responsible behavior for long-term sustainability and growth. Annual activities to promote responsible and sustainable culture within the Company include the SHE Week, Fire Drills, Blood Donation Drives, regular fire squad trainings with the Bomba, First Aid refresher training, among others. The past year witnessed the best ever safety performance of the Company – a testament to the synergy and effort of all our staff in these areas.

PEOPLE

We continue our previous focus on people within CCMD and continuously provide training and development opportunities to upgrade skills and improve productivity. In particular, we have focused on elevating working conditions by including SHE factors in the evaluation of our new equipment. CCMD also proactively implemented the new Minimum Wage Policy company-wide. Apart from restructuring Senior Management roles in the beginning of 2012, comprehensive succession and development plans were also put in place to ensure the continuity of skills and expertise within the Company.

INFORMATION & TECHNOLOGY

We recognise the crucial role played by Information Technology in growing our business. In view of this, the Company has invested in and implemented a new Enterprise Resources and Planning software (SAP) in 2012. With the implementation, we will be able to leverage on technology to enhance our processes and operation efficiencies.

ACKNOWLEDGEMENTS

I would like to take this opportunity to put on record my gratitude to the various parties and all our staff who have been instrumental in ensuring that our Company has continued to forge ahead in the local pharmaceutical industry. I believe we will continue to make more significant strides in biosimilars and R&D this coming year, while capturing greater market share both locally and regionally.

On behalf of the Management team of CCMD, I also express my heartfelt thank you to all our associates, partners, vendors and stakeholders who have remained with us through the years. We look forward to an even more rewarding year ahead!

Leonard Ariff bin Abdul Shatar

Chief Executive Officer