Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am delighted to present to you the annual report and financial statements of CCM Duopharma Biotech Berhad (CCMD or the Company) for the financial year ended 31 December 2008.

During the year under review, CCMD witnessed a turbulent external environment which contributed to increased level of uncertainty for most industries. Even though we performed commendably in the earlier part of the year, the volatility of the global economy affected our growth considerably from the second half of the year onwards. However, the synergistic benefits we receive since coming under the CCM banner helped us to move forward with the goals we set for ourselves.

I am, therefore, pleased to report that we managed to demonstrate our resilience in the face of a weaker business and operating environment. We are still the leader in the domestic pharmaceutical industry and an emerging player in the regional market. With an approximate market share of 11%, we remain the most profitable local manufacturer of generic pharmaceutical products in Malaysia and continue to pave the way for our brands in the ASEAN region in 2008.

With Challenges Come Opportunities

The global economic slump in late 2008 driven by the economic slowdown in the United States took its toll on Japan, Europe and the emerging economies of China and India. Asia's "Little Dragons" such as South Korea, Taiwan, Hong Kong and Singapore saw their economic growth dropping to undesirable levels. The prospects of an uncertain future coupled with the fluctuating prices of crude oil and other commodities left the year in disarray in many parts of the world.

As a result, global economic growth was reported at 4.8% in 2008 compared to 5.2% in 2007. Fortunately, Malaysia's strong fundamentals protected the country and helped mitigate inflationary pressures from these external uncertainties. The country continued its steady growth momentum despite a slight reduction in export growth. The domestic and regional markets which have become more affluent with a more diversified economic base are looking into themselves to adapt to the challenging global forces.

In 2008, private consumption, firm labour market conditions and direct foreign investment continued to improve the business environment in Malaysia. To better compete with the emerging manufacturing giants like China and India, we learned that the easy and predictable prosperity of export-led growth and cheap labour costs will not and cannot last forever. We will have to create new industries, move up the value-add chain and create robust service sectors in our economies.

During the year under review, Malaysia saw an increase in the numbers of global pharmaceutical manufacturers that sought to outsource or in-license their operations. Big multi-national companies have begun to outsource clinical work to contract research organisations (CROs) and also locate the clinical trials in the most cost-competitive locations such as Malaysia where there is an abundant pool of educated and affluent population.

With the increasing trends shifting towards generic consumption as well as biotech and specialist driven therapy, the opportunities override the challenges for the pharmaceutical industry in Malaysia. Both the public and private sectors are important players in Malaysia's healthcare delivery system. This, in return, enables the country to expand its presence in the Asia Pacific healthcare industry.

Our Performance

Despite the changing scenario in the global and regional economies, we recorded another profitable year in 2008. The Company registered an increase of 6.3% in revenue from RM115.6 million in 2007 to RM122.9 million in the year under review. We managed to introduce new products and set our footprint in the regional markets, resulting in an increase in revenue.

Even though the Company's performance was laudable considering the turbulent economy occurring during the year, its profit before tax fell to RM35.3 million from RM42.5 million in the same corresponding period in the previous year. The drop in profit before tax was attributable to an increase in the prices of raw materials which occurred in the year as a result of the fuel price hike. Like most industries, we were affected by the skyrocketing fuel price which pushed up prices of raw materials from Active Pharmaceuticals Ingredients (APIs) to packaging materials.

Another major factor for the decline in our profitability was the one-off stock write-offs we had to undertake mainly due to regulatory requirements which the Company had to absorb. We immediately took various cost saving measures to mitigate the impact of these raw material price increases. As fuel prices stabilised, we already began seeing some reduction in price for certain categories of raw materials towards the end of the year under review.

Positive Prospects

The Malaysian pharmaceutical market is estimated to be worth around USD3.1 billion in 2008, with leading domestic companies expecting 10% growth in 2009. Factors driving this growth include healthcare modernization, the development of the biotechnology sector and the rising prevalence of chronic diseases as a consequence of improving affluence and unhealthy living habits.

Positive Prospects (cont.)

In the Asian market, Malaysia's healthcare spending rate was rated 5th behind the Philippines, India, South Korea and China. Even though Malaysia is relatively small in population compared to these countries, the healthcare spending of Malaysians is high and it reflects the trend of Malaysians toward a healthy lifestyle. Hence, even in such challenging times, there are opportunities for pharmaceutical companies to increase their manufacturing in order to meet the increasing demands for healthcare products.

For over a decade, the Malaysian pharmaceutical market has been growing at around 8% to 10% annually. The expiry of patents of highly demanded pharmaceutical products allow further development of lower cost and generic versions of conventionally higher priced drugs. With healthcare high on the list of government priorities in the country, the prospects for the pharmaceutical industry remain favourable.

The government has played a huge role in providing initiatives to the industry. Grants and financing schemes have been allocated to support R&D initiatives, pharmaceuticals inspection co-operation scheme (PICS), the Industrial Master Plan 3 (IMP3 2006-2020) and Malaysia's Intellectual Property laws have all gone some way towards encouraging growth in the industry. The markets which should benefit from these initiatives include specialist driven therapy, dietary supplements and herbal or traditional medicines markets.

Our Appreciation

It has always been our main aim and purpose to maximise value for our shareholders. We are mindful of the support and loyalty shown by our shareholders and consistently look for ways to create value for them.

Therefore, the Board is recommending a final tax exempt dividend of 14% per share or 7 sen per share, bringing the total dividend for the financial year under report to 30% or 15 sen per share including an interim dividend of 16% or 8 sen. In total, the Company will issue a dividend payout of RM20.9 million for the year.

Acknowledgement

On behalf of the Board of Directors, I would like to thank our shareholders, customers, business associates and partners for their continued trust and support in ensuring 2008 was another commendable albeit challenging year for the Group. I would like to extend our sincerest gratitude to the Malaysian government, particularly the Ministry of Health and other related government bodies. Our success is largely due to their continued trust and support in our mission and products.

In pursuit of productivity and returns, I must express our utmost gratitude to our management and employees for their dedicated loyalty, dedication and commitment. I thank my fellow Directors for their invaluable contribution, both in terms of insights and expertise, which they shared with me throughout the year under review.

Tan Sri Dato' Dr. Abu Bakar bin Suleiman
Chairman