

CHIEF EXECUTIVE OFFICER'S MANAGEMENT DISCUSSION AND ANALYSIS



LEONARD ARIFF BIN ABDUL SHATAR
Chief Executive Officer

Dear Shareholders,

In a recent report by QuintilesIMS Institute, it has been forecasted that the global total spending on medicines will reach an estimated US\$1.5 trillion by 2021, up 33 percent from 2016 levels, even as annual growth moderates from the record pace set in 2014 and 2015. While historically, large number of high-quality new medicines will emerge from the R&D pipeline in the next five years, pricing and market access pressures, lower volume growth in pharmerging markets and greater savings from patent expiries, will contribute to the lower rate of growth.

At the same time, it was reported that medicine spending will grow at a 4 to 7 percent compound annual rate during the next five years, down from the nearly 9 percent growth level seen in 2014 and 2015. The total global spend for pharmaceuticals through 2021 will increase by US\$367 billion on a constant-dollar basis.

In Malaysia, the budget 2017 announced an allocation of RM25 billion for the Ministry of Health to boost the quality of healthcare in the country. Among others, RM4 billion is allocated for the supply of drugs, consumables, vaccines and reagents to all government hospitals and facilities. All of these paint a positive outlook for the coming years for the pharmaceutical industry.



BUSINESS OVERVIEW

The year under review saw CCM Duopharma Biotech Berhad (“CCMD”) navigating through various external and internal challenges. One of our key challenges for 2016 was the cut back in government healthcare demand. This translated into lower sales into the government sector and necessitated additional emphasis on the private sector.

According to the IMS report, we are positioned 1st by volume as the largest manufacturer in Malaysia, but 6th by value. Our international ventures have shown good growth of 31 percent as compared to 2015. From this, we are still aspiring to become one of the top five generic pharmaceutical companies in ASEAN by 2022.

Our acquisition and merger of all the pharmaceutical entities under a single umbrella in 2015 has proven to be the right strategy as we streamline our business and stay focused on our expansion of high value products in niche therapeutic areas such as diabetes, renal, oncology and cardiology as well as vaccines. Thus, for 2016, we worked on further consolidating our position in the local and regional markets.

OUR PERFORMANCE

Though the year under review was a challenging one, CCMD recorded a 16 percent growth in revenue. The Group recorded a revenue of RM312.94 million for financial year ended 31 December 2016 as compared to RM269.79 million for the corresponding period last year. The increase in revenue was mainly due to consolidation of full year contribution from newly acquired subsidiary companies for year ended 31 December 2016 as compared to only seven months contribution for the corresponding period last year.

Despite the increase in revenue, profit before tax has dropped to RM31.48 million from RM47.83 million reported in the previous financial year due to changes in product mix and increase in production cost primarily driven by foreign exchange, resulting in lower gross margin.

A more pragmatic approach to review CCMD’s performance would be based on pro forma basis i.e. assuming full year existence of the Group and results thereof in financial year 2015 as compared to current year results.

Our overall sales dropped by 5 percent as compared to the year 2015, due to the slow off-take from the government sector. Nevertheless, our over-the-counter sales grew by 2 percent with private sector sales growing at 9 percent, despite a slowdown in consumer spending. Our ethical sales showed an 11 percent decline compared to 2015, mainly due to lower Government off-take.

Individually, our government sales declined by 25 percent compared to 2015, due to improved stock management within the government sector. However, our sales to the private sector yielded a good growth of 6 percent despite the generic market growing only at 1 percent as indicated by IMS.

Our International Business recorded a strong growth of 31 percent compared to the preceding year which accounted 11.7 percent of the Group’s overall revenue. This growth was very much driven by the strong performance of our Singapore unit coupled with the overall performance in our other ASEAN export markets due to the strong US dollar. However, our exports to the Middle East markets looked less promising due to uncertainties surrounding that region.

As part of CCMD’s strategy to be the leading pharmaceutical player in Malaysia and the ASEAN region, the Group has embarked on a manufacturing strategy to support the growth in the business. The manufacturing strategy is expected to necessitate a capital commitment of RM306 million which would be partly financed from the proceeds of our earlier rights issue and external funding of RM250 million. This is expected to increase our gearing ratio to 0.8x upon the completion of the manufacturing strategy.

Moving forward, CCMD has put in place various initiatives and measures to ensure operational expenditure is minimised and that the company spends prudently. The anticipated recovery and strengthening of our Malaysian currency will significantly impact on our performance for 2017.

CHIEF EXECUTIVE OFFICER'S MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OUR EXPANSION PLANS

Despite our commendable performance, the year 2016 also came with a myriad of challenges. The company had to take into consideration the cost of building capacity for our new manufacturing facility, weaker ringgit resulting in high cost of imported raw materials, reduced consumption in the government sector and the cost of increased cGMP (current Good Manufacturing Practice) compliance.

To help reduce the effect of these hurdles, we implemented the Manufacturing Optimisation Strategy which is the rationalisation and upgrading of manufacturing assets into state-of-the-art facilities with enhanced cGMP, purpose designed warehousing and distribution hub, among others, which are progressing well as planned and are targeted to be completed by year 2018 for a total capital expenditure of RM306 million. The construction of these new facilities were necessary to keep up with our growing current operations and help us to expand the current portfolio into specialty products. Our new product pipeline for the Effervescent range is on track and production is expected to commence in 2017 which will enable us to tap into the Effervescent market.

Our expansion programme on the facilities will serve as CCMD's central point for our designated activities and the completion of this state-of-the-art plant will enable us to increase our production capacity by 50 percent. Construction of our RM103.7 million new plant, including machinery and RM37.1 million new warehouse with a rooftop car park is expected to be completed by the end of 2018.

We are currently retrofitting our current facility in Glenmarie, Shah Alam to a new High Potency Active Pharmaceutical Ingredients ("HAPI") plant which will be the first plant in the country to manufacture generic oncology and other High Active Potency products. This will further strengthen our presence in the oncology segment.

We will also be investing on capacity upgrade and expansion in our International Business to meet the increasing cGMP standard of the international markets.

OUR BUSINESS OUTLOOK & PROSPECT

Our collaboration with PanGen for the development and manufacturing of Erythropoietin ("EPO") biosimilar for treatment of anaemia in end stage renal failure patients has seen the completion of the Phase III Clinical Trial (both in Malaysia and Korea). The results from the code break done in February 2017 proved that our EPO has similar efficacy with the reference product. This will be the world's second biosimilar Epoetin alfa product and the first biosimilar developed locally in accordance with the European Medicines Agency ("EMA") biosimilar guidelines by a local Malaysian pharmaceutical company. We expect to launch the product as soon as we receive the authorisation from the National Pharmaceutical Regulatory Agency ("NPRA").

Our company launched the Lavender Ribbon Campaign to initiate our Cancer Care Franchise in August 2016 with the name, *ACE* under its acronym for *Accessibility, Commitment* and *Excellence*. This initiative will see us working closely with various cancer-related NGOs to raise awareness for early detection of cancer and counselling assistance to cancer patients and caregivers. With the increasing number of cancer cases reported in Malaysia, CCMD is committed to alleviate the high cost of healthcare in the treatment of cancer by venturing into the oncology therapeutic area by providing cancer patients with greater access to quality and cost-effective cancer treatment.

We inked a technological partnership with Natco Pharma Limited to aid us widen our product portfolio capabilities in offering generic oncology medicines to treat breast cancer, lung cancer, colorectal cancer, cervical cancer and blood cancer. The year also saw us introducing two new ethical products for cancer treatment, *Kytron* and *Letronat*. *Kytron* is an antiemetic use to treat nausea and vomiting due to the side effects of chemotherapy while *Letronat* is an oral non-steroidal aromatase inhibitor for the treatment of hormonally-responsive breast cancer after surgery.

Continuing our crusade to combat diabetes in the country with the theme, *Working Together Against Diabetes*, CCMD launched the country's first insulin glargine biosimilar, *Basalog*® which is a long acting (24 hours) peakless human insulin analog in Q4 2016. Our strategic partnership with Biocon Ltd. for exclusive distribution rights to market, sell and distribute their range of insulin products, *Insugen*® launched in 2014 and *Basalog*® to Malaysia will offer diabetes patients in Malaysia with a more affordable insulin therapy for their disease. In December 2016, the Ministry of Health awarded a Letter of Award to our subsidiary, CCM Pharmaceuticals Sdn. Bhd. to supply Human Insulin to all government hospitals and clinics valued at RM300 million for three years until 2019.

On the Over-the-Counter ("OTC") business, we launched a new product under the *CHAMPS* brand. We offer *CHAMPS* Vitamin C 30mg to cater to the younger age group of 2 to 6 years category who require a lower dosage consumption. In our continuous bid to create brand awareness of our products, we conducted a livery change to our *Uphamol* and *Dermoplex* range of products to ensure that our packaging will attract consumers in comparison to competitors' brands.

In the area of Halal, we are proud to live up to the reputation as a key player and leader in the Halal front. We worked hard to uphold this through our continuous involvement in various Halal related workshops and technical working groups led by Jabatan Kemajuan Islam Malaysia ("JAKIM") and the Halal Industry Development Corporation ("HDC").

We actively organised seminars, talks and discussions on Halal awareness since 2007. On 21 December 2016, we hosted a Halal symposium entitled '*Malaysia Global Leadership in Halal Pharmaceuticals*' for 200 delegates from the pharmacy fraternity. This was held in collaboration with JAKIM, HDC, Standards Malaysia, Ministry of Defence ("MinDef") and Malaysian Pharmaceutical Society ("MPS").

We also participated in the annual JAKIM International Halal Certification Bodies Convention with CCM's Halal Assurance Management System, officiated in March 2016. Our Halal journey was further affirmed to be the right strategy when we created another milestone with JAKIM as the first Halal certifying body to certify controlled/prescriptive medicines (Ethical Products) based on the world's first Halal pharmaceutical standard MS2424:2012 Halal Pharmaceuticals – General Guidelines to CCM during a special Award ceremony at Pullman Putrajaya in February 2017. As such, CCM is the first pharmaceutical company to receive Halal certification for controlled/prescriptive medicines in the world.

To play an effective role in spurring the Bumiputera Agenda, we will be creating game-changing opportunities for Bumiputeras in Halal Pharmaceuticals which has a global potential of US\$132 billion by 2021. Our recognition as a leader in the Halal arena can help expand market potentials for Halal-compliant vendors, including manufacturers, importing agents and logistics providers in making Malaysia the global leader in Halal Pharmaceuticals.

We strongly believe that our Bumiputera entrepreneurs have the knowledge and experience on Halal matters and they will be the key driving force behind the Halal Pharmaceuticals ecosystem, making Malaysia the global thought leader for this industry through the convergence of minds – Shariah and Science, opening opportunities for R&D in terms of products, services and also key reference documents.

CCM has a panel of Bumiputera vendors recruited under the CCM Bumiputera Vendor Development Programme ("BVDP") for its various initiatives to tap into this expansive market possibilities. We conducted a workshop themed '*Spurring the Bumiputera Agenda through BVDP*' that involved pocket-talks, knowledge-sharing sessions and business clinics to serve as a valuable platform for them to gain beneficial insights on various areas including business facilitation and enablement.

CHIEF EXECUTIVE OFFICER'S MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OUR RECOGNITION

As a testament to our commitment and pursuit for world-class standards, the year 2016 saw us receiving numerous awards. We received the Best Brand in Malaysia Award from the International Congress of the Economic Relations' Development in the Health Field with the Focus on Islamic Countries, Pharmaceutical Company of the Year – Generics Market from Frost & Sullivan and Best in Sustainability Reporting (RM500-950 million category) from Focus Malaysia. We were also in the third placing for the Excellence Award for Top Corporate Governance and Performance under the Special Category for Market Capitalisation Between RM300 million to RM1 billion and Merit Award for the Best Annual General Meeting from the Minority Shareholder Watchdog Group ("MSWG").

Our dedicated and committed workforce also made CCMD proud when we clinched the award for "HR Asia Best Companies To Work For In Asia 2016".

Our awards and accolades will serve as a reminder for us to continuously work towards providing the best for our customers and the community we operate in.

ACKNOWLEDGEMENT

Our success in 2016 is made possible with the guidance and support of our key shareholders, stakeholders and the community we operate in. The year 2016 saw the retirement of Tan Sri Dato' Dr. Abu Bakar bin Suleiman and Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam and the resignations of Datuk Alias bin Ali and Dato' Hj. Ghazali bin Awang. In February 2017, Dr Byung-Geon Rhee resigned from the Company. We thank all of them for their past contribution and for laying a strong foundation for CCMD to continue its journey to take the Company to greater heights.

Meanwhile, we welcome the new Chairman of CCMD, Dato' Hajah Normala binti Abdul Samad and the new Board members, Tan Sri Siti Sa'diah binti Sh. Bakir, Dato' Azmi bin Mohd Ali, Razalee bin Amin, Puan Sri Datuk Rohani Parkash binti Abdullah, Zaiton binti Jamaluddin and Dato' Eisah binti A. Rahman who will carry on the baton to grow the Company with their invaluable knowledge and vast experience.

Our thanks to Ibrahim bin Zainudin, the then Chief Operating Officer, who retired after making his significant contribution for the expansion plans and strategies of the Company. A welcome on board to our new members of the Management team, Wan Amir-Jeffery bin Wan Abdul Majid, who was appointed as Chief Strategy Officer and Krisnakumara-Reddi who was appointed as Chief Manufacturing Officer who will help spearhead the Company to a higher platform.

On behalf of Management, please allow me to extend my sincere gratitude to each and every one of you who have been part of our success and who have seen us through our challenges. We look forward to continuously serve you and together build a better community for our future generation.

My deepest gratitude to all our employees for their dedication and commitment in bringing the Company to another level of success. The year 2017 will see us working harder to deliver our promise for high quality products and services to all our stakeholders.

Thank you.

LEONARD ARIFF BIN ABDUL SHATAR

Chief Executive Officer