

Chief Executive Officer's Operations Review

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Against the backdrop of a challenging economic climate during the year under review, CCM Duopharma Biotech Berhad (CCMD) focused on implementing various strategic initiatives to ensure that we continue to deliver positive and consistent results, and create value for our shareholders. These strategies were designed to enhance our market leadership, reduce operating costs, boost operational efficiency and increase our product and service offering. As a subsidiary of the Chemical Company of Malaysia Berhad (CCM) Group, we believe our efforts exemplify our commitment towards raising our competitiveness and driving not only our Company forward but also strengthening the CCM Group's financial position in the long run.

The Malaysian pharmaceutical industry is expected to grow at a healthy pace in the longer term following the Government's encouragement of the biotechnology area, the improving regulatory environment and the nation's economic development which enables greater public and private expenditure on pharmaceutical products. The local pharmaceutical sector contributes to not only the Government's social and public health objectives but also the country's goal of achieving sustainable economic growth. With that, we hope to make continuous and significant progress towards meeting our goals as well as stepping up our game to face the challenges that lie ahead.

Our performance in 2010 demonstrated our strength to endure a tough economic climate as well as our ability to maintain customers' trust and confidence in our products. In order to further expand our strong position in the industry, CCMD undertook several key initiatives including the completion of our three-year RM55 million capital expenditure programme that consists of the establishment of Malaysia's first inert vaccine fill and finish facility suitable for vialling of CCMD's bulk vaccines in the pipeline. This facility is capable of compounding, filling, freeze drying, capping, inspecting, labeling and packing inert vaccines. Depending on product registration approval, we expect the facility to begin production in 2012/13. The investment also includes the upgrading of CCMD's small volume injectables (SVI) plant that aims to achieve optimal utilisation by tapping the overseas markets such as Indonesia, Thailand and Vietnam, as well as the construction of a new warehouse and waste water treatment plant.

In 2010, sales of pharmaceutical products to the private sector and Government hospitals contributed 37% and 53% respectively to CCMD's total sales. The Company's success in securing a three-year Government contract worth RM35 million to supply Oseltamivir (Omiflu), a generic anti-viral drug to treat and prevent infections due to the influenza A(H1N1) virus also contributed to revenue for the year under review. CCMD suffered a shortfall in profits for

the year due to reduced import permits for psychotropics and precursors raw materials. Having said that, CCMD was able to recover its revenue position within 2010. We will continue to increase our efforts to boost innovation which subsequently will develop more high quality products to meet consumers' expectations and generate greater revenue for the Company.

The local pharmaceutical industry is also hugely driven by the strong demand for generic products, changing demographics as well as calls to improve access to healthcare services through the implementation of the National Healthcare Financing Scheme. CCMD currently captures more than 13% of the local generics market which is worth RM1 billion. It is reported that the generics segment will be the best performing area in the coming years. Our future goal is to take advantage of growth opportunities arising from the generics market which will positively impact our profitability in years to come.

Moving forward, we strive to improve the overall performance of our Company by leveraging opportunities and developing a strategic plan as well as remedial measures to accomplish our short and long-term goals. We seek to increase our market share by advancing channel penetration, enhancing marketing efforts including brand rationalisation to extend our stronger products into new channels, cost containment via operational excellence activities such as the Six

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Sigma programme to reduce cost and improve quality, and planning and process improvements to drive our business interests, raise productivity and elevate efficiency.

CCMD will continue to concentrate on niche and high growth sectors that provide future high value-added products including biologics. The Company will continue to focus on the finishing and commercialisation of erythropoietin (EPO) biosimilar products which is scheduled for registration in 2012.

The Company's business outlook for 2011 seems positive and the future looks encouraging as the pharmaceutical industry is growing and CCMD has the capability and resources to venture into newer markets especially in the Southeast Asia region. We look forward to tap into emerging niche areas and strengthen our existing presence in the Malaysian over-the-counter (OTC) and herbal markets. We are confident that our extensive product portfolio and established brands will satisfy consumers' demand for a diverse range of high quality pharmaceutical and healthcare products that meet their expectations at an affordable price.

We are also very optimistic on the prospects of our halal business as Malaysia is in a strong position to be the global halal industry hub. Consumers nowadays are becoming more knowledgeable and discerning with a higher interest in products that promote safety, efficacy, quality and hygiene, which are the aspects which Malaysia's Halal certification manifests. Our various range of halal products offer a value proposition that emphasises universal appeal to both Muslims and non-Muslims alike. As an advocate of the halal initiative, CCMD is committed towards providing consumers with unique and innovative products that meet the stringent manufacturing requirements of halal and help the Company to gain the competitive edge against the rest of the industry.

One of CCMD's major achievements was the significant role it played as part of CCM's Pharmaceuticals Division, together with Halal Industry Development Corporation (HDC) in supporting the Department of Standards Malaysia to develop the Malaysian Standard: MS 2424:2010 Halal Pharmaceuticals – General Guidelines, the first ever in the world to have undergone a process in accordance to international standard requirements. Backed by years of experience in research and implementation of Halal principles, CCMD was a key contributor in developing general guidelines for the Malaysian Standard that outlines the requirements and critical areas in the manufacturing and servicing chain for Halal pharmaceuticals production.

INTERNATIONAL BUSINESS

In 2010, CCMD's international business fared slightly better than 2009, registering a growth of approximately 10% and contributed to almost 9% (valued at RM12 million) of the Company's total revenue. The slim improvement is due to a tougher export environment where competitiveness of our products were affected by the stronger Ringgit.

Despite the tougher export environment, CCMD is still committed to growing our international business and achieve greater results in the next few years. We believe that our international business will be the mainstay of CCMD's overall performance in the medium and long term. In order to reach our goals, we need to be more selective in the markets that we choose to penetrate, where our products will be able to command a certain level of premium.

In an effort to boost CCMD's international business growth, we have identified various new products and capabilities as part of the Company's future focus areas. We plan to maximise

the synergistic opportunities arising from the infrastructure within the CCM Group, namely with CCM Pharmaceuticals Sdn. Bhd., Innovax Sdn. Bhd. and the various regional offices in ASEAN, namely Indonesia, Thailand, Singapore, Vietnam and the Philippines to further amplify the size of our international business.

We will also continue to explore new opportunities and venture into other overseas markets to intensify our presence in the international arena. In 2011, CCMD as part of CCM's Pharmaceuticals Division, will be participating as an exhibitor in the largest pharmaceuticals conference and exhibition in the world, CPhI 2011 in Frankfurt, Germany. This participation signifies our intention to grow beyond Malaysia and the ASEAN region and attain bigger global success. It will also be a stepping stone for us to participate in the European Union (EU) market.

With all the strategic planning in place that is being implemented, we aspire to expand our international business in 2011.

RESEARCH AND DEVELOPMENT

Research and development (R&D) is crucially important in any pharmaceutical company to develop, test and introduce new products to the market. CCMD recognises R&D as the key driver to facilitate this process in order to gain access to latest technological breakthroughs to strengthen our product portfolio.

In 2010, we spent about RM2 million on R&D activities as we strongly believe that R&D investment is vital to generate new ideas and refine our existing pipeline. This allows us to raise the bar and obtain the added advantage to keep up with our competitors.

During the year under review, we carried out restructuring efforts in our R&D department for better functioning and operational competence. A Regulatory Affairs Department was introduced to accelerate dossier compilation and submission process for domestic and regional markets. This initiative also helped to develop robust and stable products which can pass bioequivalence (BE) criteria and minimise any rework. Besides that, our efforts also create cost effective products that enable us to offer competitive pricing to our customers and consumers, and generate better profit margin in the long run. Last but not least, the restructuring process allows us to acquire in-depth knowledge for successful scale up of products to accommodate larger scales of commercial production.

Some of the new products that were developed over the past year included *CCMD Ephedrine HCl Injection* from our ethical portfolio, and *Prokin Tab* and *Donna Sachet* from our OTC segment.

We will continue to augment our R&D efforts by leveraging CCM Group's R&D centre, Innovax Sdn. Bhd. in tandem with our commitment towards promoting innovation and enhancing our pipeline which provides a concrete platform for continuous and consistent growth in the local and global pharmaceutical industry.

HUMAN CAPITAL

Human capital development is important as it creates a workforce that can notably contribute to the growth and success of an organisation. In 2010, CCMD carried out several activities to help our employees to develop their personal skills and enhance their knowledge.

We organised the Young Managers Development Programme (Modules 1-5) for our managers to cultivate their talent

and abilities. In addition, succession planning for the CCM Group was implemented to identify and grow employees with the potential to assume key leadership positions in the Company. A mentoring programme was initiated to encourage all members of the Management Council (MC) to coach and mentor middle managers (mentees) who do not report to them directly. Through the programme, each MC member was assigned a mentee for nine months and their role was to listen, encourage, access and help their mentees to develop greater self-awareness. Positive feedback was provided by the mentees' superiors at the end of the training, indicating an improvement in their attitude and commitment towards work.

We also continued with our monthly 'Healthy Living Programme' to promote motivational and health awareness activities for our staff. Some of the programme's highlights included a blood donation drive, a line dance session, visits to an organic farm in Perak and an old folks' home in Klang, an office *gotong-royong* and a talk by the Employees Provident Fund (EPF) to spread awareness on personal finance and contributors' rights.

CCMD employees from the plant and warehouse sections constantly undergo random drug urine tests to guarantee safe and conducive workplace for our employees. Since May 2010, fifty (50) of our employees had underwent such test.

CORPORATE RESPONSIBILITY

Throughout the year under review, CCMD organised numerous programmes as part of the Company's corporate responsibility (CR) effort. We directly involved our staff in some CR activities

including a blood donation drive and sacrificing their time with residents at an old folks' home in Klang.

CCMD also participated in Minggu Saham Amanah Malaysia which is open to the public to generate awareness amongst consumers about our halal certified ethical and OTC products that embody the highest level of quality, safety, hygiene and efficacy.

CCMD also took part in the *1Malaysia 1Halal* campaign, organised by the Department of Islamic Development Malaysia (JAKIM) to increase the public's awareness of the availability of halal pharmaceutical products in the country. The campaign gave us an opportunity to reach out to Malaysians from all walks of life and promote our extensive range of products.

Besides that, CCMD jointly organised the *2nd CCM Halal Awareness Seminar* with the Halal Industry Development Corporation (HDC) for our principals and suppliers in response to the positive feedback we received from participants of the inaugural *CCM Halal Awareness Seminar 2008*. The seminar successfully helped to foster a better understanding of the halal concept and educate participants on the importance of halal practices in their production and premises as well as addressing any issues related to halal.

I would like to take this opportunity to thank the Board of Directors of CCMD for their continued support and guidance, the CCMD Management Committee for their commitment and dedication to CCMD's vision and to all the staff of CCMD who collectively contributed to the success of the Company in 2010.

Leonard Ariff bin Abdul Shatar
Chief Executive Officer