

## Group Managing Director's Operation Review



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*Group Managing Director*

*Our performance in the financial year 2011 was mixed. We recorded a strong performance in our Chemicals Division, a slight decline for our Pharmaceuticals Division and unfortunately, a loss for our Fertilizers Division. However, this mixed performance translated into better profitability for the Group as a whole. Despite total revenue had declined 1.8% to RM1,610.2 million in 2011 compared to RM1,639.0 million in 2010, profit after tax improved by 18.4% to RM39.2 million from RM33.1 million in 2010.*

### CHEMICALS DIVISION

The year 2011 is one of the best performing years for the Chemicals Division as it emerged as the largest contributor of profits before tax, up to RM43.5 million from RM27.8 million due to higher selling prices. This increase in profitability was despite a 9.7 per cent decrease in revenue of RM413.2 million in 2011 from RM457.6 million in 2010, as a result of lower contribution from trading, regional and water systems businesses.

Chemicals Division's manufacturing segment comprising both our Chlor-Alkali and polymer businesses was the key driver behind the division's impressive performance. In addition to full plant utilisation of our Chlor-Alkali plant,

buoyant prices had enabled the manufacturing segment to record growth in revenue. However, the contribution from the manufacturing segment was slightly dampened by a reduced performance from the division's polymer business which still remains highly profitable.

In 2011, we reviewed and rationalised our strategies with regard to businesses that generate relatively lower profit margins. In addition to focusing more on our manufacturing business, we have also become more selective in the countries and products that we trade in. As a result, the total revenue contribution from our trading, water systems and international businesses have declined.

In order to strengthen the division's performance further, strategies focused on market growth and enhancing profitability will be of priority. The Chemicals Division will direct its growth and expansion efforts in markets that we have significant strength and new areas that offer opportunities for future growth and better profitability. Growth and profitability are also expected to be contributed from selective regional expansion.

To enhance the division's business operations, focus will be placed on adopting more efficient and productive processes. The division has enhanced its sales and marketing function by adopting a single-tray approach, making Chemicals Division's full range of products available to all its customers. We will also work closely with institutions of higher learning and research centres to heighten our R&D initiatives and continuously improve the quality and standards of our products. In addition to striving for continuous product enhancement, the division will also continue to leverage on its high standards of Safety, Health and Environment (SHE). During the course of 2011, the division had also streamlined its polymer manufacturing businesses, providing a stronger platform for potential growth in the future.

A number of accolades and recognition were received in the period under review which includes CCM Chemicals being awarded the ISO 14001:2004 for its environmental management system. The division also walked away with eight awards at the Chemical Industries Council of Malaysia (CICM) Responsible Care Awards Presentation 2010, including two platinum awards for its Product Stewardship Code and Community Awareness & Emergency Response Code.

### PHARMACEUTICALS DIVISION

The Pharmaceuticals Division recorded a 5.0 per cent increase in revenue of RM262.4 million from RM250.0 million for the period under review while profit before tax edged down 2.5 per cent to RM19.5 million in 2011 from RM20.0 million in 2010 due to slight decline in profit margins.

Heightened competition in the government tender business led to lower bid prices, requiring the division to improve cost management and manufacturing efficiencies. On the international front, the focus on expanding business in Indonesia, Vietnam and Philippines continues although the business in Indonesia was affected due to changes in regulation. This required the division to develop alternative manufacturing and marketing strategies to penetrate this market.

In view of the increasingly competitive nature of the industry, the division will be focusing on several key strategies with Halal as the value-added element. The division's pioneering and active involvement in building the Halal pharmaceutical industry in Malaysia would also serve as the unique cutting edge. Proposed investments in niche therapeutic areas such as Oncology, Biosimilars, Vaccines and strengthening R&D capabilities will be pivotal to enhance the division's product pipeline and customer offerings. The expiry of Innovator Patents (also known as "Patent Cliff") over the next few years will also provide opportunities for the division to introduce new generic products as well as to pursue strategic partnerships with major multinational producers. These strategies will require time but will contribute greatly towards the sustainability and future growth of the division.

The division has also laid the groundwork to grow its presence in the ASEAN region and effectively tap into the market of over 600 million people. It is also looking to grow its business in the Middle East and North Africa. This is in line with MATRADE's initiative in aggressively promoting Malaysian pharmaceutical products in the ASEAN Economic Community, Middle East and North African countries. The key differentiator for the division's products in the international market will be its branded nature and Halal certification.

The year 2012 will also see our Pharmaceuticals Division focusing on its over-the-counter (OTC) range building strong brand equity via the rationalisation of our numerous brands and intensifying marketing efforts. We will be concentrating our efforts on four (4) focus brands, i.e. *Proviton*, *Flavettes*, *Naturalle* and *Champs*. In order to grow these brands, we will refresh the livery/packaging of these products, introduce new up to date products, review the distribution channels as well as invest in advertising and promotion in building visibility and brand equity.

In addition, the division has also successfully adopted a new Enterprise Resource & Planning software system, SAP in January 2012 to assist in the management of the business and to provide a platform for potential future growth. In order to add strength to the management line-up for the Pharmaceuticals Division to deliver on these strategies, we have introduced new roles such as a Chief Commercial Officer, Chief Scientific Officer and Chief Manufacturing Officer, of which were filled and effected in Q4 2011.

### FERTILIZERS DIVISION

An increase in sales volume saw the turnover for the Fertilizers Division record slightly higher revenue of RM934.2 million, up 0.4 per cent from RM930.8 million in the preceding year. The division, however, recorded a loss before tax of RM10.0 million compared to a profit of RM7.5 million reported in the same period last year due to charging out of operating expenses of the new Lahad Datu plant which commenced operations in July 2011 and lower gross margins due to higher raw materials costs.

Over the past few years, we have increased our fertilizers manufacturing capacity by 390,000 metric tonnes per annum via the setting up of manufacturing plants in Bintulu, Medan and Lahad Datu. This expansion would enable the division to leverage on the region's competitive advantage in the plantations sector as well as the division's long standing history of high quality products. Nevertheless, it will take some time before the full potential of the new plants can be realised. A key focus for the Fertilizers Division is to stabilise the operations and improve efficiencies of the new plants so that the division's production growth will be coupled with sustainable profitability.

2012 will be a challenging year for the Fertilizers Division, thus making it crucial for us to undertake strategies to improve the overall performance of the division and the take up of our increased production capacity. Strategies such as strengthening business relationships and developing strategic partnerships with our key stakeholders will be key. The division will also be focusing on taking advantage of the rapid growth of the plantations sector in East Malaysia and Kalimantan.

### LAYING THE FOUNDATIONS FOR CHANGE

2011 was a pivotal year for us. A key focus area for management was to lay the foundations necessary to achieve resilience and strength in all our business divisions in order for us to face the rising challenges in each of the industries we operate in. Our ultimate aim is to achieve sustainable value creation for all our stakeholders, thus all our efforts and initiatives to spur our company's performance have to be developed and implemented holistically. This is to ensure that the foundations for change that we build will sustainably benefit all aspects of our businesses.

During 2011, we had embarked on a *Change Starts With Me* transformation programme. Recognising the fact that organisational culture is a fundamental and important factor for success, we refreshed and simplified our vision and defined our core values. Together, we sought to achieve an aligned vision of *Enhancing Quality of Life* for all our stakeholders. In order to achieve this vision, we had developed initiatives under four main thrusts, *Strategy, Operations, People and Financial*. A broad illustration of the key areas for change is set out on page 16.

What To Do	Key Initiatives
<p><b>STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Sustainable profitable growth</li> <li>• Focused emphasis on know-how</li> </ul>	<p><b>CLEAR DIRECTION</b></p>
<p><b>OPERATIONS</b></p> <p><b>Ownership</b></p> <ul style="list-style-type: none"> <li>• Getting a fair return from our investments*</li> <li>• Knowing what can go wrong and how to prepare ourselves**</li> </ul> <p><b>Excellence</b></p> <ul style="list-style-type: none"> <li>• Instill drive for continuous improvement</li> <li>• A sense of pride in everything that we do</li> </ul>	<p><b>OWNERSHIP AND EXCELLENCE</b></p>
<p><b>PEOPLE</b></p> <p><b>Culture</b></p> <ul style="list-style-type: none"> <li>• Instill core values in our minds</li> </ul> <p><b>Processes</b></p> <ul style="list-style-type: none"> <li>• Strong foundation for a motivated workforce</li> </ul>	<p><b>BE FAIR</b></p>
<p><b>FINANCIAL</b></p> <ul style="list-style-type: none"> <li>• Strengthen internal controls</li> <li>• Efficient reporting processes with robust analytics</li> <li>• Efficient tax and funding</li> </ul>	<p><b>CONTROLS AND COST MANAGEMENT</b></p>

Note : \*Economic Value Added (EVA) or Value Based Management (VBM), \*\*Enterprise Risk Management (ERM)

## REALIGN LEADERSHIP TO ADD FOCUS

Several key management changes were made during the year to strengthen and add focus to our leadership line-up along the lines of our four main Transformation thrusts, *Strategy, Operations, People and Financial*. En. Abd. Rahman Abdullah Thani, former Director, Finance and redesignated to Director, Corporate Office, will now spearhead the Group's strategy and business development efforts. En. Mohd. Raflee Abdullah, Director,

Engineering and Technology, together with Dr. Lee Yee Chong, Director, Group Information Technology and Systems will lead the Group's operational excellence initiatives. En. Kassim Ali Mydin, Director, Human Resources, has been tasked to lead the people transformation initiatives. Pn. Nik Fazila binti Nik Mohamed Shihabuddin, appointed Director, Finance on 1 May 2012, will be responsible for the Group's financial transformation initiatives.

The new line-up at Group level will support the Business leadership teams to achieve the desired growth and sustainable value creation.

### KNOWLEDGE AS THE FOUNDATION FOR GROWTH

CCM strongly believes that to be ahead of its competitors and sustain profitable growth, it is paramount that we continuously invest in research and development (R&D) across all three business segments.

On the pharmaceutical front, the year 2011 saw the division submitting 17 dossiers for registration. These included 11 ethical and 6 over-the-counter products. The team also completed five successful product scale-ups from R&D to production site. To further strengthen the pipeline and R&D strategy for 2012-2016, a functional R&D council team, comprising the divisional management committee was set up. At the same time, to drive our R&D agenda and steer pipeline development, Mr. Kanna Umakanth has been redesignated as the Pharmaceuticals Division's Chief Scientific Officer. The division also purchased additional stability chambers to accommodate more new products for stability testing to fill pipeline gaps, among others.

Our Chemicals Division continued to strengthen our R&D team headed by Dr. Khew Mei Ching by recruiting more scientists into the team. Among others, the R&D team worked to expand its pipeline of products and enhance its in-house blended product ranges. The division also focused its efforts last year to strengthen product performance and improve gross margin of existing products.

For the Fertilizers business, strategic partnerships with government agencies provide the platform for continuous development of new and enhanced formulations. Through comprehensive product and market research, the Fertilizers Division's R&D team headed by En. Shamsudin Amit, is able to develop specific formulations to be targeted at different market segments. This bodes well with the Fertilizers business' objective to further strengthen its regional market position, as the crop focus, terrain and soil quality may differ between regional countries. In addition to this, the requirement of large planters and small holders may also differ, thus demanding for particular formulations.

### HALAL AS A DIFFERENTIATOR

Today, the name CCM is also synonymous with being a key player in the Halal industry. As one of the champions in this market, CCM is well aware that the Halal pharmaceutical industry is a growing one and is already asserting a niche position to encourage the right demand in today's discerning Muslim world. As a testament to our involvement in this, CCM was awarded with the "Halal Recognition Award 2011" by Halal Industry Development Corporation (HDC), the government agency being entrusted to drive the initiatives to make Malaysia a "Global Halal Hub".

During the year under review, we participated in an array of Halal initiatives all with the single aim of upholding the Halal integrity and creating awareness in Malaysia. The Group co-organised the "Public Consultation and Soft Launching of MS2424 Halal Pharmaceutical Standard" and "Halal Pharmaceuticals Professional Audit Workshop" together with Standards Malaysia and HDC. We were also invited to be speakers/panelists at various events, among others were World Halal Forum, World Halal Research Summit and Malaysian Pharmaceutical Society (MPS) - Pharmacy Scientific Conference. At the same time, 2011 also saw our Bangi plant successfully obtaining the Good Manufacturing Practice (GMP) Pharmaceuticals certification from the Kingdom of Saudi Arabia (KSA) Food and Drug Authority (SFDA).

Our leadership in the Halal industry beyond Food & Beverages (F&B) is widely recognised as we had been invited to become members in an array of national level's Halal initiatives including the Technical Committee (TC) on Halal Food and Islamic Consumer Goods chaired by JAKIM, the Working Group (WG) for Halal Chemical for Potable Water chaired by Malaysian Water Association (MWA) with SIRIM as the Secretariat, Board of Studies: Post Graduate Programmes in Halal Industry by International Institute for Halal Research and Training (INHART), International Islamic University Malaysia (IIUM), Industry Round Table Dialogue for Diploma in Scientific Halal Practice organised by International Education College (INTEC) and Working Group for "E-Halal System for Halal certification for Pharmaceutical products" organised by JAKIM, to name a few. We are also extremely pleased to be the only industry representative invited to be on committees for the "Development & Harmonization of Standards on Pharmaceutical & Vaccines among OIC Member States" chaired by Standards Malaysia, National Pharmaceutical Control Bureau and HDC.

We shall continue to play an instrumental role in the education, development and harmonisation of Halal standards globally whilst at the same time, optimising these standards as business enablers, in addition to taking full advantage of our leadership role in the Halal industry to continually enhance our stakeholders' value.

### **INFORMATION TECHNOLOGY, ENABLING EXCELLENCE**

CCM places utmost importance on ensuring its Information Technology (IT) systems are agile and will be able to scale in line with plans for business and regional growth. Following this, CCM embarked on a three-year journey to consolidate its diverse business systems, platforms, technologies and service delivery processes across all its business divisions and across the region.

Phase One of this transformation initiative began in October 2010 and involved 23 legal entities, entire supply chain processes for corporate offices, pharmaceuticals business and our regional operations in Singapore, Jakarta and Manila. Enhanced business processes were delivered on time in full and within budget. Moving forward, we will continue transforming the business processes of the Chemicals and Fertilizers Divisions.

In the meantime, the fully enabled pharmaceutical business will be focusing on delivering higher value adding and efficient activities to its diverse customer base. Upon completion, CCM's organisational capability will be strategically enhanced. It will support the achievement of our long term strategies and goals, while ensuring regulatory requirements are met and major developmental risk adequately mitigated.

### **COMMITMENT TO PEOPLE DEVELOPMENT**

As we march ahead towards achieving higher levels of success in competitive and challenging times, we lean on the support of our employees. Harnessing the talents of our employees, developing and empowering them have enabled us to grow a pool of knowledge-based, motivated and committed individuals who will drive the overall performance of our organisation.

Last year, in our effort to increase the engagement level of our employees, the Employee Engagement Action Planning was rolled out after having surveyed all the current employees. Additionally, the Talent Management Framework was also developed to improve talent attraction and retention in the organisation. This framework was built around the aspects of Talent Identification, Talent Assessment, Talent Development and Talent Mapping Processes.

To further strengthen the workplace capabilities, we worked hard to recruit critical management positions across the Group complementing and strengthening our existing line up of experienced managers. We also sought to include our core values across the Group by creating awareness and refreshing our understanding of what it means to live by our core values. To promote a learning culture, we made knowledge easily accessible to all by creating CCM's Training Podcasts comprising both audio and video digital media.

Last year, we strengthened our framework further to ensure that our people have clarity on career development and opportunities to develop their capabilities further from the moment they join us to the day they retire. Initiatives such as the New Employee Orientation Programme, Learning and Development Framework and Toolkit and Focus on the Future Programme were launched.

Keeping in mind the development of the local talent force in Malaysia, CCM collaborated with the Ministry of Human Resource and Special Implementation Task Force to participate in My Career Fair 2012. The event provided a platform for the local Indian community to apply for suitable jobs in Government Linked Companies. CCM also participated in the largest Malaysian career fair, the Malaysian Career and Training Fair, which provided the Group with an extensive talent database for immediate and future hiring requirements as well as enhancing our brand as Employer of Choice.

With an imperative of acknowledging high achievers, ensuring shareholders' interests are well served and also to keep employees motivated, CCM enhanced its performance-based compensation for the financial year 2012. Reasonable and measurable controls have been installed to assess the performance of the employees in accomplishing business objectives.

We strongly believe that by treating our people fairly and allow opportunities for development, our people would remain motivated and committed to contributing better performances for our businesses which will translate to sustainable value creation.

### ACKNOWLEDGEMENT

The year 2011 has been a year of recovery for CCM with our divisions slowly picking up the momentum. Nevertheless, we remain optimistic and will continue to pursue greater achievements to help our business achieve all its objectives. As the Group Managing Director, I will relentlessly ensure our Company continues to make its mark in everything we do and achieve world-class standards. On that note, I thank the Board of Directors and all our employees for your continuous support to help make CCM grow from strength to strength.

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