

Executive Director's Operations Review

AMIRUL FEISAL BIN WAN ZAHIR
Executive Director



CCM improved its performance for the year ended 31 December 2010 relative to the prior year with growth in both revenue and profit before tax (PBT). The better 2010 financial results is a result of improved market conditions in all our business segments.

In order to transform our business to becoming more agile in 2011 and beyond, we have developed strategic initiatives that cover our three core segments to generate innovative solutions to face current business challenges. Moving forward, we will focus on strengthening our overall businesses by leveraging on our three fertilizer plants that are already up and running, producing 540,000 tonnes annually as well as our three pharmaceutical plants and three chemicals facilities to help us continuously grow our position in these three industries. We are pleased to inform that our fertilizer plant in Lahad Datu is scheduled to be commissioned in the second half of 2011 and this will increase our manufacturing capacity by an additional 130,000 tonnes annually. Apart from that, we will also strategically integrate the businesses that we have acquired over the past few years to maximise returns and achieve better financial results in the future.

Our focus for 2011 will be on increasing stakeholders' value as we believe that it is an integral part of running a business and can greatly affect the Group's success. Our efforts include emphasising on risk management, operational efficiencies, providing value added products, and services and talent management. It is our aspiration that through these initiatives, CCM will be more efficient and continue to live up to our customers' expectations by delivering

products and services that are of the highest standard and quality. As our talents will play a pivotal role in increasing stakeholders' value, we will focus on talent management and building a knowledge culture which is a transition from process to knowledge business, to build a strong foundation for a motivated and talented workforce that exemplifies our core values with emphasis on fairness and compassion.

CCM has always been championing the halal initiative as we see this as an opportunity to serve the growing global halal market worth US\$2.3 trillion. CCM participated in various events throughout the year under review including the *1Malaysia 1Halal* campaign, organised by the Department of Islamic Development Malaysia (JAKIM) and the *Halal Malaysia Week 2010*, where CCM presented a paper each at the World Halal Forum (WHF) and World Halal Research Summit (WHRS). These events were aimed at reaching out to the public and educating them about the need for halal pharmaceutical products and its availability in Malaysia. We also partook in the *Malaysia Showcase 2010*, held in Negara Brunei Darussalam to tap into the country's high growth potential. Following the positive response from the first *CCM Halal Awareness Seminar 2008*, we have continued to collaborate with the Halal Industry Development Corporation (HDC) to organise the *2nd CCM Halal Awareness Seminar* in 2010 to generate greater

awareness on the halal concept and its practices amongst our principals and suppliers. CCM also continued to stamp our mark on the world stage when we became a panelist at the *World Halal Forum Europe 2010* in London, United Kingdom to discuss developing sectors in the halal marketplace. CCM has been in the forefront of halal development since 1999 and it is a continuous journey that has led to important learning curves that we have greatly benefited from. Although we have managed to explore new markets and also gained confidence from consumers through our halal initiatives, we will continue to strive to lead the way in the country's halal development. Our hard work and dedication were recently recognised when we were honoured with the inaugural Halal Recognition Award 2011 during the *World Halal Research Summit 2011*, highlighting our continuous effort in upholding the halal commitment throughout the Group.

CCM was actively involved in the drafting of Malaysian Standard MS 2424:2010 (P): Halal Pharmaceuticals: General Guidelines which was launched on 6 April 2011. The guidelines represent the World's First Standards for Halal Pharmaceutical Manufacturing and are expected to give CCM's Pharmaceuticals Division an edge in an extremely competitive pharmaceutical industry. The halal concept plays a primary role in our business operations and we are also proud to say that

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CCM's Chemicals Division is the only industry representative in the Working Group to develop the Malaysian Standard for "Halal Chemicals for Potable Water". Although the halal certification is not extended to our fertilizer products, rest assured that our fertilizers are mineral based and comply with the halal standards of efficacy, quality and hygiene and are safe for use as plant nutrients.

CHEMICALS DIVISION

The Chemicals Division recorded a 6.0% increase in revenue to RM457.6 million from RM432.0 million in the corresponding period in 2009. The growth in revenue was due to overall trading and manufactured businesses coupled with the overall improved performance of the Division. The Division also achieved RM27.8 million in PBT compared to a loss of RM15.4 million in the previous year. The improvement was mainly attributed to lower overhead cost, lower provisions and impairment as well as a higher share of associated company results.

During the year under review, the Chemicals Division, through CCM Water Systems Sdn. Bhd., participated in an initiative by the Rural and Regional Development Ministry to provide 13 units of compact ultrafiltration water treatment systems to Orang Asli settlements in Perak and 23 units to Kelantan. Through the collaboration, CCM Water Systems Sdn. Bhd.'s technological solutions were employed to provide a safe and clean water supply to the villagers. The project was in tandem with the Government's goal to improve rural basic infrastructure under the National Key Result Areas (NKRA) programme. The water treatment

systems use ultrafiltration (UF) technology used in most developed countries that effectively offer bacteria-free water vital for drinking and basic sanitation.

Last year, we began to re-engineer the business towards homegrown formulation, own label and a shift towards niche segments. We expect a promising year ahead for the Chemicals Division and will step up our efforts to continuously support the Division's objectives to move towards specialised application segments. We are also working closely together with higher education institutions and research centres for technology enhancement to strengthen our research and development (R&D) initiatives, and promote continuous enhancement in the quality and standards of our products. Moving forward, we are exploring new markets including the renewable energy sector in line with our effort to enhance our commitment toward a greener future. To enhance our regional capabilities, we are looking at the possibility of working together with international partners in both trading and manufacturing of halal chemicals.

The year under review has proven to be a successful time for the Chemicals Division as it received eight awards in the General Chemicals category at the 2009 Chemicals Industry Dinner & CICM Responsible Care Awards Presentation. The Division was selected over 18 other contenders to grab the Platinum Awards for Community Awareness and Emergency Response Code and Product Stewardship Code for successfully winning Gold Awards in these categories for three consecutive years. It also won Gold Awards for Community Awareness and Emergency Response Code and Product Stewardship Code; Silver Awards for Distribution Code, Employee

Health and Safety Code and Pollution Prevention Code; and Merit Award for Process Safety Code. The wins signify our dedication towards promoting sustainability and business excellence in the chemicals industry and we will continue to improve our SHE performance in our effort to become a responsible organisation. Besides that, we also won the Gold Award on Occupational Safety & Health from the Malaysian Society for Occupational Safety & Health which further affirms our commitment towards SHE.

PHARMACEUTICALS DIVISION

Meanwhile, CCM's Pharmaceuticals Division grew 3.0% in revenue to RM250 million from RM242.7 million in the same period in 2009. However, its PBT fell 42.5% to RM20.0 million from RM34.8 million in the previous year due to reduced import permits for psychotropics and precursors raw materials, and the implementation of interest charging for inter-company loans as required by the latest accounting standard.

Nevertheless, we are upbeat about the Pharmaceuticals Division's future this year as the healthcare industry will continue to become one of the country's main economic drivers due to changing demographics, an increase in the public's awareness of maintaining good health and the rise in lifestyle diseases such as diabetes and cardiovascular diseases. This has prompted the Government to include healthcare as one of the 12 National Key Economic Areas (NKEAs) under its Economic Transformation Programme. This bodes well for our business given that we are the largest generic pharmaceutical

manufacturer, as the Government's initiative will boost the demand for generic drugs which are of high quality but more affordable than branded products.

Meanwhile, CCM's subsidiary, CCM Duopharma Biotech Berhad (CCMD) completed its three-year RM55 million capital expenditure programme that included the establishment of Malaysia's first inert vaccine fill and finish facility suitable for vialling of CCMD's bulk vaccines in the pipeline. The facility has the ability to compound, fill, freeze dry, cap, inspect, label and pack inert vaccines. It is expected to be operational in 2012/13 once we receive product registration approval. The strategic investment also consists of the upgrading of CCMD's small volume injectables (SVI) plant that is set to achieve optimal utilisation by seeking overseas opportunities such as in the Indonesian, Philippines and Thailand markets, the set up of a new warehouse and a waste water treatment plant.

With the bright outlook of the local pharmaceutical industry, we target a financially strong and focused Division in the future by crafting a strategic plan to enhance our market leadership, advancing channel infiltration and adopting operational excellence activities to reduce operating costs, increase operational efficiency and raise productivity. The Division also looks forward to intensifying its R&D activities to develop new and innovative products to meet the needs of the evolving local and international markets, and promoting its marketing efforts including brand rationalisation to introduce its stronger products into new channels. The Division targets to expand its business overseas with hopes of gaining greater profitability in 2011 and in years to come. CCM's

pharmaceutical products are currently available in most ASEAN countries and we wish to venture into newer markets in the Middle East, Africa and Australia. CCM is currently eyeing to boost our presence in the Middle East next year once Saudi Arabia approves our pharmaceutical products. We have already received our Certificate of Manufacturing and have registered some of our products with the Kingdom of Saudi Arabia Food and Drug Administration (KSA FDA). We are confident that penetrating Saudi Arabia will be a stepping stone for us to capture new markets in that part of the world.

FERTILIZERS DIVISION

During the year under review, CCM's Fertilizers Division's revenue rose 3.7% to RM930.8 million from RM897.3 million recorded in the same period in 2009. The higher turnover in 2010 was mainly contributed by higher sales volumes and average selling prices. However, the Division's PBT dropped 54.8% to RM7.5 million from RM16.6 million in the corresponding period in 2009, mostly due to a combination of factors including higher raw material costs, more compressed margins from sales to the public and government sectors, the recognition of a full year's depreciation on our new Medan plant and a property revaluation loss in the division's overseas subsidiary.

In 2010, the Division demonstrated its dedication to boost technology and innovation to a higher level when CCM Fertilizers Sdn. Bhd. and the Malaysian Agricultural Research and Development Institute (MARDI) successfully cooperated to develop a paddy booster, GROMAX Paddy, which enhances grain yield by

increasing grain-filling percentage by as much as 75%. Farmers can look forward to enhancing their paddy yield as GROMAX Paddy is now available in the local market.

Overall, the Fertilizers Division is confident of performing better in 2011, following the Government's announcement of developing the palm oil sector under the National Key Economic Areas (NKEA) in order to unleash the country's economic growth. This creates a conducive business environment for the Division as the palm oil sector's expansion will increase the demand for fertilizer.

CCM currently controls 30% of the local compound fertilizer market and caters mostly to large oil palm plantation companies. The Government's focus to transform the palm oil industry will involve the huge participation of smallholders, and CCM plans to seize this opportunity to penetrate the smaller plantations after establishing a strong presence supplying fertilizers to huge plantations. Our products are also greatly used in rubber plantations to meet the specific nutrient needs of rubber trees. Our innovative and modern fertilizers like 99PLUS are already making inroads in the local rubber industry by improving latex production, thus helping us to capture a larger slice of the fertilizer market in the rubber plantation sector. The Fertilizers Division has also made its way into the home gardening sector through HortiFert, and last year saw the introduction of new products under this range including orchid and growth boosters as well as flowering and fruiting boosters. We are confident that these new products will meet the demands of home gardening enthusiasts who wish to see their gardens in full bloom throughout the year.

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Besides that, the Fertilizers Division's RM60 million compound fertilizer plant in Lahad Datu, Sabah will be operational in the second half of 2011. The commissioning of the plant boost our production by an additional 130,000 tonnes of fertilizers annually and will significantly help to augment CCM's position as the largest compound fertilizer manufacturer in Malaysia. The plant will also enable the Group to expand its capability in Sabah and East Kalimantan, and help raise the profitability of the Fertilizers Division.

INTERNATIONAL BUSINESS

The outlook for businesses outside Malaysia is unpredictable due to the higher level of risks and uncertainty operating in new markets and cultures. Risks, such as currency fluctuations and changes in regulatory and legislation, pose a challenge to our businesses but they also present huge potential for CCM's growth. Hence, the careful management of CCM's International Business in the region is key for the Group's future development.

During the year under review, CCM's International Business Division contributed 29% (valued at RM479 million) of the Group's total revenue. This performance was about the same level as in 2009, as the Division was focusing on improving quality of business rather than growing revenue.

However, competition remains the driving force behind our continuous effort to expand our commercial activities beyond Malaysian shores as it offers us enormous growth opportunities and greater profitability.

We foresee bigger opportunities for us in 2011 as we aim to maximise output from our NPK compound fertilizer plant in Medan, Indonesia and increase our established pharmaceuticals business in ASEAN by focusing on our regional operations in Singapore, Indonesia, Vietnam and the Philippines. We are also pushing sales of our pharmaceutical products into countries such as the Middle East, Australia, Europe and Africa as part of our strategic plan to gain a foothold in these rewarding markets.

ACKNOWLEDGEMENT

The year under review was a challenging but eventful period for CCM. Despite the difficulties that we encountered along the way, we remained enthusiastic and continued to drive forward and go beyond our limits. As the newly appointed Executive Director, I am thankful to be given the opportunity to continue CCM's legacy of leadership excellence and will go all out to steer the Group to greater heights. With that, I wish to acknowledge with thanks the continuous guidance and support of the Board of Directors as well as our staff for their commitment and dedication at all times throughout the year.

Amirul Feisal bin Wan Zahir

Executive Director

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