

# Chief Executive Officer's Operations Review

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LEONARD ARIFF BIN ABDUL SHATAR  
*Chief Executive Officer*

*Despite an increasingly competitive environment, CCM Duopharma Biotech Berhad (CCMD) remains among the leading pharmaceutical manufacturing companies in Malaysia, with a share of approximately 11 per cent in the country's generic pharmaceutical market.*

The Group performed well in 2011, with an increase of 5.1 per cent in revenue to RM138.13 million for its financial year ended December 31, 2011 from RM131.44 million in 2010. However, there was a slight drop in profit before tax (PBT) of two per cent to RM34.73 million from RM35.41 million in 2010 due primarily to expenses from the new warehouse construction, strategic consultancy and some foreign exchange differentials.

Barring any other unforeseen circumstances, the Group expects to remain profitable in 2012 with demand for pharmaceutical products remaining fairly stable despite the uncertainty of the global economy and the fact that supply to government hospitals via tenders may fluctuate.

CCMD has established its mark as an industry leader in driving innovation and pioneering technology driven processes through initiatives such as the SVI (Small Volume Injectables) plant and as a dental

cartridge producer. The Group has continued this trend by having the first approved Fill and Finish facility for biosimilar products in Malaysia.

In 2011, sales of the pharmaceutical products to the private sector, Government hospitals and export contributed 46%, 46% and 8% respectively to CCMD's total sales.

In last year's annual report, we highlighted the issue on reduced import permits for psychotropics and precursors raw materials which had impacted our profits. However, we have overcome this impact by introducing four (4) new products i.e. *Aseptone Red*, *CCM Eye HA*, *CCM Joint HA* and *Acipan* and made improvement in penetrating the local market.

On the international front, our focus is on Indonesia, Vietnam and Philippines. We are expanding the market through local collaborations and investment. However, by doing so, the company faces many challenges. For example, due to changes in the local regulations in Indonesia, we were unable to operate as a local company and hence, this affected our operations there. However, the Company managed to resolve the matter by setting up a representative office via a related company.

Our business in Vietnam continues to grow with the supply of haemodialysis solution to the country. Moving forward, the plan is to launch more products into these focused countries and to develop other new markets in the Middle East and North Africa.

CCMD's participation in CPhI in Frankfurt, Germany in 2011 proved to be beneficial to the Company as it has established contacts with key global suppliers for raw materials and finished products which the Company is pursuing for future growth and efficiency improvement. At the same time, we were also able to establish contacts to market our products in Europe.

The sales and marketing function is important to the growth of the Company. We have strengthened our sales and

marketing team by appointing a Chief Commercial Officer who oversees the marketing and sales of our products into the Malaysian and international markets.

We have also invested in information technology (IT) to boost business operations, operational efficiency and growth in all CCMD activities and processes. A new Enterprise Resource & Planning software system (SAP) was installed beginning in Quarter 3, 2011 to assist in the management of the business but, more importantly, to provide a system platform for potential growth into the future.

The challenges faced in 2011 came in several different forms. We faced stiff competition in the government tender business which led to lower bid prices and reduced margin. The Company mitigated the issue by improving the margin through cost management and initiatives in manufacturing efficiencies.

Another challenge was the ever stringent regulatory requirement that has been introduced for product registration such as requirement for bioequivalence (BE) studies. This will increase expenditure involved in having to conduct BE studies both locally and outsourcing them abroad and hence, lead to increase operational cost and capital expenditure to upgrade manufacturing facilities.

Our future strategy is to address the changing pharmaceutical industry landscape. The expiry of Innovator Patents in these few years (also known as the "Patent Cliff") provides opportunities for generic blockbusters. Generic blockbuster products

soon available from the "Patent Cliff" are for us to tap aggressively before other players occupy the space. In the past, multinational companies have had a rich pipeline and do not compete in the generic market. However, with the emergence of the "Patent Cliff", the multinationals are compelled to take part in the generic segments as well. One way for the multinationals to achieve this is by collaborating with existing generic players. Therefore, CCMD must actively pursue to partner with the multinationals. We see this as an advantage because we have a rich generic portfolio and an already established distribution channel. Furthermore, partnering with the multinationals will improve plant capacity utilisation.

Biosimilars are generic version of biotechnologically produced pharmaceuticals i.e. insulin, erythropoietin, etc. The general trend in the pharmaceutical industry is moving towards biosimilars. These products have high value and are considered as niche and specialised products. CCMD is currently leading the local industry to move into the biosimilar segment. We have already installed a Fill and Finish facility dedicated for biotechnology product and currently we are actively negotiating with established technology partners to bring various products to Malaysia. We are also preparing ourselves to be technologically competent to handle this product. Our plan is to launch one product into the Malaysian market by 2014.

In line with our tradition of charting new fields for pharmaceutical dosage form in Malaysia, CCMD aspires to be the first facility in Malaysia to conduct Fill and Finish operations for vaccines. We have installed a facility designed for the Fill and Finish vaccine product and have secured approval from our national regulatory authority. This is the first of such facility to be approved in Malaysia.

Another attractive area we would like to participate in is the oncology segment. Oncology is a high value and niche pharmaceutical product that requires high technical expertise in producing and handling of the product. CCMD has been reviewing opportunities in this therapeutic area and have been in discussions with various parties with a view towards expanding our product portfolio in this fast growing area.

### RESEARCH & DEVELOPMENT

Research and Development (R&D) is important to CCMD. We spent more than RM2 million during the year under review on R&D.

In line with our strategy, we are currently preparing our technical & R&D personnel to be equipped with technical expertise and all the necessary support services such as engineering, quality control, laboratory testing and product formulation.

In order for us to strengthen our R&D capabilities, we have appointed an expatriate as our Chief Scientific Officer who is tasked to strategise the continuous stream of product pipeline for the Company as well as looking into new technology to differentiate ourselves from the rest of our competitors. He will also look into enhancing our local R&D talents.

### HUMAN CAPITAL

Our employees are our greatest asset and we continuously provide training and development opportunities to upgrade their skills, boost their morale and productivity and improve working conditions. These efforts enable us to enhance employees' job satisfaction and develop a highly skilled workforce, hence increasing staff loyalty and improving CCMD's overall corporate performance.

In line with the Company's growth strategies, we recently restructured the management structure in order to make it more effective. We aligned our resources to meet our strategic as well as operational efficiency requirements. Three (3) new positions were introduced, which are Chief Commercial Officer, Chief Scientific Officer and Chief Manufacturing and Technology Officer. The Chief Commercial Officer and Chief Scientific Officer roles are explained in page 10 and 12 of this annual report respectively. The Chief Manufacturing and Technology Officer is tasked to oversee the operations of the plant.

We also conducted an Employee Engagement survey which measured employees' level of engagement with the Company. Results from the survey were used to roll out Employee Engagement Action Planning as part of control tools in driving employee engagement activities.

We have developed and established a Talent Management Framework as a core initiative to retain talents. Along that, we have also established the Talent Review Process, Succession Planning Mapping and Leadership Pipeline Processes.

In July 2011, we introduced the Company's core values to our workforce via the Core Values in Action education programme. This programme is aimed at instilling awareness and understanding of the new CCM Core Values among employees.

We also introduced new learning resources in the form of Learning podcasts (audio and video digital media). The podcasts are easy to use learning materials that enable the employees to learn anywhere, anytime.

### CORPORATE RESPONSIBILITY

Throughout the year under review, CCMD organised numerous programmes as part of the Company's corporate responsibility effort. Being a player in the pharmaceutical industry, CCMD actively supports the growth of the industry in Malaysia. There are two (2) bodies that are related to the Malaysian pharmaceutical industry, i.e. Malaysian Organisation of Pharmaceutical Industries (MOPI) and the International Society of Pharmaceutical Engineering (ISPE). I am currently the President of MOPI whilst our Chief Operating Officer/Chief Strategy Officer, En. Ibrahim Zainudin is the 1st President for ISPE.

MOPI looks into the general welfare of the local manufacturing industry and acts as a representative body for dialogue with the Government to enhance the local pharmaceutical manufacturing industry. ISPE's role is to upgrade local pharmaceutical individuals to keeping abreast with new technologies and has training resources that can be tapped into. By playing an active role in these two organisations, we are able to take a leadership role within the Malaysian pharmaceutical industry and hopefully to shape the future of the industry.

Last year, we contributed 37,000 sets of personal health kits to pilgrims performing the Haj through the Sahabat Korporat Tabung Haji programme that exemplifies our continuous commitment to assist pilgrims to manage their health and well-being during this sacred journey. The personal health kits are used to treat minor ailments.

CCMD also participated in Minggu Saham Amanah Malaysia in Ipoh, Perak in 2011. This event is used as an avenue to generate awareness amongst consumers about our halal certified products that embody the highest level of quality, safety, hygiene and efficacy.

In conclusion, CCMD's long and established experience in the pharmaceutical industry as well as our commitment for future growth have fortified us to meet all the challenges that lie ahead. 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 and to all staff of CCMD who collectively contributed to the success of the Company in 2011.

### LEONARD ARIFF BIN ABDUL SHATAR

Chief Executive Officer