Group Managing Director's Operations Review

LEONARD ARIFF BIN ABDUL SHATAR
GROUP MANAGING DIRECTOR

Dear Shareholders,

We faced yet another challenging year for 2014. The Group recorded a lower revenue for the financial year 2014 to RM1.09 billion, declined by 15.0% from RM1.29 billion in the previous year, amidst a backdrop of challenges facing two of our business divisions namely Fertilizers and Chemicals. As a result, the Group's operational profit before tax declined by 18.0% from RM17.93 million in 2013 to RM14.73 million for the financial year ended 2014.

The Group closed the Fertilizers' plant operations in Medan in October 2014, and recognised a full impairment on the related assets in Medan totalling RM36.8 million for the financial year 2014. This has resulted to the Group registering a loss before tax of RM22.08 million, from a profit before tax ("PBT") of RM20.85 million in the previous year.

On a positive note, our balance sheet continues to be healthy with Debt-to-Equity ratio improving to 0.67 times as at 31 December 2014, from the previous year's position of 0.81 times. This reflects our continuous effort to strengthen our balance sheet with a view to attain a comfortable gearing ratio; apt for continuous expansion and tapping of new opportunities.

CHEMICALS DIVISION

The Chemicals Division has also shown an improvement in its PBT to RM18.94 million in 2014 which represent a 14.2% increased from RM16.58 million in 2013, albeit registering a lower revenue during the year. The Division recorded revenue of RM279.00 million in 2014, a decrease of 6.8% from RM299.50 million in 2013, largely attributable to the lower sales recorded in its trading regional businesses. The stable performance of the innovative polymer coatings business and tightening of its expenses during the year have contributed to the improved profitability.

Based on the challenges faced in 2014, we have developed comprehensive action plans to help mitigate the effects of external challenges. Among others, we will continue to expand our total solutions approach and enhance our portfolio of new products and focus on key industry segments. This include health and hygiene, food and pharmaceuticals. We aspire to market value-added products under our own label with sustainable margins. At the same time, the Division's polymer coatings business will roll out Research & Development ("R&D") programmes to develop newer products to enhance competitiveness and market share.

It is also our hope that commodity prices will stabilise this year as we strive to increase our trading margin. The Chemicals Division will also implement continuous improvement programmes to extract further operational savings whilst focusing on new trading segments and the expansion of our customer base within the region. Additionally, the instability of fuel prices has also pushed us to invest and consider newer technologies with improved efficiencies to extract operational savings.

As always, the Chemicals Division is an ardent supporter of the Chemical Industries Council of Malaysia ("CICM") Responsible Care programme where the processes of production, sales, distribution and disposal of chemical products are managed in such a way that it would not adversely impact on the environment. For the year 2013/2014, the Division was awarded with the Gold Awards in Community Awareness & Emergency Response Code and Distribution Code and the Silver Awards for Pollution Prevention Code, Process Safety Code and the Employee, Health & Safety Code. These awards are a testament to our commitment to Safety, Health and Environment ("SHE") as SHE is one of the key pillars in our activities. Despite the various accolades received by the Division, we will continue to work diligently towards providing the best for our stakeholders.

PHARMACEUTICALS DIVISION

The Pharmaceuticals Division continue to be our biggest PBT contributor. PBT increased by 15.7% in 2014 to RM35.66 million from RM30.83 million in 2013, driven by higher revenue and improvement in gross profit margin. The Division's revenue increased to RM320.38 million from RM295.92 million last year primarily attributable to higher sales from its Ethical segment. As was in previous years, the Division continued its disciplined execution of the Lean Six Sigma projects to improve Cost of Goods Sold ("COGS") and controlled expenses, both of which contributed positively to our profits.

In the Ethical segment, the Division continued our strategic focus in niche areas such as oncology, biotherapeutics and vaccines as well as improved its product pipeline and customer offerings. In 2013, we started the joint full scale Phase III clinical trials involving 316 patients in Malaysia and South Korea for an Erythropoietin ("EPO") biosimilar developed for use in the treatment of anaemia in end-stage renal failure patients, with PanGen Biotech Inc. ("PanGen") of South Korea. CCM also holds 12% equity stake in PanGen. In addition, an exclusive marketing and commercialisation rights in Malaysia, Singapore and Brunei was granted to CCM by PanGen for all biotherapeutics developed by the same. It is our hope that in the long term, we will be able to localise some of their production in Malaysia and inevitably, develop sound biotherapy manufacturing capabilities in Malaysia.

We have also collaborated with Biocon India to market their range of human insulin products in Malaysia. We launched the recombinant human insulin, *Insugen* in late 2014 which was developed by Biocon for CCM to exclusively distribute and market in Malaysia. This is the first generic insulin to be introduced in the country and we are confident that this will enable greater access to quality biopharmaceuticals for a larger diabetic patient pool.

At the same time, we also continued our efforts in the brand rationalisation and revitalising programme that we started in 2012. We heightened our focus on the four core brands namely *Champs*™, *Flavettes*™, *Proviton*™ and *Naturalle*™. Among others, we aim to promote and enhance the brand image of these products in the youth segment.

On the regional front, we continued our investment in key ASEAN markets and both our Singapore and Philippines operations showed positive growth potential. We are also exploring the options of potential acquisitions to avoid regulatory barriers and upgrading our dossiers to meet world-class standards. The Division is also targeting various therapeutic groups which are not well represented within the ASEAN community in the hope of delivering new products regionally.

Halal manufacturing has been one of our strongest platforms and we focus our strategies on differentiating ourselves from the other players in the market. We strive to continue strengthening our Halal positioning and leadership to lend credence to our recognition for obtaining the world's first Halal certified products in accordance to the Pharmaceuticals Standard MS2424:2012 – Halal Pharmaceuticals General Guidelines from Jabatan Kemajuan Islam Malaysia ("JAKIM") in 2013. Our commitment on the Halal journey will definitely enable us to strengthen our Halal positioning and leadership amongst our stakeholders.

Recently, we obtained approval from our shareholders to consolidate all of our pharmaceutical units into our subsidiary company, CCM Duopharma Biotech Berhad ("CCMD"). The deal, valued at RM245.1 million, will see CCMD acquiring CCM's pharmaceutical arm which includes CCM Pharmaceuticals Sdn. Bhd., CCM Pharma Sdn. Bhd., Innovax Sdn. Bhd., Upha Pharmaceutical Manufacturing (M) Sdn. Bhd., CCM International (Philippines) Inc. and CCM Pharmaceuticals (S) Pte. Ltd. The acquisition which has been several years in the planning will allow CCMD to enhance its product offerings, scale and competitiveness via the combined production facilities.

For 2015, we are confident that the demand for pharmaceuticals products will remain stable. The Division will continue to strengthen its position in the local and regional markets, with particular focus in biotherapeutics, niche therapeutics areas and to maintain our Halal leadership in the pharmaceutical space. We will also focus on improving our domestic market penetration and launching new products to meet the needs of our customers, both locally and internationally.

FERTILIZERS DIVISION

The Fertilizers Division reported a 29.5% decrease in revenue to RM488.65 million as compared to the previous year of RM692.95 million, primarily due to the reduced volume of compound and straight fertilizers sold during the year as a result of extremely dry weather in the early part of the year and very wet weather at the end of the year.

The Division posted a loss before tax of RM69.48 million as compared to RM12.92 million loss before tax in 2013. Our fertilizers' operation in Medan had been registering losses despite significant cost improvement initiatives made over the years. Although the trading operations for Indonesia remains profitable, the manufacturing plant operations faced the difficulties of operating in the local business environment; which led to the closure of the plant operations in October 2014. The Group anticipated that full economic benefits from the Medan plant and related current assets will not be recovered and therefore, an impairment loss of RM36.8 million was recognised in the financial year 2014. This impairment loss made against Medan has significantly impacted the results of the Fertilizers Division for the current financial year.

For the coming year, we anticipate that the demand for fertilizers will remain challenging in view of the expectation of low crude palm oil prices ("CPO") and plantation owners implementing cost saving measures. Despite these challenges, the Division will strive to maintain its focus on aggressive sales coupled with promotional activities and operational excellence to boost its financial performance. The Division will also undertake a review of its business and consciously look into ways to mitigate the external factors that often affect the performance of our business.

At the same time, we will also heighten our focus on expanding our dealers and distribution network to focus on small and medium sized estates. R&D will be further strengthened to help us understand the local needs and prescribe formulations to meet those conditions. The Division will also increase brand and marketing activities, especially to support the premier standing of its Cock's Head™ Brand.

In line with the strategy to supply quality products and services to our customers, the Division received two awards in 2014. The awards were Anugerah Pengguna Malaysian Standards from Standard Malaysia and MS1900: Quality Management System Requirements from Islamic Perspective from Sirim QAS International Sdn. Bhd.

STRENGTHENING OUR COMMITMENT TO SUSTAINABILITY

At CCM, we are committed to delivering value to all our stakeholders, guided by our vision of "Enhancing Quality of Life". To that end, we always endeavour to integrate good sustainability practices throughout our operations, and have produced our first Sustainability Report that provides a clear and comprehensive review of the Group's performance in managing the economic, social and environmental aspects of our operations which can be viewed from our corporate website at **www.ccmberhad.com**.

A summary of our sustainability initiatives can be found on pages 15 to 19 of this Annual Report.

ACKNOWLEDGEMENT

Throughout the year, although we suffered losses, we have made significant progress to improve the efficiency of the operations and strengthen the foundation of our Company. This is especially true in terms of governance, human capital and financial management. In 2014, it was evident that we are still vulnerable to external factors in the market and we need to strengthen our strategies to ease this. We will remain steadfast and resilient to focus on our strategic objectives and continue to be optimistic that we will grow from strength to strength in the future years.

I would like to take this opportunity to thank Encik Amirul Feisal bin Wan Zahir who resigned in October 2014 after helming the position as Group Managing Director for almost 4 years. He has put in place the transformation programme to steer CCM on the path of improvement and I truly believe that CCM will continue to be resilient coupled with the effort and cooperation from all of our employees.

Finally, on behalf of the senior management of CCM, I take this opportunity to specially acknowledge our Board of Directors for their guidance, wisdom and unwavering commitment towards achieving CCM's strategic objectives. I would also like to convey our gratitude to all our employees for their dedication and hard work for the year under review.

LEONARD ARIFF BIN ABDUL SHATAR
Group Managing Director