GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS

LEONARD ARIFF BIN ABDUL SHATAR
Group Managing Director

Dear Shareholders,

Many say the year 2016 will go down in history as one most remembered by all. With the US elections and Brexit, it was a year of economic uncertainty, both globally and in Malaysia.

For your Company, one of our notable decisions throughout the year was our exit and divestment of our Fertilizers business that has had a short-term negative impact on our financial performance. However, we are confident that this decision will enable your Company to move forward and focus our efforts on our remaining businesses. From this year onwards, the Polymers business will be reported as a business segment on its own, in addition to the Pharmaceuticals and Chemicals business segments.

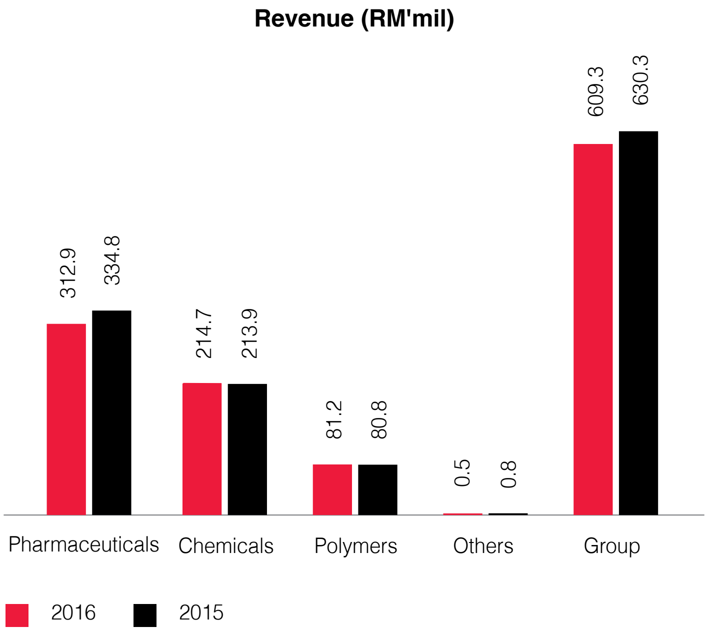
FINANCIAL HIGHLIGHTS

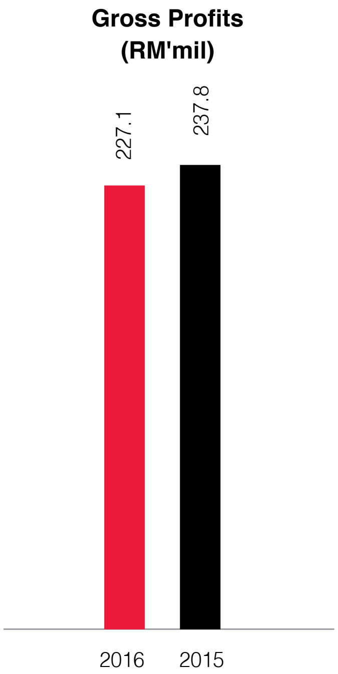
Overall for financial year 2016, CCM Group posted a net loss of RM83.8 million, primarily driven from another year of losses from our Discontinued Operations; and lower profit contributions from our core businesses.

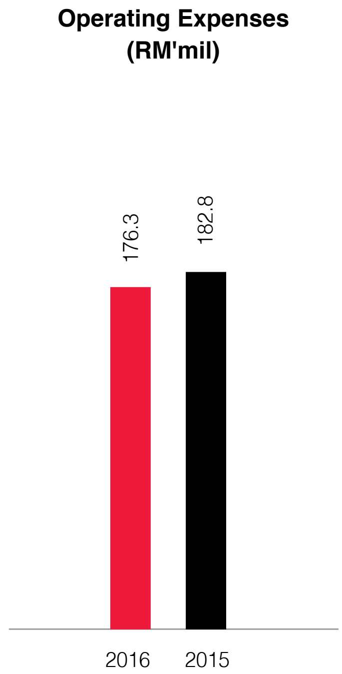
The data below depicts our key financial results as compared to financial year 2015:

In RM'mil	FY 2016	FY 2015	Variance
Continuing Operations			
Revenue	609.3	630.3	**- 3.3%**
Profits from operations	55.1	68.1	**- 19.0%**
Profit before tax	33.6	53.0	**- 36.6%**
Profit after tax	19.0	28.6	**- 33.6%**
Discontinued Operations			
Loss from discontinued operations	(102.9)	(101.9)	**1.0%**
Loss for the year	**(83.8)**	**(73.3)**	**14.3%**

Continuing Operations







From its continuing businesses, CCM Group registered a decline in revenue of 3.3 percent to RM609.3 million, and its gross profit decreased by 4.5 percent to RM227.1 million; when compared to the financial year 2015. Key drivers to this performance were the decline in demand from its Pharmaceuticals business due to change in sales mix between government and private sectors, and margin compression from both its Pharmaceuticals and Polymers businesses, on the back of increased production costs due to the weakened Ringgit against other major currencies. The causes of the decline are not seen as systemic as we still believe the businesses are robust and will recover.

However, despite inflationary pressure, the Group's operating expenses from its core businesses were 3.6 percent lower when compared to 2015. This was largely attributed to the Group's continuous efforts in driving further efficiencies in its expenditures and overhead costs.

Other income fell to RM4.3 million from RM13.1 million in 2015. Included in the other income for 2015 was the recognition of fair value gains on our investment properties of RM5.8 million. With the slowdown in property market, the market value of our investment properties remained stagnant in 2016, and thus no fair value gains were recognised during the year.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Accordingly, the profits from operations for 2016 dipped by 19.0 percent to RM55.1 million from RM68.1 million in the corresponding year 2015.

Discontinued Operations

The Fertilizers business recorded a net loss of RM102.9 million in the financial year 2016. Apart from operational losses, we have also taken a more prudent position on inventories balance whereby further impairment was made in the year totaling to RM29.4 million.

We have completed the divestment of our subsidiaries in East Malaysia, together with two parcels of land in Bintulu and certain trademarks to Hextar Fertilizers Group on 15 November 2016, which resulted in a net loss of RM24.5 million recognised during the year.

In the second quarter of 2016, we have also completed the disposal of three parcels of land together with the buildings thereon in Medan, Indonesia with a net gain of RM21.5 million.

With the said divestments, we have now completely exited from the Fertilizers business. Our only active subsidiary now in the Fertilizers segment is CCM Fertilizers Sdn. Bhd., whereby its activity is limited to rehabilitating the factory site and selling of remaining inventories.

Financial Position and Liquidity

The Group remained in a strong financial position as at 31 December 2016 with RM288.3 million in cash and cash equivalents, though a reduction of RM24.4 million from 2015. The net cash outflow for the year 2016 was largely attributed by net repayment of borrowings and planned capital expenditure incurred in 2016. These outflows were partially offset by proceeds received from our divestments of Fertilizers' assets of RM98.9 million during the year.

Total debts as at 31 December 2016 stood at RM621.8 million, a reduction of 12.0 percent as compared to 2015 of RM703.8 million. Net gearing (net debt-to-equity) has improved to 0.37 times from 0.46 times in the year 2015. This reflects our continuous efforts to strengthen our fiscal position, which will give us ample agility to pursue our planned capital expansion and growth strategy going forward.

RISKS MANAGEMENT

A comprehensive explanation of the Group's approach to risk management and the key risks to the Group is reported in the Report of the Risk Management Committee and Statement on Risk Management and Internal Control, in this Report.

SEGMENTAL BUSINESS REVIEW

I am pleased to report the financial and operational highlights for each of our business segments for 2016, in the following sections:

Pharmaceuticals Business

The year under review was a challenging one for our Pharmaceuticals business where it recorded a decline in its revenue by 6.5 percent to RM312.9 million from RM334.8 million for the financial year ended 31 December 2016. Accordingly, the profit before tax ("PBT") declined to RM31.5 million from RM46.1 million reported in the previous financial year due to changes in product mix between Private and Government sales and higher production costs as impacted by a weaker Ringgit.

Although our sales to the Government has declined, sales of our ethical products to the Private Sector yielded a commendable growth of 6.0 percent despite IMS reporting a 1.0 percent growth for the generic market. Our Over-the-Counter sales grew by 2.0 percent with the Private Sector sales growing at 9.0 percent despite a slowdown in consumer spending.

A recent report by QuintilesIMS Institute has forecasted global total spending on medicines will reach an estimate US$1.5 trillion by 2021, up 33.0 percent from 2016 levels, even as annual growth moderates from the record pace set in 2014 and 2015. At the same time, it was reported that medicine spending will grow at a 4.0 to 7.0 percent compound annual rate during the next five years, down from the nearly 9.0 percent growth level seen in 2014 and 2015. The total global spend for pharmaceuticals through 2021 will increase by US$367.0 billion on a constant-dollar basis.

In Malaysia, the budget 2017 announced an allocation of RM25.0 billion for the Ministry of Health to boost the quality of healthcare in the country. Among others, RM4.0 billion is allocated for the supply of drugs, consumables, vaccines and reagents to all government hospitals and facilities. All of these paint a positive outlook for the coming years for the pharmaceutical industry.

For us, the prospect for our Pharmaceuticals business remains positive as the Group consolidates its position in the local and regional markets. We will continue rationalizing our business segments with focus on Diabetes, Renal, Oncology and Cardiology care as well as vaccines and also reinforcing our Halal leadership in the country. We have also implemented the Manufacturing Optimisation Strategy which encompasses the rationalisation and upgrading of manufacturing assets in Klang, Bangi and Glenmarie into state-of-the-art facilities with enhanced cGMP (current Good Manufacturing Practice), purpose designed centralised warehouse and distribution hubs targeted for completion in 2018.

For the year under review, we saw PanGen Biotech Inc. ("PanGen") which we acquired a 13.86 percent interest in year 2014 being listed on the Korea Exchange's Korean Securities Dealers Automated Quotations ("KOSDAQ") board under the category of New Growth Engine Companies. Pursuant to the listing on KOSDAQ, our shareholding interest in PanGen diluted to 9.34 percent. This listing did not have material impact on our earnings for this financial year.

Our collaboration with PanGen for the development and manufacturing of Erythropoietin ("EPO") biosimilar treatment for anaemia and end stage renal failure patients has just completed the Phase III Clinical Trial (both in Malaysia and Korea). The clinical trial was closed in January 2017 and the "code break" was conducted in early February 2017. The results of the code break prove that our EPO (code named: PDA10) has similar efficacy with the reference product. This is CCM's first step into the biosimilars arena and it will be the first biotherapeutic product to be developed successfully by a Malaysian company and the second Epoetin-Alfa biosimilar to be developed globally. We expect the product to be launched in the Malaysia market upon receiving the marketing authorisation from National Pharmaceutical Regulatory Agency ("NPRA") (formerly known as National Pharmaceutical Control Bureau ("NPCB").

We are currently retrofitting our Cephalosporin plant in Glenmarie, Selangor into a High Potency Active Pharmaceutical Ingredients ("HAPI") plant, the first of its kind in the country to jumpstart our foray in the oncology segment while widening our portfolio of generic cancer therapies in Malaysia and across Asia. The investment for this initiative is RM33.4 million and is expected to be completed by end 2018.

We also inked a technological partnership with Natco Pharma Limited, India to aid us to widen our product portfolio capabilities in offering generic oncology medicines to treat breast cancer, lung cancer, colorectal cancer, cervical cancer and blood cancer. The year also saw us introducing two new ethical products for cancer treatment, *Kytron* and *Letronat*. *Kytron* is an antiemetic used to treat nausea and vomiting due to the side effects of chemotherapy while *Letronat* is an oral non-steroidal aromatase inhibitor for the treatment of hormonally-responsive breast cancer after surgery.

The Group also launched the Lavender Ribbon Campaign to initiate our Cancer Care Franchise in December 2016 with the name, *ACE,* an acronym for *Accessibility*, *Commitment* and *Excellence*. This initiative entails us to work closely with various cancer-related Non-Governmental Organisations ("NGOs") in raising awareness for early detection of cancer and counselling assistance to cancer patients and caregivers.

Our Diabetes Care portfolio carries the theme "Working Together Against Diabetes". We launched the country's first insulin glargine biosimilar, *Basalog*® which is a long acting (24 hours) peakless human insulin analog in Q4 2016. Our strategic partnership with Biocon Ltd., India for exclusive distribution rights to market, sell and distribute their range of insulin products, *Insugen*® launched in 2014 and *Basalog*® to Malaysia will offer diabetes patients in Malaysia with a more affordable insulin therapy for their disease. In December 2016, the Malaysian Ministry of Health awarded a Letter of Award to our subsidiary, CCM Pharmaceuticals Sdn. Bhd. to supply Human Insulin to all government hospitals and clinics valued at RM300 million over three years until 2019.

On the Over-the-Counter ("OTC") business, we launched a new product under the *CHAMPS* brand. We offered *CHAMPS* Vitamin C 30mg to cater to the younger age group of 2 to 6 years category which requires a lower dosage consumption. In our continuous bid to create brand awareness of our products, we carried out a livery change to our *Uphamol* and *Dermoplex* range of products. This was done to ensure our packaging is vibrant and will stand out amongst other competitors.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

The year 2016 also saw the Pharmaceuticals business receiving numerous awards for their commitment and perseverance to provide excellent quality products for our consumers. The Pharmaceuticals business received the 'Best Brand in Malaysia' from the International Congress of the Economic Relations' Development in the Health Field with the Focus on Islamic Countries, Pharmaceutical Company of the Year – Generics Market from Frost & Sullivan and Best in Sustainability Reporting (RM500 mil - RM950 mil category) by Focus Malaysia. It was also in the third placing for the Excellence Award for Top Corporate Governance and Performance under the Special Category for Market Cap Between RM300 million to RM1 billion and Merit Award for the Best Annual General Meeting by the Minority Shareholder Watchdog Group ("MSWG") and was also a finalist in the award for "HR Asia Best Companies To Work For In Asia 2016".

We are aware that some of challenges from 2016 will remain in the coming years. These include expanding product portfolios to remain competitive, the weaker Ringgit which results in higher cost of imported raw materials, and also cost of increased cGMP compliance. However, we are confident that our strategy remains robust and that the Manufacturing Optimising Strategy in place will remain as a key lever to push us through the challenges.

Chemicals Business

Strong performance was shown in our Chemicals business, where its PBT rose to RM18.0 million in financial year 2016 from RM6.6 million in 2015. Its revenue for the year grew by only 0.4 percent to RM214.7 million from RM213.9 million in 2015, as the year 2016 saw the full impact of closure of its regional businesses; which contributed RM17.5 million in revenue for year 2015 and also a prolonged shut down at its facility in Pasir Gudang for upgrading and modernisation works.

The year 2016 saw a commendable performance from the Chemicals business on the back of a strong demand from the water industry, concurrently riding on higher average selling prices of its chlor alkali products, coupled with successful operational efficiency initiatives undertaken throughout the business resulting in significant improvement in its margins. We believe the business is now fundamentally strong and will continue to be a key contributor to the Group's overall profitability.

2016 saw the water industry in Malaysia undergoing significant transformation that was in line with the Government's goal to elevate the industry's operational capability towards global standards. The relatively healthy economy coupled with rapid population growth had contributed to an increase in demand for clean water. In tandem with this, demand for high quality water treatment chemicals such as chlorine and polyaluminium chloride ("PAC") manufactured in our plant in Pasir Gudang has been strong. Demand for chlorine from the rubber glove manufacturers also remained robust given the industry's rapid growth in recent times.

The Asia Pacific caustic soda market saw a shortage of supply during the second half of 2016 arising from lower exports from Japan. This has caused strong competition for limited available supply, thus pushing prices up. On the domestic front, the weaker Ringgit has also contributed to higher domestic market prices for caustic soda.

During the year under review, our Chemicals business embarked on a major upgrading and modernisation exercise of our chlor alkali plant in Pasir Gudang. It was successfully completed according to schedule within the allocated budget. The upgraded and modernised plant is equipped with the latest energy-efficient membrane cell technology, four new electrolysers as well as a new liquefaction plant, was successfully commissioned in December 2016. We are pleased to note that our chlor alkali plant is now operating at a similar or better level of efficiency as compared to other chlor alkali plants in the region.

In line with our growth aspirations, we will continue to be on the lookout for attractive investment opportunities domestically and regionally to complement our existing business portfolio.

On the Safety, Health and Environment ("SHE") front, we are pleased to note that the Chemicals business was awarded a number of industry awards; including three Gold Awards for Product Stewardship Code, Distribution Code and the Pollution Prevention Code and three Silver Awards for the Community Awareness & Emergency Response Code, Employee Health & Safety Code and the Process Safety Code by the Chemical Industries Council of Malaysia ("CICM").

Polymers Business

Our Polymers business performed relatively well, where it recorded a PBT of RM17.7 million in the year 2016, even though this is a reduction of 29.8 percent from the previous year. The revenue remained stable at RM81.2 million from RM80.8 million in the year 2015, despite the contraction of average selling price experienced in the first half of 2016 and challenges with foreign exchange fluctuations. The market has also become highly competitive with the influx of new capacity added into the industry.

World glove demand remained robust as gloves remained a necessity in the healthcare industry as the most basic form of protection against diseases. Malaysia remained the world's number one rubber gloves producing country, supplying 63.0 percent of the global market share.

According to the Malaysian Rubber Glove Manufacturers ("MARGMA"), the growth in global demand for rubber gloves is expected to be maintained at 8.0 percent to 10.0 percent in 2017. This is supported by continuous demand from the ageing population in developed markets such as the US, EU and Japan. Improved healthcare awareness, progressive emphasis on healthcare regulations and increasing resources allocated to the wellbeing of the high population density countries such as India, China and the Middle East are drivers for the rising demand from emerging markets. On a per capita basis, the US and EU still lead at approximately 100 gloves per capita per annum compared with an approximate of 11 gloves per capita in Asia. With a healthy economic growth and increased healthcare awareness from these countries in Asia, it will trigger a strong potential demand for rubber gloves that could further increase the growth above the projected growth rate. Rising pandemic diseases could also potentially create spikes in the demand for rubber gloves.

Due to the resilient global demand for rubber gloves, glove manufacturers have responded by accelerating their capacity expansion as well as improvement in their production efficiency. Contraction of average selling price ("ASP") was experienced mainly in the first half of 2016 due to heightened competition driven by the influx of new capacity added. Higher raw material prices following weakening of the Ringgit and rising production costs remain an issue.

On 22 March 2016, the US Food and Drug Administration ("FDA") published a Federal Register notice proposing to ban powdered surgeons' gloves, powdered patient evaluation gloves and absorbable powder for lubricating surgeons' gloves. The proposed regulation, if finalised, will ban the powdered gloves currently being used in the marketplace, making them adulterated and subject to enforcement action.

Our Polymers business with primary focused on the supply of polymer coating system for the manufacturing of powder-free rubber gloves will benefit from the glove production expansion and higher global glove demand. To keep abreast with the advancement in gloves manufacturing technology and its application performance, we continue to enhance our research and development capability and resources; at the same time, widen our product offering whilst expanding and developing current products.

We are continuously working with our various stakeholders; customers and suppliers included, as well as research centres for the development of high impact products. This gives us the exposure and to gain access to the latest technologies and modern glove application requirements to facilitate our product enhancement initiatives. Furthermore, a Memorandum of Understanding ("MOU") was signed with Monash University of Malaysia in March 2016 for co-development of advanced materials to provide unique performance feature targeted for specialty gloves.

Fertilizers Business

The Fertilizers business posted another year of losses at RM102.9 million, from a net loss of RM101.9 million in 2015. The losses were attributed from its operating activities, impairments made on inventories and receivables, and net losses recorded on disposals of all *Assets held For Sale* during the year. Our Fertilizers business recorded revenue of RM145.9 million during the year 2016, a decrease by 60.3 percent when compared to 2015 of RM367.5 million. Pursuant to the decision to exit the fertilizers business, the subsidiaries focused its operational activities to selling of existing inventories and fulfilling already awarded tender obligations from the plantation companies.

On 15 November 2016, we concluded the divestment of CCM Agriculture (Sabah) Sdn. Bhd. and CCM Agriculture Sdn. Bhd. to Hextar Fertilizers Group Sdn. Bhd. for a total sum of RM40.8 million. The divestment included certain trademarks relating to the Cock's Head brand and the two parcels of land including the buildings thereon in Bintulu, Sarawak. The Group recorded a net loss of RM24.5 million from the said divestment.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

We also completed the disposal of three parcels of land in Medan, Indonesia together with the building thereon by P.T. CCM Agripharma to P.T. Feedmill Indonesia for IDR121.8 billion on 20 May 2016. We recognised a net gain of RM21.5 million from these disposals.

As for the land in Shah Alam, we have started working on the restoration of the site to an acceptable condition in 2016 and will continue with the dismantling, demolishing and restoration phases which are expected to be completed by 2019.

We would also wish to note that this year would be the last reporting on our Fertilizers business. Any updates henceforth, will be reported as an overall Group operations. We thank you for all your support towards our Fertilizers business throughout the years and we hope to continuously serve you better through our other businesses.

Halal

On the Halal front, we continued our efforts on the national Halal agenda through our active involvement in developing standards for chemical and pharmaceutical products. Among others, the Company participated in various workshops and technical working groups led by Jabatan Kemajuan Islam Malaysia ("JAKIM") and the Halal Industry Development Corporation ("HDC").

CCM has also actively organised seminars, talks and discussions on Halal awareness since 2007. On 21 December 2016, we hosted a Halal symposium entitled 'Malaysia Global Leadership in Halal Pharmaceuticals' for 200 delegates from the pharmacy fraternity. This was held in collaboration with JAKIM, HDC, Standards Malaysia, Ministry of Defence ("MinDef") and Malaysian Pharmaceutical Society ("MPS").

CCM's top management also participated in the annual JAKIM International Halal Certification Bodies Convention with CCM's Halal Assurance Management System, which was officiated in March 2016. Our Halal journey was further affirmed to be the right strategy when we created another milestone with JAKIM as the first Halal certifying body to certify controlled/prescriptive medicines (Ethical Products) based on the world's first Halal pharmaceutical standard MS 2424:2012 Halal Pharmaceuticals – General Guidelines to CCM during a special award ceremony at Pullman Putrajaya in February 2017.

As always, we will continue to raise awareness on Halal pharmaceuticals to ensure Muslims have the option for Halal alternatives and also able to meet their Islamic obligations.

Bumiputera Empowerment

To support the Government's efforts to create a "Bumiputera Commercial and Industrial Community" (*Masyarakat Perniagaan dan Perindustrian Bumiputera)* under the *Majlis Ekonomi Bumiputera* ("MEB"), CCM established the Bumiputera Vendor Development Programme ("BVDP") to develop its own pool of capable Bumiputera vendors to tap into the game-changing opportunities for Bumiputeras in Halal pharmaceuticals and also in the chemicals and polymer industries.

Our recognition as an industry driver in the Halal arena helps to expand market potentials for Halal compliant vendors, including manufacturers, importing agents and logistics providers in making Malaysia the global leader in Halal Pharmaceuticals which has a global potential of US$132.0 billion by 2021.

We strongly believe that our Bumiputera entrepreneurs have the knowledge and experience on Halal matters and they will be the key driving force behind the Halal Pharmaceuticals ecosystem, making Malaysia the global thought leader for this industry through the convergence of minds – Shariah and Science, opening opportunities for research and development in terms of products, services and also key reference documents.

A workshop, themed *"Spurring the Bumiputera Agenda through BVDP"* that involved pocket-talks, knowledge-sharing sessions and business clinics was organised to serve as a valuable platform for our BVDP participants to gain beneficial insights on various areas including business facilitation and enablement. A series of pocket-talks were presented by the Technical Agencies of the Ministry of International Trade and Industry ("MITI") with topics including technology commercialisation, Enterprise Innovation and Intervention Programme ("EIIP") and ideal technology partners for small and medium enterprises ("SMEs") as well as an overview of Halal logistics.

OUTLOOK

The year 2017 looks set to be as challenging on the economic front as 2016 was. Within this environment, we believe that there are opportunities to make progress in all our key business segments based on their respective business strategies and plan.

With the exit from the Fertilizers business, our financial position will be more predictable and solid.

The Pharmaceuticals business' Manufacturing Optimisation Strategy together with its various collaborative efforts on new product portfolios, the improvement in operational efficiency level of our newly modernised chlor alkali plant and continuous expansion of product offerings of our Polymers business; are aptly crafted to drive the sustainability of our Company.

ACKNOWLEDGEMENT

The year 2016 saw its fair share of ups and downs but we are positive that all our stumbling blocks will serve as stepping stones for success in the coming years. We believe that we are where we are today because of the unending support from our stakeholders, employees, shareholders and customers.

On that note, we recently welcomed Datuk Nik Moustpha bin Haji Nik Hassan to join the CCM Board while our subsidiary, CCM Duopharma Biotech Berhad ("CCMD") saw the retirement of Tan Sri Dato' Dr. Abu Bakar bin Suleiman and Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam and the resignations of Datuk Alias bin Ali and Dato' Haji Ghazali bin Awang in 2016 while Dr. Byung-Geon Rhee resigned in February 2017. We thank all of them for their past contribution and for paving the strategic journey to take CCMD to greater heights.

Meanwhile, our welcome to Dato' Hajah Normala binti Abdul Samad as the new Chairman for both CCM and CCMD and also Tan Sri Siti Sa'diah binti Sh. Bakir, Dato' Azmi bin Mohd Ali, Razalee bin Amin, Puan Sri Datuk Rohani Parkash binti Abdullah, Zaiton binti Jamaluddin and Dato' Eisah binti A. Rahman who have been appointed as new Board members of CCMD.

I would also like to acknowledge all our stakeholders, particularly our shareholders, employees, customers and business partners for their commitment and support rendered throughout our years of operation. We look forward to strive ahead with the tenacity and vigour that has often driven us to success.

Thank you.

LEONARD ARIFF BIN ABDUL SHATAR
Group Managing Director