CHAIRMAN'S Statement

Dato' Sri Azalina binti Othman
Chairman

Dear Shareholders,

"The year 2013 was a difficult year for CCM Group, with poor market conditions affecting the performance of our Chemicals and Fertilizers Divisions. Nevertheless, our Pharmaceuticals Division continued on its strategic initiatives and delivered strong results compared to last year. The Group's emphasis on managing its capital is also bearing fruit with the strengthening of our balance sheet and more efficient use of the working capital. With this, I present to you the Annual Report and financial statements of CCM Group for the financial year ended 31 December 2013."

OUR PERFORMANCE

For the financial year ended 2013, the Group's total revenue was lower by 15 percent to RM1.29 billion from RM1.51 billion in 2012, while profit before tax declined by 71 percent to RM20.9 million compared to RM71.9 million previously.

The Chemicals Division's revenue declined by 15 percent to RM299.5 million in the current year from RM352.2 million in 2012, mainly due to lower selling prices for its Chlor-Alkali products and the reduced sales volume of its trading business. As a result, the Division's profit before tax was lower by 58 percent to RM16.6 million from RM39.0 million in the previous

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year. Nevertheless, the stable performance of the polymer coatings business had mitigated the adverse impact of the Chlor-Alkali market.

The Pharmaceuticals Division recorded a strong performance in 2013 with the profit before tax increasing by 34 percent to RM34.1 million from RM25.5 million on the back of higher revenue of RM295.9 million, which increased by 4 percent from RM284.8 million in 2012. Apart from the revenue contribution which came from higher sales from both domestic operations and from exports, the Division continued its disciplined execution of Lean Six Sigma projects to improve its cost of goods sold ("COGS") and tightened its expenses in general which has contributed to improved profitability.

The Fertilizers Division reported a 21 percent decrease in revenue to RM693.0 million as compared to previous year of RM876.3 million, primarily due to the reduced volume of compound fertilizers sold to the plantations and export sectors. The Division posted a loss before tax of RM12.9 million as compared to a profit before tax of RM10.7 million in 2012, mainly as a result of the decline in demand for fertilizers especially during the second half of 2013, where the unexpected unravelling of the world's largest potash joint-venture had created global market uncertainty and the slower than anticipated recovery of our operations in Lahad Datu and Medan.

In addition, the Group's overall profitability was also impacted by an impairment of RM15.8 million against the marketing rights of the Pneumococcal Vaccine ("Vaccine"). In 2006, CCM had acquired marketing rights for the Asian region (excluding Japan) for the Vaccine from Synergy America Inc. The Vaccine is currently still at a pre-clinical development stage. During the year, the Group had also recognised a change in fair value of investment properties totalling to RM18.7 million, including the one-off gain of RM13.1 million from the revaluation of Bukit Tunku property, which cushioned the impact of the said impairment.

BUSINESS OUTLOOK AND PROSPECTS

For the year 2014, the improvements in global economic conditions seen in 2013 are expected to continue during the year. Growth is expected to remain moderate, supported by broader economic recovery in developed economies, led by the US economic recovery as well as sustained growth in emerging economies.

The Malaysian GDP is expected to grow steadily between 4.5 percent to 5.5 percent, from 4.7 percent recorded in 2013. This is despite the domestic economy facing the threat of inflationary pressures, as a result of the government's move to rein in its expenditure through among others, subsidy rationalisation. Domestic demand would also remain resilient, although it faces challenges ranging from softer consumer spending to stricter lending measures by financial institutions to curb household debt level.

The manufacturing sector, one of the key drivers for the overall growth after the services sector is expected to grow 3.5 percent. This is underpinned by the continued recovery in global economic environment.

For Chemicals Division, the Division is expected to be affected by the Chlor-Alkali prices which are anticipated to continue to fluctuate this year. Besides continuously striving to increase its trading margin, the Division is also focusing on new trading segments and the expansion of its customer base within the region. For its polymer coatings business, it also faces challenges due to customers embarking on cost optimisation measures and changes in preference to nitrile rubber.

Malaysia's pharmaceuticals market is also expected to remain resilient in 2014. With a government budget allocation of RM22.1 billion for the healthcare sector, our Pharmaceuticals Division is expected to benefit from the stable demand for its products. Besides this, the government's continued focus on the pharmaceutical sector as one of the National Key Economic Areas ("NKEA") under the Economic Transformation Programme ("ETP") and the establishment of 1Malaysia Clinics and new hospitals across the country will also help sustain the growth of our Pharmaceuticals Division going forward. In addition, the Division will strive to strengthen its leadership in Halal pharmaceuticals to capitalise on the growing demand for Halal products.

The fertilizers market is also expected to improve during the current year but it is likely to remain challenging. The outlook for CPO prices is expected to improve as compared to 2013, driven by the expected decline in palm oil inventories in the coming months. CCM's Fertilizers Division will continue its focus on costs optimisation and operational excellence to improve margins, in anticipation of higher demand for the next manuring season. Continuous efforts in market penetration will also be one of the key strategies and more focus will also be given on the marketing activities to support the sales function and boost our brand recognition.

The Group will also sustain its efforts in research and development ("R&D") to continuously innovate and differentiate our business for further improvements, to enhance product portfolio and meeting customers' needs. Our R&D efforts are undertaken through partnerships with both local and foreign major industry players as well as local institutions of higher learning, to help us develop products and best practices to meet current and future needs, thus becoming the platform in ensuring the sustainability and the success of the Group.

DIVIDEND

The Company is planning for expansion programmes in its Chemicals and Pharmaceuticals Divisions in 2014. As such, stricter cash management is anticipated in the coming months. In view of this, the Board of Directors are not recommending any final dividend for the financial year ended 2013. An interim single tier dividend for 2013 amounted to 2.15 sen per share was paid on 15 November 2013. For the 2012 financial year, CCM had paid out a final single tier dividend of 5.75 sen per share.

ACKNOWLEDGEMENT

As we continue our journey following the Golden Jubilee in 2013, I would like to thank all our stakeholders, especially our shareholders, customers and partners for their support throughout the years. A special note of gratitude also goes to my predecessor, YBhg. Tan Sri Dato' Sri Hamad Kama Piah bin Che Othman, who had retired as Chairman in November 2013. His leadership and support for CCM enabled us to grow from strength to strength, and my sincere appreciation to him for the smooth transition of leadership. I would also like to commend the efforts of my fellow Board members, management and all staff for their hard work in 2013, despite the challenging conditions. I am confident that the support, passion and commitment we put in our work will help us grow CCM to the next level.

Thank you.

Dato' Sri Azalina binti Othman
Chairman