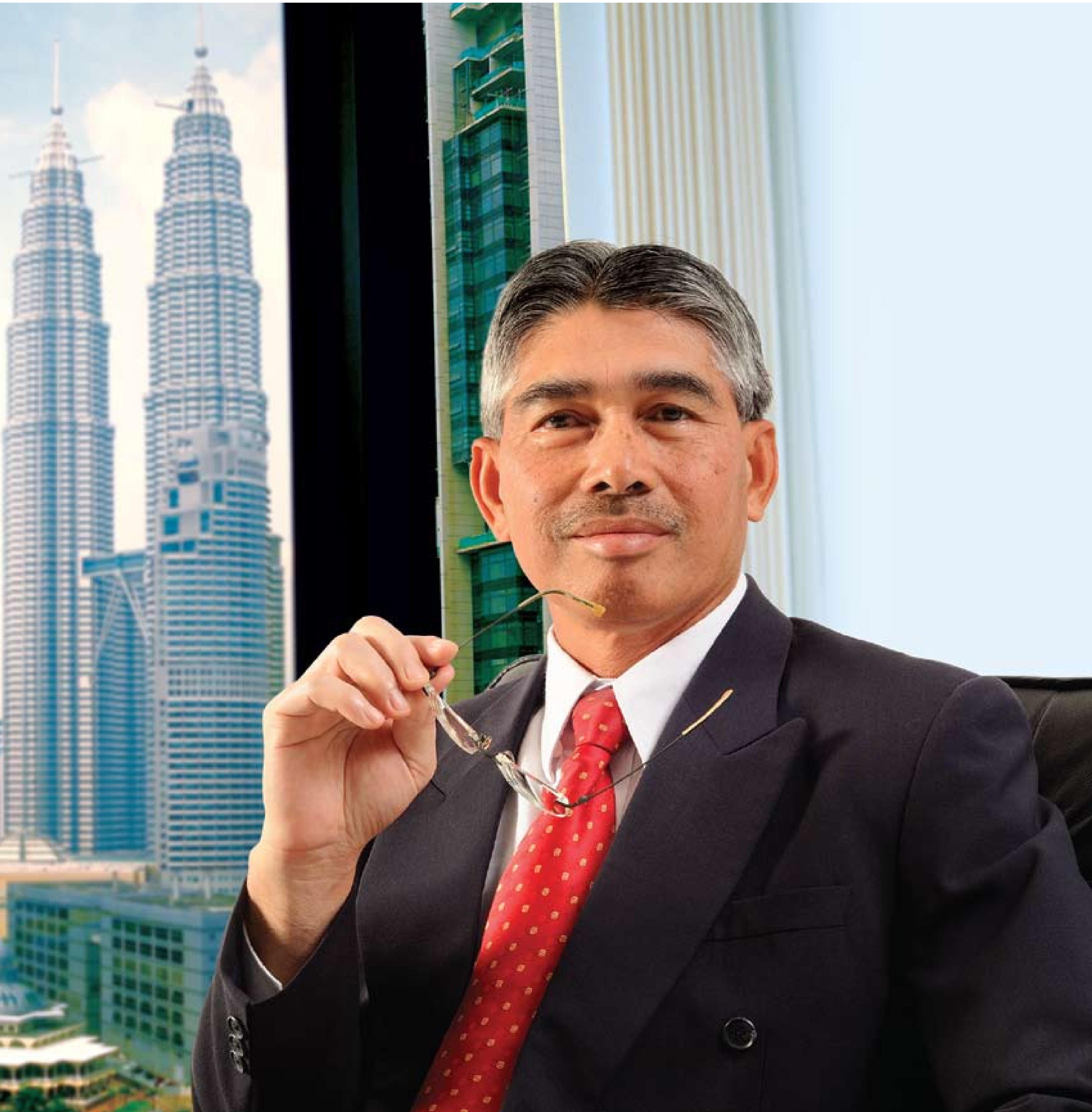
Group Managing Director's Operations Review

Responding Positively

Though faced with a year of challenges, we have maintained a strategic approach to the furtherance of our business objectives.

Dato' Dr. Mohamad Hashim bin Ahmad Tajudin
Group Managing Director



Barring any unforeseen circumstances, the Group is expected to progress better than last year.

CCM's performance for the year ended 31 December 2009 was greatly impacted by the global economic downturn which saw a drop in the Group's revenue and profit before tax (PBT). The global recession significantly affected the demand for our products despite the gradual increase in sales during the second half of 2009.

Although faced with adversity, we continued to reinforce our business strategies with hopes of improving the Group's overall performance and regaining lost ground suffered during the year under review.

Chemicals Division

The Chemicals Division has been significantly affected by the global economic decline in terms of revenue and results from operating activities. The Division's revenue fell 28.8% to RM432.0 million from RM606.5 million while results from operating activities including an impairment, contributed a loss of RM12.7 million compared to a profit of RM14.0 million in the same period last year. Excluding the impairment, the Division results from operating activities would have been a profit of RM4.8 million. Turnover declined due to contraction in overall sales volume and pressure on selling prices. The Division was also faced with challenges like contracting market demand, margin erosion, provisions for bad debts and high-priced stocks. However, the Division has embarked on aggresive cost optimization initiatives to mitigate the unfavourable situation.

During the course of the year, the Division also embarked on expansion plans to diversify into niche segments instead of just focusing on its Chlor-Alkali business through the acquisitions of two companies. The acquisition of the Innovative Group of Companies in 2008, specializing in polymer coating for the medical/examination rubber gloves industry has contributed tremendously to the Division's top line and bottom line and helped to mitigate the Division's overall results during the year under review. The acquisition enables our Chemicals business to enhance its specialty chemicals business. However, its acquisition of a water engineering company that offers watercare solutions to the water industry did not do well due to the economic landscape, resulting in an impairment of RM17.5 million.

With a more positive market outlook in 2010, the Division remains upbeat and aims to achieve greater growth in the next three years, especially as the local rubber gloves sector is now poised for further growth. The Division is now focused on continuing its efforts to accelerate and expand its regional business units specifically in the water, rubber, food and metal businesses. In the earlier years, the Chemicals Division focused on regional expansion by setting up trading offices in the ASEAN region. At present, the Division is operating in 5 ASEAN countries and is now positioned to expand its regional business by capitalizing on the potential growing industry demand. The Division will drive the business by focusing on homegrown formulations, own label and branding and also on a profitable range of products.

The Division has also taken steps to improve its performance by embarking on an aggressive Operational Efficiency programme targeting key operational areas on cost optimization to defend its position amid the tough economic backdrop. In addition, the Division is also expanding its presence in the selected market segments.

The Division is also targeting a profitable growth in its watercare business by focusing to build its book orders. The key area of focus is on the Government's National Key Result Area (NKRA) to improve rural basic infrastructure, i.e. ensuring access to clean or treated water to over 360,000 additional households. This augurs well with the capabilities of our watercare business whereby we are able to offer mobile water treatment plant to provide clean and treated water to households. This practical and cost effective solution is also being offered locally and in the region.

Fertilizers Division

2009 was an extremely challenging year for our Fertilizers Division as it had to endure the adverse impact of the global economic crisis and the ensuing uncertainties throughout the year. The drop in fertilizers volume demand in the country was estimated to be around 25% to 30% compared to 2008 compounded by falling prices.

The Fertilizers Division's revenue fell from RM1.4 billion in 2008 to RM897.3 million last year while results from operating activities decreased to a profit of RM28.6 million in 2009 compared to profit of RM94.9 million achieved in the same period the previous year. The drop in revenue and results from operating activities was attributed to overall lower prices and softer customer demand.

The Fertilizers Division is expected to face pressure on margin despite the increase in demand for fertilizers in 2010, driven by stronger crude palm oil prices. The Division has also put in place strategies to further improve its performance. Among the strategies include further strengthening the technical capabilities of the production team, sourcing for competitive and reliable raw material supplies as well as full utilisation of invested assets.

Further to that, the Fertilizers Division converted its existing fertilizer plant in Shah Alam to a more flexible and environmentally friendly process in the second quarter of 2009. This will improve delivery and storage of a key raw material for cost optimisation.

The Division also established a strategic alliance with the Malaysian Agricultural Research and Development Institute (MARDI) to undertake research and development (R&D) activities to promote the commercialization of Nitro Humic Acid (NHA), a crop booster foliar fertilizer. The NHA project is funded under the Ministry of Science, Technology and Innovation (MOSTI)'s TechnoFund scheme. Under this strategic alliance, MARDI is providing its technological expertise to carry out R&D while CCM Fertilizers will be involved in the commercial production, marketing, sales and distribution of NHA and crop booster fertilizers.

In July, the Fertilizers Division commissioned its NPK compound fertilizer plant in Medan, its first outside Malaysia and the third for the Division. The commissioning of the plant is set to reap the huge fertilizer market in Indonesia and improve sales of its compound fertilizers. The fourth plant is currently under construction in Lahad Datu, Sabah and is due for completion in March 2011.

Pharmaceuticals Division

CCM's Pharmaceuticals Division recorded a 4.3% rise in revenue to RM242.7 million from RM232.7 million for the period under review last year while results from operating activities dipped 22.9% to a profit of RM45.6 million from profit of RM59.1 million. Increase in revenue was driven by higher Government sales.

Pharmaceuticals Division is expected to contribute greatly to the Group's overall revenue and bottom line in the next few years despite the stiff competition ahead. Healthcare products will always be in constant demand, regardless of the economic situation and consumers will continuously seek high quality yet affordable medicines and health supplements.

As the country's largest generic pharmaceutical manufacturer, our Pharmaceuticals business is committed to continuously provide the best pharmaceutical products that are not only certified halal but are also affordable compared to branded medicines. For the year ahead, the Division plans to undertake strategic measures to improve its business performance, including increasing its sales of existing products, boosting its market share of the local generics market to 23% from 20% currently and gaining a greater penetration into the existing ethical and over-the-counter (OTC) markets. The Division also aims to intensify its OTC registration, develop non-traditional channels to sell its OTC products in order to reach a wider consumer base, launch more products overseas by identifying new export markets and strengthen its halal initiatives overseas. The Pharmaceuticals business also plans to accelerate its performance and boost production capacity by ensuring optimal capacity utilisation and efficiency of its Bangi plant.

Additionally, venturing into niche areas will also push the Pharmaceuticals Division forward and efforts to develop innovative and higher value-added products such as renal concentrates, vaccines fill and finish, insulin and oncology medicines are already in the pipeline. 2010 will see the completion of the RM50 million cGMP/GSP upgrade at the Division's Klang facility. This is a sign of commitment from the Group towards achieving world class standards in the operations of all our facilities.

International Business

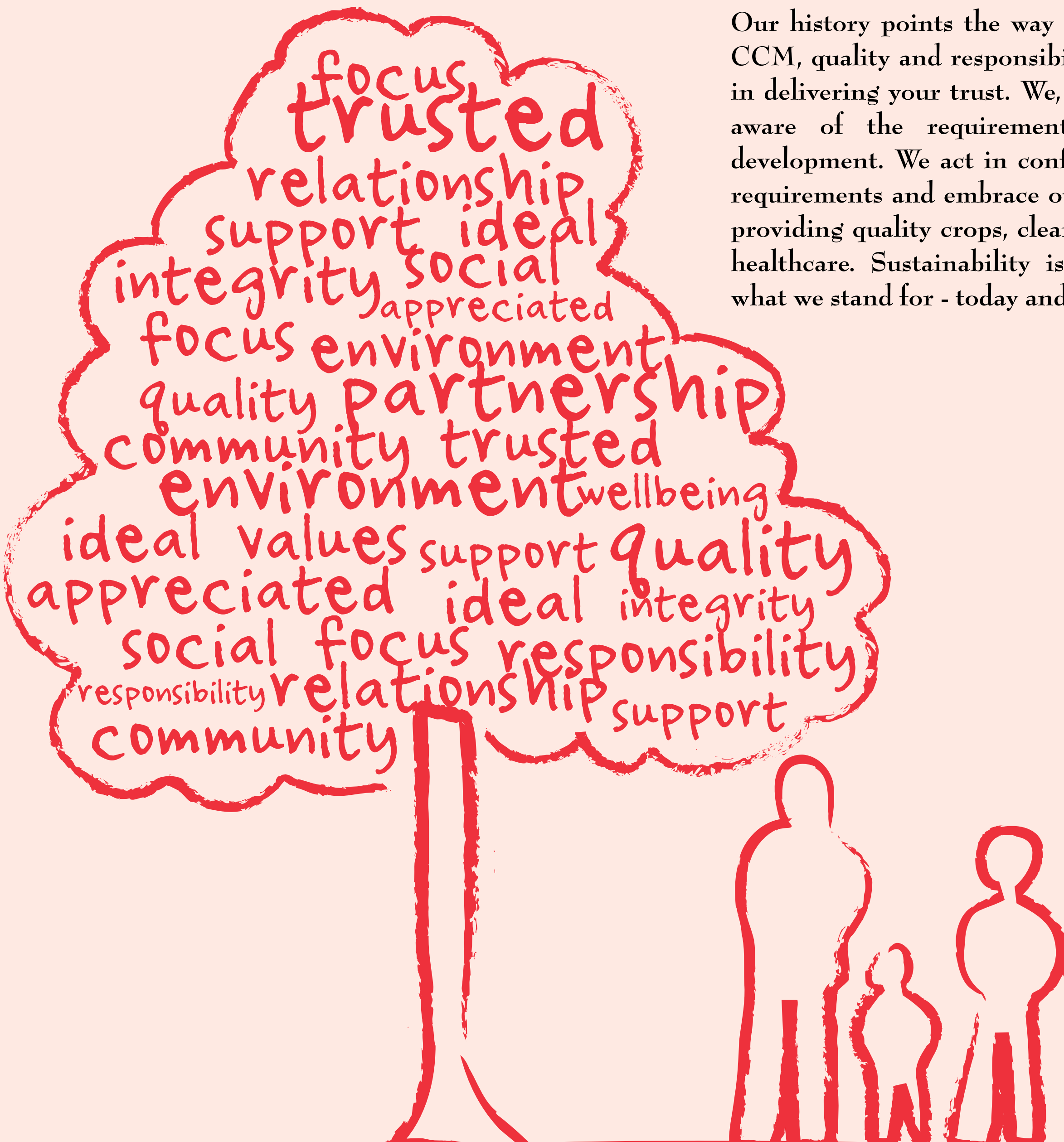
The global economic downturn not only affected CCM's domestic performance but also our international business. During the year under review, the Group's international business revenue fell 18% to RM478 million from RM585 million in 2008 primarily driven by drop in volume and prices in both Chemicals and the Fertilizers businesses. Despite the lower revenue, CCM's International Business Division contributed 30% of the Group's revenue in 2009, an increase of 3% from 2008. 2009 also marked the timely commissioning of CCM's inaugural overseas asset, the NPK compound fertilizer plant in Medan, Indonesia. CCM now has the capability to supply 130,000 mt of NPK compound fertilizers to meet the needs of the Indonesian plantation sector.

CCM has identified the international business operations as one of the key strategic growth sectors for the Group. The ASEAN region offers us huge opportunities to create new business and generate revenue. By setting up regional offices in five key markets in ASEAN, namely Singapore, Indonesia, Vietnam, Thailand and the Philippines, we are confident of expanding our market reach in the region. We are currently identifying strategic local partners and exploring joint venture and acquisition opportunities in high potential markets such as Indonesia and Vietnam to accelerate our business growth in the region. Besides ASEAN, we also export our products to over 30 countries worldwide and are constantly on the lookout for opportunities in new markets. We plan to open up new offices within and outside ASEAN in our efforts to position ourselves as a key international player in these lucrative markets.

Dato' Dr. Mohamad Hashim bin Ahmad Tajudin
Group Managing Director

values + integrity => social partnership

Our history points the way to our future. For CCM, quality and responsibility are integrated in delivering your trust. We, as a company, are aware of the requirements of sustainable development. We act in conformity with these requirements and embrace our commitment in providing quality crops, clean water and better healthcare. Sustainability is and will remain what we stand for - today and tomorrow.



Enhancing Quality Of Life