

## 8.2 Industry outlook

### The Fertilizer Industry

Better growths are forecasted for the next year or two. Demand is expected to regain momentum in 2003 and beyond as many plantations begin their replanting stage after the full life cycle of oil palms. Replanting requires re-fertilizing of the soil and hence, is likely to spur demand for organic and chemical fertilizers. In addition, many rubber plantations in Malaysia are being converted into oil palm plantations. Similarly, re-conditioning of the soil and re-fertilizing is necessary for this conversion so that the replacement crop can grow and flourish.

Fertilizer Market: Revenue Forecasts (Malaysia), 1996-2004

Year	Consumption (000 tons)	Revenue
		Growth Rate (%)
1996	1,131.00	---
1997	1,252.00	10.7
1998	1,449.50	15.8
1999	1,521.30	5
2000	1,677.00	10.2
2001	1,803.70	7.6
2002	1,964.00	8.9
2003	2,149.10	9.4
2004	2,334.40	8.6

Compound Annual Growth Rate (2001-2004): 8.9%

In addition, fertilizer sales are expected to improve along with better prospects for the oil palm sector. Demand for CPO is likely to increase with China's entry into the World Trade Organization in 2002, which is expected to spur China's overall demand and consumption of CPO. The lowering of import tariffs by India is also expected to increase exports of palm oil from Malaysia to India. However, high growth rate is not expected for fertilizers as the agricultural sector is not a rapidly growing industry that is hampered by the shortage of suitable land.

(Source: Frost & Sullivan: *The Malaysian Fertilizer Market 2001 – 2004*)

### The Industrial Chemical Industry

Growth for chemicals is expected to increase by 9.8% in 2003 underpinned by the push for investments in major end-user industries such as chemicals, petrochemicals, and electronics sectors in the medium term. Moreover, further developments in water infrastructure are expected to augment the expansion of the market and provide a sustained demand throughout the forecast period. Increasing environmental awareness and the stiffening of the pollution control laws will continue to drive the market for effluent treatment in the long term. In addition, the increasing demand for ISO 14000 certification in order to compete in the export market will also force companies to invest in effective waste water treatment. Based on the above analysis, the total market is expected to reach USD211.6 million in 2006 with a CAGR of 8.2%.

## Water Treatment Chemicals Market: Revenue Forecasts (Malaysia) 1996 – 2006

Year	Revenues (USD Million)	Revenue Growth Rate (%)
1996	177.4	---
1997	171.9	(3.10)
1998	116.4	(32.30)
1999	122.1	4.9
2000	128.5	5.3
2001	137.6	7.1
2002	150.1	9.0
2003	164.7	9.8
2004	180.4	9.5
2005	195.8	8.6
2006	211.6	8.1

Compound Annual Growth Rate (1999-2006): 8.2%

Note: All figures are rounded; the base year is 1999. Source: Frost & Sullivan

(Source: Frost & Sullivan Report No. 4218-39)

## The Pharmaceutical Industry

## Generic Pharmaceutical Market: Revenue Forecasts (Malaysia), 1997-2007

Year	Revenues (USD Million)	Revenue Growth Rate (%)
1997	65.4	---
1998	72.6	10.0
1999	78.9	9.0
2000	94.7	20.0
2001	102.6	8.0
2002	112.9	10.0
2003	124.2	10.0
2004	136.6	10.0
2005	157.1	15.0
2006	180.6	15.0
2007	207.7	15.0

Compound Annual Growth Rate (2001-2007): 12.5%

Note: All figures are rounded; the base year is 2001. Source: Frost & Sullivan

The generic pharmaceutical market stood at USD102.6 million in 2001, which reflected an 8% growth from the previous year. The one digit growth rate is mainly attributed to the economic downturn, which made general practitioners (“GPs”) and hospitals cautious in terms of spending. However, with the economy showing signs of recovery, revenue growth is expected to jump to 10%, bringing revenues to USD112.9 million in 2002. Growth in subsequent years is expected to be flat at around 10%, with a slight increase from 2005 to 15% per annum. The rather stable growth reflects the condition of the pharmaceutical market. While there may be cuts in spending, people still need to consume drugs to treat illnesses. The only difference during an economic downturn is that people might wait longer before they treat their illnesses.

The higher growth in later years is a reflection of increasing awareness about healthcare and most importantly, on the advantages of generic drugs. The CAGR during the forecast period is estimated at 12.5% and revenues are likely to reach USD207.7 million by 2007.

*(Source: Frost & Sullivan Report No. 4048-52)*

### **8.3 Future Prospects of the Group**

CCM Group, being a major player in the Fertilizers, Water Treatment / Industrial Chemicals and Pharmaceuticals industry, is well poised to exploit and benefit from future market trends and opportunities.

On its pharmaceutical business, the Group plans to open more retail outlets under Prima Health Sdn Bhd. In addition, the Group would continue reviewing opportunities to acquire niche manufacturing facilities, distribution channels, brand names and R&D facilities. This move appears opportune as the trend of improving education levels and affluence of the average citizen have led to increasing awareness of healthcare. Moreover, the aging local population often suffers from various ailments that require treatment from time to time. While doctors are sought for medical advice, most purchase OTC products from pharmaceutical retail outlets to tackle a particular problem, especially as it is a minor problem that can be easily cured. More retail outlets will also improve the Group’s distribution network. Large distributors such as Dichtelm and Zuellig are often pressured by large MNC customers not to deal with generic products leaving manufacturers to find their own network of distributors.

By 2005, many drug patents are scheduled to expire, including 47 top drugs with combined worldwide sales of USD32 billion. Some patents that will expire soon include products in therapeutic areas like allergy, infection, cancer and anti-depression. Generic manufacturers like the Group are in a good position to begin research to select drugs to manufacture in order for generic versions to be ready when patents expire.

As outlined in the Eighth Malaysia Plan, the Government is committed to providing its people with affordable, quality medical care. To accomplish this objective, hospitals and other medical facilities must be able to offer good products at reasonable prices. Hence, opportunities are present for manufacturers that can offer bioequivalent products at a lower price to hospitals and medical facilities.

For the fertilizer industry, CCM Group has the opportunity to maintain its leadership in the compound fertilizer sector. CAGR of 8.9% is expected until 2004 making the fertilizer business a potential major source of cashflow for the Group.

In the chemical industry, the Group has been gaining market share due to, *inter alia*, its success with public water treatment companies. The quality and expertise of the Group has enabled it to differentiate itself in the watercare business.

The CCM Group remains committed to technical service, quality and reliability to differentiate itself from the rest. These critical success factors would enable it to expand market share, particularly when the economy recovers and end users become less cost conscious and opt for product quality.

*(Forecasts of market trends and facts were extracted from the Frost & Sullivan Reports of the respective industries, as quoted above)*

## 9. RISK FACTORS

In evaluating the Offer For Sale, shareholders should carefully consider, in addition to the other information contained herein, the following risk factors which are by no means exhaustive :-

### 9.1 Market Risk

Shareholders are requested to consider carefully that each Warrant derives its value from giving its holder the right or option to subscribe for new Shares at the predetermined Exercise Price over the Exercise Period. As such, the value of the Warrant is directly linked to the underlying market price of CCM Shares. If the market price of CCM Shares moves below the Exercise Price of the Warrant, the Warrants are deemed to be out-of-the-money as investors would be able to purchase the Shares directly from the Market at a lower price compared to purchasing the Shares by exercising the Warrant. The higher the market price of CCM Shares is against the Exercise Price, the higher will be the value of the Warrants.

Shareholders are reminded, however, that there are many other factors affecting the volatility of the price of the Warrants or the market price of CCM Shares such as political, economic and regulatory conditions. The Warrants have a finite life-span of ten (10) years during which time, the Warrants can be exercised.

### 9.2 Risk of Obsolescence / Technological Risk

Pharmaceutical products tend to have longer life cycles compared to other technology-intensive products such as computer chips and wireless communications. As such, the risk of product obsolescence due to new superior drugs is relatively low. Notwithstanding that local players lack the expertise to develop new blockbuster drugs, more established players including the CCM Group tend to have the ability to "import" technological knowledge from abroad.

Besides that, newer technologies like membrane and biological technology will reduce the amount of chemicals used drastically in water treatment. However, some of these technologies serve as complements rather than direct threats and suppliers could take advantage of the complementary features of both conventional and alternative methods by offering combinations that can optimize results.

Although the Group seeks to minimise these risks by actively and continuously undertaking research and development, pursuing technological innovation and providing staff training in line with the requirements of new technologies, no assurance can be given that any change to these risks will not have a material adverse effect on the Group's pharmaceutical business.

### **9.3 Competitive Structure**

A competitive threat to local fertilizer manufacturers is imports from neighboring countries such as Thailand and Indonesia. With the AFTA to be fully implemented by 2003, import tariffs are expected to be lowered to 5% and below resulting in an influx of cheaper products.

For the chemicals and pharmaceutical industry, there are no significant differences between products. For example, commodity-like chemicals in the pH adjusters, biocides, and coagulants segments have long been subjected to price slashing due to the voluminous quantities used and the lack of branding. Generic drugs are copies of branded drugs that have gone off patent, thus there are hardly any differences between the products.

Thus, besides competing on price to gain market share, local players could also focus on other success factors such as quality, branding, good distribution and customer education.

### **9.4 Changing Market Trends**

It is difficult for a company to maintain or increase its existing market share unless it is able to identify and exploit market trends such as changing consumer behaviour.

In the chemical industry, despite the differentiating factors like technical service, quality, and brand equity, price remains to be the major issue to customers especially for those chemicals that are used in large volumes. In view of this barrier for new products and similarities in offerings amongst the major suppliers, substantial consumer education is necessary when introducing new products into the market. Market participants should continue to highlight their edge in products and technology to create a perception of value over the competition. With increasing customer knowledge, they are likely to place more emphasis on technical and other support rather than only price. This will mitigate the threat of price competition.

Also, there has been a trend of customers that prefer to outsource water treatment requirements to specialists who can provide one-stop solution packages. This challenge is likely to have a greater impact in the future due to increased need for the water treatment and in addition, end-users realize the cost effectiveness of installing proper water treatment management systems. CCM addressed this trend by establishing a comprehensive watercare business that includes chemical treatment programs, technical support and consulting services.

## 9.5 General Business Risk and Industry Cycle

Like all other business entities, changes in political and economic conditions in the domestic environment and other countries where the Group has operations or may undertake projects in the future could materially affect the financial and business prospects of the Group. Such uncertainties include changes in interest rates, inflation, monetary and fiscal policies, methods of taxation and tariffs, renegotiation or nullification of existing contracts, impost of currency exchange controls, expropriation and other political, economic and social developments including risks of war, civil unrest, and riots.

Each industry, to a certain extent, is cyclical in nature. Fertilizer sales tend to correlate with movements in CPO prices while the performance of the chemical industry fluctuates with the performance of the manufacturing sector, which in turn correlates with the general economic cycle.

No assurance can be given that any change to these factors or the onset of unfavourable industry cycles would not have any material adverse impact on the Group's business.

## 9.6 Regulatory Considerations

The Ministry of Health ("MOH") may recall a line of product from the market when it is deemed that certain standards are not met or the product poses a health risk. Should this happen, the public's perception of the brand will be negatively affected leading to the erosion of the Group's reputation and market share. Besides that, the National Pharmaceutical Control Bureau also conducts regular spot checks on the factory operations of manufacturers to ensure all guidelines are adhered to. At times when the manufacturer is not able to meet certain operational requirements due to changes to standards or even cleanliness issues, operations will be suspended. Depending on the severity of the case, the manufacturer may even lose its licence to manufacture pharmaceutical drugs.

The Department of Environment enforces regulations relating to the environment. Subsequent to amendments to the Environmental Quality Act in 1996, more severe penalties involving heavier fines and even sanctions were implemented. Fertilizers can lead to environmental hazards such as soil contamination. However, these issues do not pose too major a concern for manufacturers or the government since the probability of occurrence is low.

**9.7 Dependence on Imported Raw Materials / Foreign Exchange Risk**

The local fertilizer and pharmaceutical industries remain highly dependent on imported raw materials. In general, most basic raw materials tend to move together as its prices are loosely tied to the commodity cycle, which in turn, is linked to the economic performance of the Organization for Economic Cooperation and Development ("OECD") countries. As such, prices of raw materials tend to be quite volatile, exposing local manufacturers to foreign exchange risks. When the Ringgit faced severe devaluation during the Asian Financial Crises in 1997, it automatically led to a massive inflation in imported raw material prices. At times of an economic downturn, it is difficult to pass on this added cost to consumers. Although the pegging of the Ringgit to the USD has now provided some stability, nevertheless, there is no assurance that material foreign exchange losses will not be sustained in future.

**9.8 Dependence on Key Personnel**

The continued success of the Group will largely depend on the abilities and continued efforts of its existing Directors, Senior Management and key skilled personnel. The departure of some of these key members of the organisation may adversely affect the Group's continued ability to compete in its respective industries. Therefore, effort is continuously being made to attract and retain good and experienced staff through incentive schemes, conducive working environment and comprehensive human resource management. With these efforts, the Group is confident that the competent younger members of the management team will be able to assume the role of their seniors effectively and seamlessly.

**9.9 Investment Activities**

As at 30 June 2002, CCM had invested approximately RM36.18 million and RM62.73 million in Malaysia and overseas' quoted securities. Its investments in Malaysia have a market value of RM47.10 million while its overseas investments have an aggregate market value of RM155.01 million. Depending on the prevailing market conditions both domestically and overseas, any diminution in value of CCM's investments in these quoted securities would be accounted for in accordance with applicable accounting standards in Malaysia.

**9.10 Forward-Looking Statements**

This Abridged Prospectus contains forward-looking statements, ie. those other than statements of historical facts. Although CCM believes that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such expectations will prove to be correct. Any differences in the expectations of CCM from its actual performance may result in the Company's financial and business performances and plans to be materially different from those anticipated.

**10. WORKING CAPITAL, BORROWINGS AND CONTINGENT LIABILITIES**

As at 7 January 2003, being the latest practicable date prior to the printing of this Abridged Prospectus, CCM Group has bank borrowings amounting to approximately RM125.5 million. The total outstanding borrowings are divided into the following :-

<b>Type of borrowings</b>	<b>RM</b>
Long term *	68,989,000
Short term *	56,514,000
<b>TOTAL</b>	<b>125,503,000</b>

\* *interest bearing debts*

The Directors are of the opinion that, after taking into account the present cash position, the banking facilities available to the Group and the Proceeds raised from the Fund Raising Exercise, the Group will have adequate working capital to meet its present and foreseeable future requirements.

Contingent liabilities of CCM as at 7 January 2003 amounts to approximately RM16.34 million (USD4.30 million). The amount is in relation to a corporate guarantee issued by CCM in favour of Sumitomo Mitsui Banking Corporation ("Sumitomo") as security for the term loan granted by Sumitomo to CCM Investments Ltd.

The Board of Directors of CCM are not aware of any material contingent liabilities which have become enforceable, or are likely to become enforceable which will affect the ability of the Company or any of its subsidiaries to meet its obligations as and when they fall due at the date of this Abridged Prospectus.

**11. UNDERTAKING BY SHAREHOLDERS AND DETAILS OF UNDERWRITING**

The following shareholders have given their irrevocable written undertaking to subscribe in full for their entitlements amounting to 15.15% of the Warrants to be offered pursuant to the Offer For Sale: -

<b>Name</b>	<b>No. of Shares held</b>	<b>% of Shares in Issue as at 7 January 2003</b>	<b>No. of Warrants Entitled</b>	<b>% of Warrants</b>
Billion Victory Sdn Bhd	36,000,000	10.22	9,000,000	10.22
Tekun Sepadu Sdn Bhd	17,369,400	4.93	4,342,350	4.93
<b>TOTAL</b>	<b>53,369,400</b>	<b>15.15</b>	<b>13,342,350</b>	<b>15.15</b>

The remaining 74,698,242 Warrants, representing 84.45% of the total Warrants under the Offer For Sale have been fully underwritten at an underwriting commission of 1.5%. The underwriting commission will be borne by the Company, based on the terms as agreed between the Company and the underwriters.

Extract of the salient terms of the underwriting agreement that was executed on 18 December 2002 are set out below:-

**3. Conditions Precedent**

**3.1. Conditions Precedent**

*The obligations of the Underwriters under this agreement are in all respects conditional upon –*

- (a) the KLSE agreeing in principle, on or prior to the Closing Date, to the listing and quotation of the Warrants and the New Shares on the KLSE;*
- (b) each of the Subscribing Shareholders has subscribed in full for the Warrants to which they are entitled under the Warrants Offer in accordance with the Warrants Issue Documents;*
- (c) no adverse change or no development reasonably likely to involve a prospective adverse change in the financial condition of the Issuer or its subsidiaries has occurred on or before the Closing Date, from that set forth in the Warrant Issue Documents which is material in the issuance of the Warrants;*
- (d) all of the representations and warranties of the Issuer in clause 4.1 being true, complete and correct in all respects;*
- (e) the lodgment with the SC of the Warrant Issue Documents and any other relevant documents for registration in accordance with the requirement of Section 42 of the SC Act, on or before their issue, circulation and distribution thereof to the shareholders of the Issuer;*
- (f) the shareholders of the Issuer approving the issue of the Warrants and the New Shares at the Issuer's extraordinary general meeting and a certified true copy of the Issuer's shareholders resolution authorising the issue of the Bonds and Warrants and the New Shares has been furnished by the Issuer to the Managing Underwriter; and*
- (g) the Issuer furnishing to the Managing Underwriter a certificate of confirmation as set out in Schedule 2.*

**3.2. Non-fulfilment of conditions precedent**

*If any of the conditions in clause 3.1 is not satisfied on or before the Closing Date, an Underwriter is entitled to waive the requirement for fulfilment of that condition or terminate this agreement by notice in writing to the other parties of this agreement and in such an event (except for the liability of the Issuer for payments of costs and expenses in clause 12 incurred prior to or in connection with such termination), the parties are released and discharged from their obligations hereunder.*

**4. Representations, warranties and undertakings of the Issuer**

**4.1. Warranties and undertakings of the Issuer**

*The Issuer hereby represents, warrants and undertakes as follows:*

**(a) Status**

**(1)** *The Issuer is duly incorporated with limited liability under the Companies Act and is validly existing under the laws of Malaysia as a separate legal entity and has full power to own its assets and carry on its existing business.*

**(2) Subsidiary**

**(A)** *CCM Investment Limited is duly incorporated with limited liability and is validly existing under the laws of British Virgin Islands;*

**(B)** *CCM Singapore Pte Ltd is duly incorporated with limited liability and is validly existing under the laws of Singapore; and*

**(C)** *each other corporation within the Group is duly incorporated with limited liability and is validly existing under the laws of the respective countries in which they are incorporated;*

*as a separate legal entity and has full power to own their respective assets and otherwise carry on their respective existing business.*

**(b) Powers**

*The Issuer has full legal right, authority and power to issue the Warrants, to enter into the Warrants Issue Documents and to exercise its rights and perform its obligations under the Warrants Issue Documents. All appropriate and necessary action has been taken to authorise the execution and delivery of the Warrants Issue Documents and the Issuer's exercise of its rights and performance of its obligations under such documents, and the execution and delivery thereof does not exceed the power and authority of the officers executing the same.*

**(c) Enforceability**

*The Warrants Issue Documents constitute the legal, valid and binding obligation of the Issuer enforceable in accordance with their respective terms.*

(d) *Execution of documents*

*The execution of the Warrants Issue Documents and the delivery and performance thereof by the Issuer and the issue of Warrants do not and will not –*

- (1) exceed the power granted to the Issuer by, or violate the provisions of, any law or regulation or any order or decree of any governmental authority, agency or court to which the Issuer or any of its assets are subject;*
- (2) result in any actual or potential default under any existing mortgage, debenture, trust deed, contract or agreement binding on the Issuer or to which the Issuer or any of its assets is subject;*
- (3) contravene any of the provisions of the Issuer's Memorandum and Articles of Association; or*
- (4) result in any limitation upon the Issuer's powers to borrow or create any imposition of or oblige it to create any Encumbrance over any of its undertaking or any of its assets, rights or revenues other than pursuant to the provisions of such documents.*

(e) *Litigation*

*Save as disclosed in the Prospectus and the documents (if any) attached thereto, no lawsuit, arbitration, prosecution or administrative proceedings, or investigation or inquiries by any government agency or other regulatory authority is current, pending or, to the Issuer's best knowledge and belief, to be instituted or threatened against or involves any corporation in the Group which is material in the context of the issue of the Warrants or the Warrants Offer, or the application for listing and quotation of the Warrants and the New Shares, and there are no circumstances known to the Issuer which is likely to give rise to such lawsuit, arbitration, administration, investigation or prosecution.*

(f) *No violation of legislation*

*No violation of any provisions of legislation, court orders, judgment and others has been committed by any corporation in the Group and all companies in the Group are conducting their businesses and operations in compliance with all applicable laws and regulations and all directives of governmental authorities having the force of law.*

(g) *No winding up*

*No step has been taken by any corporation in the Group or their shareholders, and no legal proceedings have been started or threatened, for the dissolution or winding up of any corporation in the Group or for the appointment of a receiver, trustee or similar officer of it, their assets or any of them and no demand under section 218 of the Companies Act and no inquiry under section 308(1) of the Companies Act has been received by any corporation in the Group.*

(h) *Consents, licences, waivers and approvals*

*Any consent, licence, waiver, approval or authorisation of any governmental authority in Malaysia that is required in connection with the execution, performance, validity, enforceability of the Warrants Issue Documents have been obtained or will be obtained before the Issue Date, or if granted subject to conditions, such conditions will be fulfilled to the satisfaction of the Managing Underwriters by the Issue Date and will remain in full force and effect.*

(i) *Default on agreements*

*No corporations within the Group has defaulted on any loan agreement, security document, or any other agreement binding on them or to which they are a party.*

(j) *Authorisation and admissibility*

*Other than the registration of the Warrants Issue Documents with the relevant authorities, all acts, conditions, things, approval, consents, authorisations and licences required by law or by any directive of any applicable authority to be done, fulfilled, performed or obtained by the Issuer in order -*

- (1) to enable the Issuer to lawfully enter into, exercise its rights and perform the obligations assumed by the Issuer under each Warrant Issue Document;*
- (2) to ensure that the obligations expressed to be assumed by the Issuer under each Warrant Issue Document are legal, valid and binding and enforceable; and*
- (3) to render each Warrant Issue Document admissible in evidence in Malaysia,*

*have been done, fulfilled, performed or obtained and are in full force and effect.*

(k) *Encumbrances*

*The assets, revenue, properties and rights of the Issuer are not affected by any Encumbrance and the Issuer is not a party to, nor are any of its assets bound by, any order, agreement or instrument under which the Issuer is, or in certain events may be, required to create, assume or permit to arise any Encumbrance.*

(l) *No immunity*

*The Issuer is subject to civil and commercial law with regard to its obligations under the Warrants Issue Documents and the execution, delivery and performance of the Warrants Issue Documents constitute private and commercial acts rather than governmental or public acts and neither the Issuer nor any of its properties enjoy any immunity on the ground of sovereignty or otherwise in respect of the obligations of the Issuer under the Warrants Issue Documents.*

(m) *Obligations in respect of taxation*

*All necessary returns have been delivered by or on behalf of the companies in the Group to the relevant taxation authorities and the companies in the Group are not in default of the payment of any taxes, levies, duties, charges and fees, and no claim has been asserted with respect to taxes, levies, duties, charges and fees, except where such payment or claim is being contested in good faith and the amount thereof does not exceed RM3,000,000.*

(n) *Financial statements*

*The financial statements and other financial information (both audited and unaudited) of the Issuer and of each corporation in the Group have been and will be prepared in accordance with generally accepted accounting principles and standards consistently applied, and that they present fairly the financial position of the Issuer and each corporation in the Group for the periods and as at the dates in respect of which they have been prepared, and that there has been no adverse material change in the financial position of the Issuer or any corporation in the Group.*

(o) *Prospectus*

(1) *The Warrants Issue Documents are in form and substance satisfactory and acceptable to and approved by the SC and the KLSE and any other relevant authorities and contain all information which is material in the context of the Warrants Offer.*

(2) *The Prospectus and all written information furnished by the Issuer in relation to the issuance of the Warrants (including but not limited to information contained in the application to the Securities Commission, the KLSE and all other regulatory authorities) have been seen and approved by the Directors and the Directors collectively and individually accept full responsibility for the accuracy of the information given. Every statement of forecast, opinion, intention and expectation (including the profit forecast, if any) made in the Prospectus and the documents (if any) attached thereto are truly, fairly, reasonably and honestly held by the Directors and have been or will be made after due and careful inquiries and consideration and represent or will represent reasonable expectations based on facts known to the Issuer as at the date of such disclosure, and to the extent it is based on assumptions, those assumptions are reasonable.*

(3) *The Issuer confirms that, after having made all reasonable enquiries, and to the best of its knowledge and belief, the information contained in the Prospectus are true, complete and accurate in all respects and there are no false or misleading statement or other facts the omission of which would make any statement in the Prospectus or any other such information false or misleading.*

(p) *Warrants*

(1) *The Warrants will be issued in the manner and in accordance with and subject to the terms and conditions set out in the Deed Poll and carry the rights to subscribe for one new Share upon the terms and conditions as set out in the Deed Poll.*

(2) *The New Shares will, upon allotment, issue and full payment, rank pari passu in all respects with the then existing Shares except that they will not be entitled to any dividends, rights, allotments and/or other distribution that may be declared before the allotment of the New Shares.*

(q) *Compliance with regulatory requirements*

*The Issuer has complied, and will continue to comply, with all the requirements and provision of the Companies Act, the SC Act, the SC Guidelines and the KLSE Listing Requirements in relation to the listing of and quotation for the Warrants and the New Shares on the KLSE and all licences, permits, consents, approvals required by the KLSE and by the laws of Malaysia for the listing and quotation of the Warrants and the New Shares on the KLSE has been or will be obtained on or before the issue of the Prospectus.*

(r) *Title*

*The Issuer is the beneficial owner and has title to all its assets.*

(s) *Representations and warranties in Warrants Issue Documents*

*All representations and warranties made by the Issuer in the Warrants Issue Documents are true and accurate in all material respects and are not misleading.*

(t) *Other circumstances or situation*

*No circumstances or situations have arisen in connection with the financial condition or business of the Group which will or are likely to materially and adversely affect the financial condition or business of the Group or any corporation therein, or the success of the Warrant Offer.*

(u) *Registration of Prospectus*

*The Issuer must provide all assistance and information necessary to enable the Prospectus to be registered with the SC within 3 months from the date of this agreement or such longer period as the parties may agree in writing. Where the Prospectus cannot be registered within 3 months from the date hereof due to any action or failure to act on the part of the Issuer, the parties hereby agree that the Underwriters' obligations hereunder will cease.*

(v) *Approval in principle*

*The Issuer will apply and obtain the approval-in-principle of the KLSE for the listing of and quotation for the Warrants and the New Shares on or prior to the Closing Date and comply with all conditions, requirements and provisions of all applicable laws, rules and regulations of the SC, KLSE and all other relevant authorities.*

(w) *Advertising and supplementary Prospectus*

- (1) *The Issuer will advertise the Prospectus as required by the KLSE or the SC in such form(s) as these authorities and or any of them may require.*
- (2) *The Issuer will notify in writing and discuss with the Underwriters any announcement proposed to be made to the public which would conflict in any material respect with any statement in the Prospectus but the giving of any such notice and any such discussion shall not affect or prejudice any of the rights of the Underwriters hereunder.*
- (3) *The Issuer will not make public any information which will or is likely to affect the market price of the Warrants or the New Shares without prior written consent of the Underwriters unless required to do so by law or other relevant regulatory authorities.*
- (4) *The Issuer will not amend any of the Warrants Issue Document, or issue any supplementary documents to any Warrants Issue Document, without the prior written consent of the Managing Underwriter unless required to do so by law or other relevant regulatory authorities.*
- (5) *There will be no variation between the Prospectus in the form attached hereto in Appendix 1 and the Prospectus in the form registered with the SC with regard to the following matters without the prior written consent of the Underwriters, the consent of which shall not be unreasonably withheld --*
  - (A) *The authorised and issued share capital of the Issuer, save for the increase in the issued share capital of the Issuer arising from the exercise of the Issuer's Employees Share Option Scheme and its outstanding warrants.*
  - (B) *The number of Warrants and the offer price, and exercise price.*

- (C) *The intention to apply for the listing and quotation of the Warrants and the New Shares on the KLSE.*
- (D) *The description of the business of the Issuer and its subsidiaries.*

(x) *Indebtedness*

*Other than indebtedness contested in good faith by the Issuer or any of its subsidiaries as disclosed in the Prospectus and the documents (if any) attached thereto and to the best of the knowledge and belief of the Issuer, no outstanding indebtedness of the Issuer or any of its subsidiaries has become or is likely to become payable by reason of default by the Issuer or any such subsidiary and no event has occurred or is, so far as the Issuer is aware, impending which with the lapse of time, or the fulfillment of any condition, or the giving of any notice, may result in any such indebtedness becoming so payable.*

(y) *Breach of representations, warranties or undertakings*

*Issuer must promptly and without any delay whatsoever notify the Managing Underwriter who must thereafter inform the other Underwriters of any breach of any of the representations, warranties or agreements herein by the Issuer or of any facts, information, situations or circumstances which may materially and adversely affect the business of the Issuer and/or the Group as a whole, or the success of the Warrants Offer and without prejudice to the generality of the foregoing, to take such steps as may be reasonably requested by the Managing Underwriter and/or the Underwriters (as the case may be) to remedy and/or publicise the same, at any time prior to the Closing Date.*

(z) *General*

*The Issuer has made all reasonable inquiries and confirms that there are no material facts or circumstances, in relation to the Group, Warrants or any Warrants Issue Document or any part thereof, which have not been fully and fairly disclosed by the Issuer in writing to the Underwriters, and which, if disclosed, might reasonably have been expected to affect the decision of the Underwriters to enter into this agreement.*

(aa) *Information*

- (1) *The Issuer must provide the Underwriters any or all information which the Underwriters may reasonably request or require in connection with the issue of the Warrants, the underwriting of the Underwritten Warrants or for the purpose of verifying the truth, completeness or accuracy of the representations, warranties and undertakings of the Issuer contained herein.*
- (2) *In addition, the Issuer must do all other things and sign or execute such other documents as may reasonably be required by the Managing Underwriter or the Underwriters to give effect to the intents and purposes of this agreement.*

(bb) *Operation of business*

*The Issuer and all its subsidiaries will carry on and operate its respective business and affairs with due diligence and efficiency and in accordance with sound and financial and commercial standards and practices.*

(cc) *Accounts*

*The records, statutory books and books of accounts of the Issuer and the Group are duly entered and maintained in accordance with all legal requirements applicable thereto and contain true, full and accurate records of all matters required to be dealt with therein and all such books and records and documents (including documents of title) are in their possession or under the control and all accounts, documents and returns required to be delivered or made to the Companies Commission of Malaysia or other relevant authorities have been duly and correctly delivered or made.*

(dd) *Assets*

*All assets of the Issuer and the Group which are of an insurable nature have at all material times been and are at the date hereof, adequately insured against fire and other risks normally insured against by companies carrying on similar businesses or owning property of a similar nature. In respect of such insurances, all premiums have been duly paid to date and all the policies are in force and are not voidable on account of any act, omission or non-disclosure on the part of the insured party.*

(ee) *Subject to the registration with the SC and lodgement with the Companies Commission of Malaysia of the Warrant Issue Documents, the Issuer will send to each Entitled Shareholder –*

(1) *a notice of provisional allotment whereunder the Issuer provisionally allots to an Entitled Shareholder the number of the Warrants to which the Entitled Shareholder is entitled under and by way of the issue of the Warrants and upon the terms and conditions of the Prospectus and the Rights Subscription Form;*

(2) *a form of application (which forms a part of the Rights Subscription Form) for any excess Warrants in excess of those provisionally allotted to the Entitled Shareholder as aforesaid; and*

(3) *a copy of the Prospectus.*

(ff) *The Issuer will approve all valid and proper applications by any excess applicants for additional units of the Warrants in excess of those provisionally allotted to them other than such applications as are not duly completed or signed or which are not accompanied by remittances for the appropriate amounts payable on application or are otherwise deficient for technical reasons, and allocate to such excess applicants such excess Warrants not validly accepted or taken up by the Entitled Shareholders to whom they have been provisionally allotted, the basis for such allotment to be determined by the Directors of the Issuer at their absolute discretion.*

4.2 *Representations and Warranties repeated*

*Each of the representations and warranties in clause 4.1 is deemed to be given as at the date of this agreement and to be repeated –*

- (a) immediately prior to and/or the Closing Date; and*
  - (b) every day prior to the listing and quotation of the Warrants on the KLSE,*
- by reference to the facts and circumstances then existing.*

4.3 *Saving of Underwriters' rights*

- (a) The Issuer acknowledges that the Managing Underwriter and the Underwriters have entered into this agreement in full reliance on the Issuer's representations, warranties and undertakings set out in clauses 4.1 and 4.2.*
- (b) The Managing Underwriter and the Underwriters' rights and remedies in relation to any misrepresentation or breach of warranty will not be prejudiced by –*
  - (1) the completion of the underwriting and subscription of the Underwritten Warrants herein;*
  - (2) any investigation by or on behalf of the Managing Underwriter or any Underwriter into the affairs of the Issuer;*
  - (3) any other act or thing which may be done by or on behalf of the Managing Underwriter or the Underwriters or which might, apart from this clause 4.3, prejudice such rights or remedies.*

**8. Termination**

8.1 *Termination*

*A party may at any time terminate this agreement by notice in writing to the other parties if –*

- (a) any of the other parties breaches any of its obligations under this agreement which either –*
  - (1) is incapable of remedy; or*
  - (2) if capable of remedy, is not remedied within seven (7) days of its being given notice to do so by the first party;*
- (b) any material misstatement or inaccuracy in any of the Warrants Issue Documents is discovered which is attributable to any of the other parties;*
- (c) any of the warranties or representations made by any of the other parties in this agreement is untrue or incorrect or misleading in any respect;*

- (d) *a petition is presented or an order is made or a resolution is passed for the winding up of any of the other parties;*
- (e) *an administrator or receiver or receiver and manager is appointed over, or distress, attachment or execution is levied or enforced upon, any part of the assets or undertaking of any of the other parties;*
- (f) *any of the other parties becomes insolvent or is unable to pay its debts or admits in writing its inability to pay its debts as they fall due or enters into any composition or arrangement with its creditors or makes a general assignment for the benefit of its creditors; or*
- (g) *any of the other parties ceases or threatens to cease to carry on the whole or any substantial part of its business.*

## 8.2 *Additional rights of Underwriters*

*In addition and without prejudice to the provisions of clause 8.1, an Underwriter may terminate this agreement by notice in writing to the other parties if –*

- (a) *there is any material adverse change in the financial position of the Issuer after 30 June 2002;*
- (b) *any of the warranties, representations, undertakings or statements which is made or acknowledged to be made by the Issuer, or which is contained in any certificate, statement, legal opinion or notice provided or caused to be provided by the Issuer under or in connection with a Warrant Issue Document is found to be inaccurate or misleading in any respect;*
- (c) *there is withholding of information of a material nature from the Underwriters which is required to be disclosed pursuant to this agreement which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Warrant Offer, or the distribution or sale of the Warrants; or*
- (d) *in the opinion of that Underwriter, there has been any change, legislation, crisis or any development involving prospective change, crisis or otherwise in national or international monetary, financial, social, political or economic conditions or exchange control or currency exchange rates in Malaysia or internationally, or the occurrences of any combination of any changes, or developments in such conditions, as would in the reasonable opinion of that Underwriter, prejudice the success of the Warrant Offer, or any other offering of the Warrants, or their distribution or sale (whether in the primary market or in respect of dealings in the secondary market); or*
- (e) *the Shares cease to be listed and quoted on the KLSE without the prior written consent of the Underwriter for any reason whatsoever, or are involuntarily suspended from trading on the KLSE for a period of more than fourteen (14) days or the Issuer has breached any material provisions of the member rules, regulations or requirements of the KLSE.*

8.3 *Consequences of termination*

*Following the giving of a notice of termination under clause 8.1 or 8.2, no party will have any further rights or obligations under this agreement to the other parties, save in respect of –*

- (a) the Issuer's obligations under clauses 9 and 12;*
- (b) any obligation under this agreement which is expressed to apply after the termination of this agreement; and*
- (c) any rights or obligations which have accrued in respect of any breach of any of the provisions of this agreement to any party prior to such termination.*

All capitalised terms in the above salient terms which are not otherwise defined herein shall bear the same meanings as those terms in the underwriting agreement.

**12. TERMS AND CONDITIONS**

The subscription of the Warrants pursuant to the Offer For Sale is governed by the terms and conditions set out herein and in the RSF.

**13. QUOTATION AND DEALINGS**

Approval-in-principle has been obtained from the KLSE on 18 December 2002 for the admission of the Warrants to the Official List of the KLSE and to deal in and quotation for the Warrants and new Shares to be issued upon exercise of the Warrants. Official quotation of the Warrants will commence after receipt of confirmation from MCD that the CDS Accounts of the successful applicants have been duly credited and Notices of Allotment have been despatched to successful applicants.

**14. FURTHER INFORMATION**

Shareholders are requested to refer to the attached Appendices for further information.

Yours faithfully  
For and on behalf of the Board  
**CHEMICAL COMPANY OF MALAYSIA BERHAD**



**DATO' LIM SAY CHONG**  
Managing Director