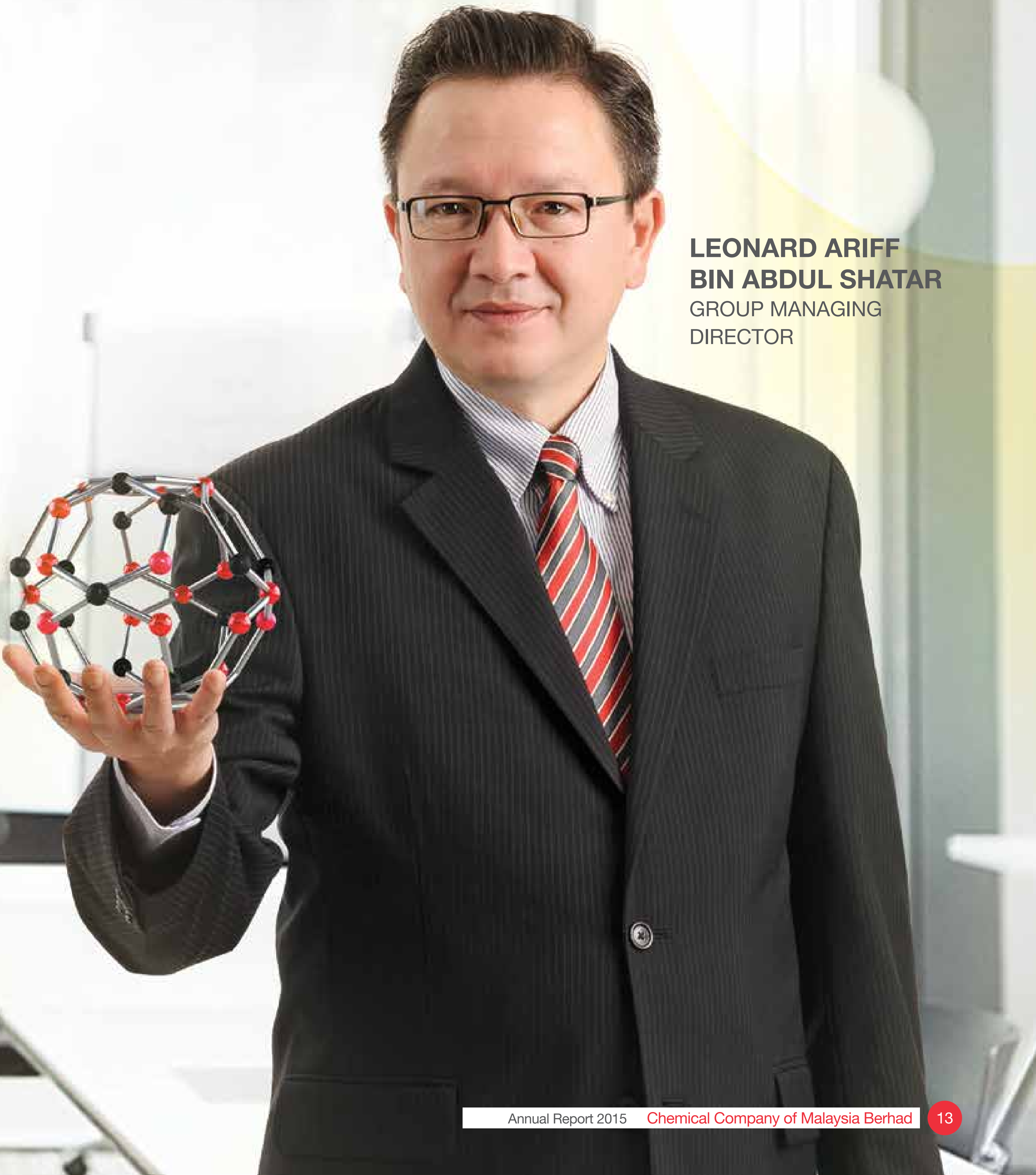
GROUP MANAGING DIRECTOR'S
OPERATIONS REVIEW



LEONARD ARIFF BIN ABDUL SHATAR
GROUP MANAGING DIRECTOR

Dear Shareholders,

The year 2015 was one filled with highs and lows, both for our Company and the country as a whole. While we experienced some of our best achievements as an organisation, we were also forced to make difficult business decisions for the betterment of the Group.

Chemical Company of Malaysia Berhad ("CCM") Group posted a net loss of RM73.2 million for the year ended 31 December 2015, on the back of impairments and write-downs made on our plants, equipment and other related assets of our Fertilizers Division amounting to RM48.7 million. CCM will be exiting our fertilizers business following a strategic review of the business segment, which has been continuously incurring losses since 2013.

Accordingly, the Group presents and discloses in its financial statements, the financial effects of the *discontinued operations* in accordance to MFRS 5 *(Non Current Assets Held For Sale and Discontinued Operations)* and reclassify its entire related Fertilizers Division's assets and liabilities as *Held For Sale* as at 31 December 2015.

The Group's underlying financial performance from its key business segments namely Pharmaceuticals and Chemicals improved significantly during the financial year 2015, whereby the Group has posted growth in profit before tax by 27.4 per cent to RM53.0 million from RM41.6 million in the corresponding period last year. Our revenue from those segments rose by a steady 5.0 per cent to RM630.3 million, driven by greater contributions from the existing markets and introduction of new and improved products.

Our balance sheet continues to remain robust with a cash position of RM312.7 million as at 31 December 2015 and our net gearing (net Debt-to-Equity) as at the same date stood at 0.38 times from 0.44 times a year ago. This reflects our continuous efforts to strengthen our balance sheet position, which will give us ample agility to pursue our capital expansion and growth strategy going forward.

From the corporate governance and compliance front, we are proud to share that our subsidiary, CCM Duopharma Biotech Berhad on 10 December 2015, was accorded as one of the recipients for *Merit Award Minority Shareholders Watchdog Group ("MSWG") for Top Corporate Governance & Performance (Market Capitalisation RM300 million to RM1 billion)*. The Merit Award by MSWG was to recognise mid and small capital public listed companies ("PLCs") on their good corporate governance practices based on ASEAN Corporate Governance Scorecard in terms of quality disclosures and good performance. This Merit Award bears testament on our ongoing effort to uphold good corporate governance practices.

As a follow on to our signing of the Corporate Integrity Pledge with Malaysian Anti-Corruption Commission("MACC") in May 2014, in the first half of 2015, we had signed Integrity Pacts with suppliers across the Group to further enhance transparency in the procurement activities. We have also shared with the suppliers, the Company whistle-blowing hotline to enable them to report on any wrongdoings involving the employees of the Group.

SEGMENTAL BUSINESS REVIEW

I am pleased to report the financial and operational highlights for each of our business segments for 2015, in the following sections.

Pharmaceuticals Division

Revenue for the Group's Pharmaceuticals Division rose 4.5 per cent to RM334.8 million from RM320.4 million in the corresponding period last year. The profit before tax for the Division grew by 7.5 per cent to RM38.4 million primarily driven by increased demand from all sectors, including government hospitals and export markets and improvement in trading margins.

One of the notable milestones for the Pharmaceuticals Division for the financial year under review was the sale of our pharmaceutical units to our subsidiary, CCM Duopharma Biotech Berhad ("CCMD"). Under this sale, CCM parted with six subsidiaries including CCM Pharmaceuticals Sdn. Bhd., CCM Pharma Sdn. Bhd., Innovax Sdn. Bhd., Upha Pharmaceutical Manufacturing (M) Sdn. Bhd., CCM International (Philippines) Inc. and CCM Pharmaceuticals (S) Pte. Ltd. to CCMD and its subsidiary, Duopharma Malaysia Sdn. Bhd.

This strategic move, which has been in the planning stage for many years, will allow our pharmaceutical businesses to look into increasing our product offerings and synergising from economies of scale via the consolidation and optimisation of production facilities. We believe that this acquisition by CCMD will help us focus our efforts on the value and true potential of our pharmaceutical arm. We have also set our sights on becoming Malaysia's largest pharmaceutical manufacturer, following this purchase.

For the year under review, we continued our strategic focus in niche areas such as oncology, biotherapeutics and vaccines as well as improving our product pipeline and customer offerings. We launched 3 new ethical products to the market; *Zynomax*, an antibiotic for the treatment of mild to moderate infections, *Atorvas,* primarily prescribed as a lipid-lowering agent and for the prevention of events associated with cardiovascular disease, whereas *Fenofibrate* is prescribed for the reduction of cholesterol levels in patients at risk of cardiovascular diseases. *Atorvas* made a successful entry into the market with 10,000 boxes sold within 50 days while *Zynomax* captured 7.0 per cent of the market share within 8 months of its launch.

In terms of continuous research and development, we remain committed on product innovation and introducing new generics, whereby we are actively working with universities and third party Research and Formulation Organisations to develop new products and improve our current products. Our collaboration with PanGen Biotech Inc. for the development and manufacturing of Erythropoietin("EPO") biosimilar treatment for anaemia and end stage renal failure patients, has been on track with the implementation of the Phase III Clinical Trial (both in Malaysia and Korea).

We are pleased to announce that our investee company, PanGen Biotech Inc. ("PanGen") which we acquired a 13.8 per cent interest in year 2014, has been listed on KOSDAQ ("Korean Securities Dealers Automated Quotations") on the trading board of Korea Exchange on 11 March 2016. Pursuant to the listing on KOSDAQ, CCM now holds an effective equity interest of 9.34 per cent in PanGen.

We also worked on our core brand revitalising programmes namely *CHAMPS, Flavettes, Proviton* and *Naturalle.* The Division also launched four new Over The Counter products including the *CHAMPS* Multivitamin with Taurine, *CHAMPS* Multivitamin with Iron and Zinc; *Flavettes* Vitamin C Time Release and *Flavettes* Vitamin C Buffer Plus BioFlavonoids. We will continue working with our Research and Development team to serve our market better and continuously create new and improved products for the overall wellness of our society.

The Pharmaceuticals Division will be investing in a few facilities development for its pharmaceutical sites, which includes among others the building of a new state of the art plant in Klang to replace the current facility. The new plant which consists of two adjoining blocks will be equipped with enhanced cGMP facilities to cater for existing businesses and increased product offerings including specialty products. The new plant will house the Oral Solid Dosage manufacturing facility including specialty product manufacturing site, Quality Control and Quality Assurance and administrative office. Completion of the new state of the art plant will cater for the future expansion plans of CCMD including increase in production capacity by approximately 40 to 50 per cent. Construction of the new facility is expected to commence in the first half of 2016. Other developments include the warehouse expansion in Klang and Bangi sites as well as office relocation in Bangi. We target to complete these projects by late 2018.

On the Halal front, we were honoured to be the sole recipient of the Halal Excellence Award 2015 presented by the Halal Industry Development Corporation ("HDC"). We were further bestowed the Global Islamic Economy Award in the Food and Health Category at the Global Islamic Economic Summit in Dubai, United Arab Emirates. These awards were recognition for our initiatives and strong commitment to uplift the Halal standards and awareness both locally and overseas. For the upcoming year, CCM will continue to pave the way as a leader in the Halal industry and provide products that will contribute towards the wellbeing of our society.

We will continue relentlessly to work on our strategies of growing our pharmaceutical arm as the largest and strongest manufacturers in Malaysia. We continue to expect healthy growth in demand for pharmaceutical products and we are confident we are well positioned to capture the uptrend in demand for generic pharmaceuticals and eventually, Biotherapies.

GROUP MANAGING DIRECTOR'S
OPERATIONS REVIEW (CONT'D)

Chemicals Division

Our Chemicals Division turned in an improved performance in 2015 with revenue increasing 5.7 per cent to RM294.8 million from RM279.0 million last year on the back of higher selling prices of its chlor-alkali products and continuing strong demand from its polymer coating business, cushioning the impact of lower sales volume from its regional businesses. The regional business operations, namely Indonesia, Singapore and Philippines have been underperforming financially, and have also been facing difficulties of operating in the local business environment. Hence, the Division made a strategic decision to wind down and close those regional businesses in the 3rd and 4th quarter of 2015.

The Division also posted a stellar performance with a double-digit growth of 65.6 per cent in its profit before tax to RM31.3 million from RM18.9 million in the same period last year. The increase in profit was largely attributed to improved margins from both our chlor-alkali and polymer coatings products and savings from our operational efficiency initiatives in the chemicals business segment.

Throughout the year, we remained true to our action plans to help us mitigate the effects of external challenges. Our Chemicals Division continued to expand our total solutions approach and build on the successes of our product portfolio. Together with our dedicated Research and Development team, we looked at growth opportunities in emerging markets and ways to refine our business models and manufacturing footprints. We also worked to enhance our products to help us increase reliability, reduce cost and create greater operational efficiencies.

One of our notable efforts for the Division this year is our development of a comprehensive action plan, incepted to mitigate the challenges from fluctuating chlor-alkali prices. At the same time, the Division also looked at implementing continuous improvement programmes to extract operational savings while striving to increase our trading margins. For the current financial year, we also expanded our customer base within the region to ensure continuous and strategic progress. In addition, the Division is in the midst of implementing an efficiency project that consolidates the capacity of both its Pasir Gudang plants into one. The consolidation project is expected to enable the plant to be more cost efficient and would improve flexibility in the production process. The consolidated plant will be able to produce 40,000 tonnes of chlorine per year.

Our Polymer business has been growing steadily. This is mainly due to efforts from the introduction of new products and innovative solutions to improve customer production efficiency and effectiveness. According to the Malaysian Rubber Gloves Manufacturers Association ("MARGMA"), the global glove demand is expected to increase by 8.0 to 10.0 per cent annually backed by consistent growth in demand from the healthcare industry. To support the anticipated growth, we are embarking on a capacity expansion project as well as exploring the feasibility of constructing a new plant.

Year on year, the Chemicals Division have received a string of accolades to bear testament to our world-class standards. This year, we were awarded with the Prime Minister's Hibiscus Award for Notable Achievement in Environmental Performance, a Gold Award for the Chemical Industries Council of Malaysia ("CICM") Product Stewardship Code, 3 Silver Awards for the CICM Community Awareness & Emergency Response Code, Distribution Code and Pollution Prevention Code and a Merit Award for the Process Safety Code. These awards exemplify our determination to focus on sustainability and our commitment to uphold the Safety, Health and Environment ("SHE") tenets in our organisation.

Moving forward, the Division intends to continue improving its cost competitiveness and profitability within the existing business and exploring any accretive opportunities in high value chemicals business, both locally and regionally.

Fertilizers Division

Our Fertilizers Division continued to face tough challenges for the year under review which saw a decline in its volume sold to all of its market segments. Additionally, the negative market conditions of softened CPO prices and weaker Ringgit, coupled with the expectation of bearish demand for ammonia-based fertilizers and continued financial losses incurred by the Division since 2013; has led to the Board making a strategic decision to exit the fertilizers business.

On 1 September 2015, CCM announced the ceasing of operations of our Shah Alam fertilizers manufacturing plant and on 30 November 2015, the plant was officially closed. The closure of the plant also led to a total of 232 employees being made redundant. The Company has, accordingly, provided market driven severance packages for all retrenched employees. Through this period, we worked closely with outgoing staff to provide counselling and seek outplacement opportunities.

In Quarter 4, 2015, CCM received proposals from various parties to acquire its assets/or equity interests of its two remaining fertilizers plants, operating in East Malaysia. CCM is currently at an advanced stage of negotiation with prospective offerors with a view to enter into a formal agreement.

In February 2016, CCM wholly owned subsidiary, PT CCM AgriPharma ("PT CCMA"), signed a sales and purchase agreement with PT Feedmill Indonesia to sell 3 parcels of land in Medan, Indonesia (measuring 75,339 square metres) at a sale consideration of IDR121.8 billion on a 'as is where is' basis. The disposal of the said land is expected to complete in Quarter 2 2016. PT CCMA ceased its manufacturing operations and underwent a separation scheme with its employees in 2014.

I would like to take this opportunity to thank our valued customers from the dealers, plantation houses and export market for their support throughout our 50 years venture in the fertilizers industry. Our gratitude also goes to our international and local suppliers. We truly appreciate the partnership fostered between both parties.

To our former employees who had given their years of dedication, enthusiasm and team spirit towards the Group, I would like to express my sincere appreciation to each one of them for their tireless efforts to have put CCM as one of the well known company in the fertilisers industry.

ACKNOWLEDGEMENT

The year 2015 proved to be one of the most challenging years for our Company. While our performance from the key business segments (Pharmaceuticals and Chemicals) improved from the previous years, we were faced with difficult situations wh we had to make business decisions that affected our manufacturing plant and our employees. At the same time, we saw our Company soar to new heights with the consolidation of our pharmaceutical units, paving our way to become the leading pharmaceutical company in Malaysia.

For the upcoming year 2016, it is evident that we are still vulnerable to external factors in the market. For this reason, we need to solidify our strategies and work on lowering our operational cost to ensure we stay relevant and ahead of competitive pressures. Although our challenges may be new, the values that have stood us in good stead – resilience, hard work and tenacity – will continue to be the driving force that will help us drive success.

On behalf of the senior management and CCM workforce, I take this opportunity to welcome YB Hajah Normala binti Abdul Samad as CCM's Chairman to lead and spearhead the Group to meet the challenges the Group will be facing in the future. I would also like to extend our gratitude to our past Chairman, YB Dato' Sri Azalina binti Othman and wish her success. My special acknowledgement to our Board of Directors for their unwavering support and guidance, in good times and in bad. My deepest gratitude also goes out to our employees for their patience, dedication and exemplary efforts that have helped us through the years.

Leonard Ariff bin Abdul Shatar
Group Managing Director