

Chairman's Statement



Dear Shareholders,

On behalf of the Board of Directors of Chemical Company of Malaysia Berhad (CCM or the Group), it is my privilege to present our Annual Report for the financial year ended 31 December 2018 (FY 2018). This is my first statement to you in my capacity as the Group's newly appointed Chairman and I am pleased to put across the collective input of my colleagues on the Board and the senior management team. While I only recently took on this role in March this year, I am happy to say that the team has quickly brought me up to speed on the workings of the Group. In my short time here, I have come to understand, appreciate and respect the efforts of the team as they have stepped up to the plate to deliver their promises. Despite a host of market and operational challenges over FY 2018, I am delighted to report that CCM made commendable progress in its efforts to become a leaner, stronger and much-improved group.

A YEAR OF ONGOING TRANSFORMATION

The year 2018 was a year of continuing transformation for CCM. Following our exit from the Pharmaceuticals business at the end of 2017, we focused our efforts on strengthening and growing our Chemicals and Polymers businesses. Our efforts bore fruit with the Group registering a 6.8% and 250.5% rise in revenue and profit before tax respectively in FY 2018 over the preceding year's results.

Benefiting from Strategic Divestments

As part of our ongoing business rationalisation efforts, July 2018 saw us concluding the disposal of two major non-core assets of the Group, namely our land in Shah Alam for RM190.0 million and our shares in Pangen Biotech Inc for RM59.2 million. In March 2019, we completed our third divestment exercise involving the Group's land in Nilai for RM21.5 million.

The bulk of the RM270.7 million raised from these transactions have gone towards paring down our existing borrowings. I am pleased to report that as of 31 December 2018, our debt to equity ratio was at 0.61 times in comparison to 1.67 times as at 1 January 2018. The Group is expected to benefit from interest expenses savings of about RM13.6 million per annum, given now that our borrowings have been significantly reduced. Today, CCM boasts a healthier balance sheet given the lower gearing, plus considerable cash in hand to invest into our business in maintaining our competitive advantage.

Expanding Capacity for Future Growth

To expand our manufacturing capacity and meet growing market demand for our products, we began investing approximately RM100.0 million in capacity expansion initiatives for our Chemicals and Polymers Divisions in FY 2018. The year saw us reactivating



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the Pasir Gudang Works 1 (PGW1) Chlor-Alkali manufacturing facility and commencing construction on our Calcium Nitrate (CN) plant in Shah Alam, both of which come under the ambit of the Chemicals Division. We also purchased a piece of land and a factory in Bangi to relocate the Polymers Division's centralised warehouse and head office. A significant portion of our capital expenditure was derived from internal funding and so we remain in a healthy financial position. The plants that are undergoing or have undergone capacity expansion are expected to begin generating revenue immediately once they become operational and that augurs well for the Group's financial performance over the short to mid-term.

With the Group's debts pared down and our balance sheet lightened, we are in a position to utilise our resources more effectively and efficiently as well as maintaining a strong focus on growing our core Chemicals and Polymers businesses. The finer details of these developments are spelt out in the Group Managing Director's Management Discussion and Analysis (MD&A) section of this Annual Report.

Strengthening Our Reputation

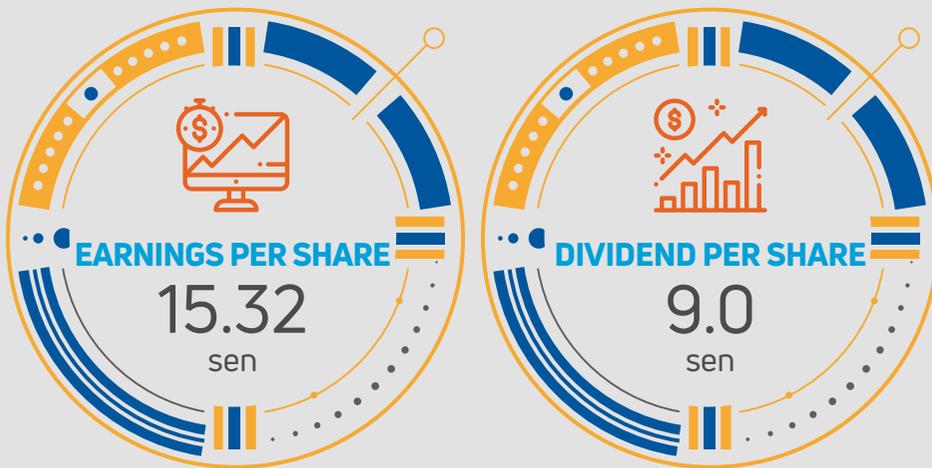
Even as we focused our efforts on laying strong financial and operational foundations in FY 2018, we initiated an exercise to strengthen the CCM brand. We kicked this off by undertaking a brand discovery exercise to gain insights into internal and external stakeholders' perspectives of the CCM brand. Today, with a better understanding of where we stand with our audiences in the market segments that we play in, we are undertaking brand initiatives to strategise our visibility vis-a-vis our markets whilst upholding the CCM legacy.

Moving forward, we aim to become a more agile, customer-centric organisation that is focused on optimising processes, boosting productivity, and staying ahead of the curve by creating value through innovation. As we set our sights on becoming a market leader in the Chemicals and Polymers segments, we will maintain a laser-focus on our vision and mission, tap innovation, create new trends, become more efficient

and productive, as well as adopting a proactive, value-driven and customer-centric approach to business.

FINANCIAL PERFORMANCE

I am pleased to report that the CCM Group recorded revenue of RM395.9 million in FY 2018, a 6.8% increase over the RM370.7 million recorded in the preceding year. The increase in revenue came on the back of 7.7% and 7.0% increases in revenue from the Chemicals and Polymers Divisions respectively. Meanwhile the Group's profit before tax rose by an impressive 250.5% to RM51.6 million in FY 2018 from RM14.7 million previously. More details on the Group's financial performance can be found in the MD&A section of this Annual Report.



GOOD SHAREHOLDER VALUE CREATION

The Board of Directors and Management of CCM are committed to creating value for the Group's shareholders by ensuring a steadfast focus on the performance of our business and other measures to improve business equity, whether it is by way of business growth, profits, return on investment, increased market share or a strengthening of our brand equity. Mindful of shareholders' expectations, we continue to look for ways and means to reward shareholders in a fitting manner at the opportune time.

I am pleased to report that CCM's demerger exercise was named 2018's Best Corporate Restructuring Exercise by *The Edge Malaysia*. This exercise not only released CCM and Duopharma Biotech Berhad (formerly known as CCM Duopharma Biotech Berhad) to chart their own growth paths, it also gave CCM's major shareholder and minority shareholders greater flexibility in deciding their exposure to CCM's Chemicals and Polymers businesses as well as Duopharma's Pharmaceutical business.

Following the de-merger exercise, CCM's share price turned in a strong performance with a more than 16% increase from the average share price prior to the de-merger exercise. This attests to the investing communities' confidence in the Group's business focus, strategies and prospects post the de-merger exercise.

To reward our shareholders, in respect of FY 2018, CCM paid out a first single-tier interim dividend of 3.0 sen per share totalling RM5.0 million to shareholders on 29 June 2018. This was followed by the payment of a second single-tier interim dividend of 4.0 sen per share totalling RM6.7 million on 31 January 2019. The Board is also recommending a final single tier dividend of 2.0 sen per share subject to shareholders' approval at the forthcoming 57th Annual General Meeting. Based on CCM's issued share capital of 167.7 million shares, this will amount to a dividend pay-out of approximately RM3.4 million. The entitlement date in respect of the final single tier dividend will be on 31 May 2019 and the payment will be made on 14 June 2019. Altogether, these dividend payments represent a pay-out ratio of 59% of our profit after tax and minority interest (PATAMI) and will amount to a total dividend pay-out of RM15.1 million for FY 2018 (FY 2017: RM11.4 million).

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The Group continues to increase its capacity to meet market demand as reflected in FY 2018's sales results. Whilst the Group has benefited from cost optimisation initiatives in FY 2018, the full impact of the de-gearing and capacity expansion initiatives will be made more evident from FY 2019 onwards. As at 31 December 2018, the Group's net assets per share grew to RM1.89 from RM1.68 the year before. We are cautiously optimistic that we can better this in FY 2019.

The Group is also committed to create good shareholder value through non-tangible means. For the year in review, the Group continued to earn awards and accolades for exhibiting excellence on several fronts.

CCM received the following awards at the annual Chemical Industries Council of Malaysia Responsible Care Awards 2017/2018 event:

- ✓ Gold Award for Community Awareness and Emergency Response Code;
- ✓ Gold Award for Employee, Health and Safety Code;
- ✓ Gold Award for Distribution Code;
- ✓ Silver Award for Pollution Prevention Code;
- ✓ Silver Award for Process Safety Code; and
- ✓ Merit Award for Product Stewardship Code.

The Group was also awarded the title "BestBrands in Industrial and Speciality Chemicals" at The BrandLaureate Most Valuable BestBrands Award 2017/2018 event.

RESPONSIBLE CORPORATE PRACTICES

Recognising that good governance translates into good business, the Board of CCM remains fully committed to upholding and implementing strong standards of corporate governance as well as robust risk management and internal control measures throughout the Group. These fundamental components of our business helps to ensure the sustainable, long-term growth of our businesses, strengthening investor confidence, safeguarding our corporate reputation, and ensuring continued shareholder value creation.

In FY 2018, the Board adopted several measures to strengthen our governance framework. These included the implementation of a robust growth strategy following our exit from the pharmaceuticals business; enhancements to the Board Charter, terms of reference for each board committee and the External Auditor Policy; as well as a finetuning of the assessment mechanisms for the Board, board committees and individual directors. The Board also formalised the Group's remuneration policy and procedures in relation to directors and senior management personnel. The finer details of these and other measures can be found in the Corporate Governance Overview Statement on pages 60 to 75 of this Annual Report.

For the year under review, we also continued to undertake various initiatives to strengthen our risk management and internal control systems. These included monthly monitoring of risks on key projects with an emphasis on risk mitigation action plans, and a specific review of high-risk matters (including regulatory compliance) to ensure key action plans were in place. We also assessed the risk maturity of the Group after the demerger exercise and ensured that strategies, policies and action plans

were at a higher maturity level and well communicated throughout the organisation. At the same time, we conducted risk awareness workshops at our Headquarters and within the Chemicals Division to raise our people's understanding of risk-related matters. We also highlighted the emerging risks and conducted a quarterly assessment on the likelihood and impact of the top emerging risks.

Your Board acknowledges the fact that we have a responsibility to secure CCM's future and to ensure sustainable value creation for all our stakeholders. Being a conscientious corporate citizen, we are genuinely committed in balancing out our strong economic performance with responsible environmental and social considerations to ensure we deliver a sustainable performance.

Being a strong advocate of greater safety within the chemical industry, CCM remains committed to ensuring a safer environment for our employees, customers and the communities that we operate in. To this end, our subsidiary, CCM Chemicals Sdn Bhd, has trained professional Chemical Emergency Service (CES) teams that not only provide advice on safety measures and the remedial actions to be taken when a chemical emergency occurs, but are ready to swing into action at a moment's notice.

I am pleased to report that our CES team together with the Fire and Rescue Department Malaysia successfully deal with a chlorine gas leak in Miri in October 2018, and more recently with the Pasir Gudang Emergency Mutual Aid (PAGEMA) team to handle the illegal dumping of toxic waste in Sungai Kim Kim, Johor. In the latter incident, our CES team was among the first to respond to PAGEMA's request for aid at some of the initial schools affected by the illegal dumping. Our team's provision of an ambulance, emergency response personnel, medical supplies and personal protection equipment

(PPE) such as chemical suits, respiratory sets and nitro gloves did much to help alleviate a perilous situation where many lives were at stake. We will continue to strengthen our capabilities in this area to do our bit to keep communities safe.

This year, we are publishing our fifth standalone Sustainability Report which underscores our practices and achievements on the Economic, Environmental, and Social or EES fronts. This year's Sustainability Report is especially noteworthy in that it is the first we have produced that is fully aligned with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. A summary of these can also be found on pages 24 to 31 of this Annual Report. Our intention is to continue making good headway with our sustainability agenda as we implement tangible EES practices and entrench ourselves as a progressive and ethical company.

While our agenda of transformation these past few years has not been easy, it has been necessary. Today,

with a good portion of our capital unlocked, CCM is a leaner, stronger and much improved entity that is all set to steadfastly grow its Chemicals and Polymers Divisions as well as bolster its brand presence in Malaysia and the region. It is with a quiet confidence that I say that CCM is on the right growth path. The Board is cautiously optimistic that CCM will turn in a sound performance in FY 2019.

IN APPRECIATION

Many parties have played a part in our success to date and we want to acknowledge them for their efforts. On behalf of the Board, I wish to extend my utmost gratitude to our shareholders, customers, business partners and various stakeholders for their unwavering support and confidence in CCM.

I also wish to convey my deep appreciation to CCM's dedicated management and staff for their continued loyalty, diligence and commitment to demonstrating a spirit of excellence in all that they set out to do. My sincere appreciation also goes to my colleagues on the Board for their wise counsel and dedication in helping the Group stay its course amidst another challenging and opportunistic year.

At this point, I would like to convey my sincere gratitude to Dato' Hajah Normala binti Abdul Samad who ended

her Chairmanship with CCM in July 2018. We also owe a debt of gratitude to Datin Paduka Kartini binti Hj Abdul Manaf who held the fort in the interim in her role as Acting Chairman until March 2019. We sincerely thank both of them for their worthy contributions to the Group. On another note, I would also like to welcome Puan Amizar binti Mizuar who joined us as a Non-Independent Non-Executive Director in September 2018. We certainly look forward to her insights and contributions.

Moving forward, I call upon all of our stakeholders to lend us their unstinting support as we build upon the good momentum we have gained to date. As the team at CCM sets its sights on taking the Group up to new heights of success, we can certainly look forward to exciting times. Thank you.

Dato' Idris Bin Kechot
Chairman