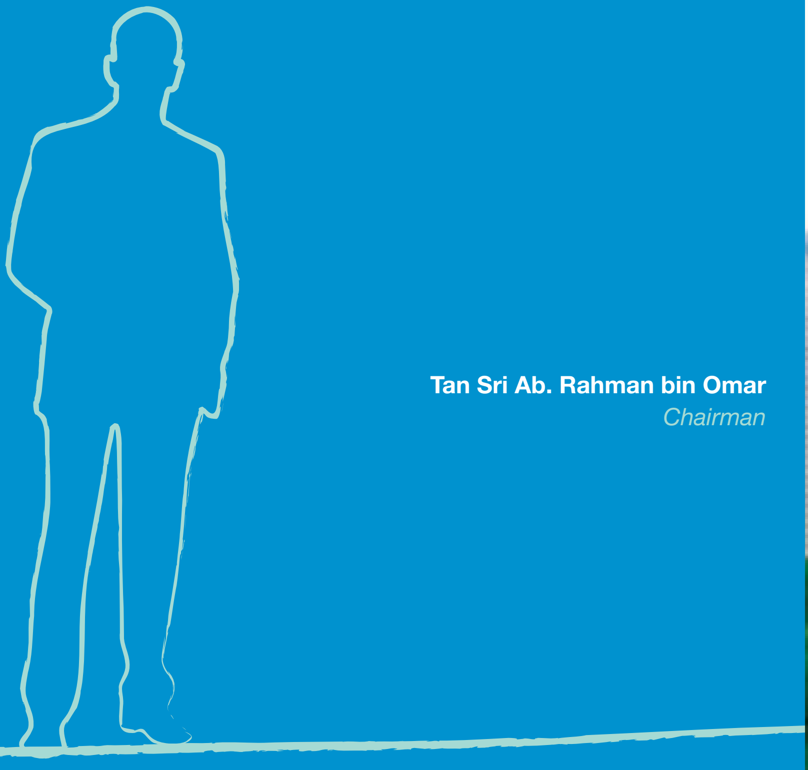
Chairman's Statement

Continuing Innovation

Whilst striving to improve value on all fronts, we remain committed to creating innovative new products for people everywhere.



Tan Sri Ab. Rahman bin Omar
Chairman

During the year under review, CCM achieved revenue of RM1.6 billion, a 27.4% decline from 2008 revenue of RM2.2 billion amid poor market conditions exacerbated by an overall decline in prices and demand particularly in the first half of 2009.

Dear Shareholders,

2009 was a challenging year not only for Chemical Company of Malaysia Berhad (CCM or the Group) but also other businesses in all sectors of the economy.

The Malaysian economy experienced the full impact of the global recession in the first half of 2009. As the Malaysian economy is export driven, the country was vulnerable to uncertainties and suffered the spillover effects from the global financial crisis, economic downturn and drop in world commodity prices. Subsequently, the local economy contracted by 6.2% in the first quarter of 2009 (Q1 09) amidst a sharp decline in Malaysia's exports. The large inventory write-down especially in the manufacturing and commodity sectors also contributed to the decline in growth in Q1 09.

However, Malaysia's economy performed better in the second quarter of 2009 (Q2 09), contracting at a slower rate of 3.9% following the Government's speedy and effective implementation of its economic stimulus package as well as monetary easing.

The local economy showed a marginal improvement in the third quarter of 2009 (Q3 09) with a reduced contraction of 1.2%, supported by positive growth in domestic demand due to stronger private consumption, higher consumer spending and the stabilization of external demand.

In spite of the difficult situation in 2009, we successfully implemented our strategic measures in our Chemicals, Fertilizers and Pharmaceuticals businesses with the aim to lay a strong foundation for the Group to achieve greater results in 2010.

With that, it is my pleasure to present to you the annual report and financial statements of the Group for the financial year ended 31 December 2009.

A Challenging Year

During the year under review, CCM achieved revenue of RM1.6 billion, a 27.4% decline from 2008 revenue of RM2.2 billion amid poor market conditions exacerbated by an overall decline in prices and demand particularly in the first half of 2009.

The Group's profit before tax (PBT) for the period was RM15.6 million, 87.0% lower from 2008's PBT of RM120.3 million. The decline in financial performance was attributed by the prolonged global economic downturn which significantly affected the Group's main revenue drivers.

The Chemicals Division's revenue decreased 28.8% to RM432.0 million from RM606.5 million in the same period last year. An impairment contributed to a loss from operating activities of RM12.7 million compared to a profit of RM14.0 million in 2008. Without the impairment, the Division's results from operating activities would have seen a profit of RM4.8 million. The loss in revenue was due to contraction in overall sales volume and selling price of products. Meanwhile, the reduction in results from operating activities was partly due to the provision of doubtful debts and write down of stock values in the early part of the year arising from falling product prices.

The Fertilizers Division was also impacted by the soft economic landscape. The Division's revenue dropped from RM1.4 billion in 2008 to RM897.3 million in 2009 while results from operating activities dipped to a profit of RM28.6 million in 2009 from profit of RM94.9 million in the corresponding period in the previous year. The intense competition for reduced volume of business in the market coupled with continuous downward trend of fertilizer prices throughout the year, adversely affected the Division's profitability.

Notwithstanding the drop in revenue and results from operating activities in the Fertilizers and Chemicals Divisions, the Pharmaceuticals Division's revenue grew 4.3% to RM242.7 million from RM232.7 million for the period under review while results from operating activities fell 22.9% to a profit of RM45.6 million from profit of RM59.7 million. The increase in revenue was due to the Division's success in securing more Government tenders. The drop in results from operating activities was due to the higher depreciation from investment cost.

The Pharmaceuticals Division has proven to be resilient in turbulent economic times and will continue to implement cost improvement measures, enhance operational efficiencies and diversify into new areas to achieve better results in the year ahead.

Business Outlook and Prospects

As the global economy is already showing signs of recovery, Malaysia is set to benefit from the stabilising conditions, improved by fiscal measures and accommodative monetary policy. Furthermore, stronger domestic demand, particularly in private expenditure as well as an increased in external demand is set to turn around the country's gross domestic product (GDP) growth to 5% in 2010.

In light of this situation, CCM is expected to perform better by recovering lost ground suffered during the year under review and realigning our operations to support the Group's three-year plan growth targets. We will address and pursue shareholders' value maximization, reshape business portfolios to gain higher margin yielding sales, continuously promote human capital development and the enhancement of systems, controls and processes to boost the delivery of business results. CCM is also committed to delivering innovative value propositions to our valued and esteemed customers. In line with this strategic intention, we have embarked on a new transformation journey towards building new organisational excellence and competencies by adopting robust technology to power our leap forward with agility and flexibility to pursue aggressive growth with sufficient resources.

The chemicals industry is a key component of Malaysia's economy and is one of the biggest contributors to the country's total manufactured exports. The local chemicals industry continued to recover in 2010 especially with the projected excellent performance of the rubber gloves sector. During the year under review, the sales of rubber gloves exceeded RM7.1 billion and exports are expected to garner sales worth RM7.7 billion in 2010. The Chemicals Division expects to benefit from this through the Division's investment in the specialty polymer coatings business.

Apart from that, the Chemicals Division has started to execute its plans to improve its overall business performance. Among the strategies earmarked and implemented by the Division are to focus on higher margin products, enhancing supply chain capabilities, enhancing research and development, strengthening market presence through own label and branding as well as capitalising on the regional growth via its regional offices.

In 2009, the world saw a severe drop in demand for fertilizers but according to the International Fertilizer Industry Association (IFA), the outlook looks positive in 2010 as a 4% growth in global demand is anticipated due to the revival of the world's economic situation. According to the Malaysian Palm Oil Council (MPOC), the country's palm oil industry is set to see an increase in export sales throughout 2010 especially to major palm oil importers such as China, India, Pakistan and the Middle East. The world's increasing interest in palm oil as a healthy alternative and another source of biofuels will have a significant impact on fertilizer demand.

CCM expects an improvement in our fertilizer sales despite the pressure on margin following the recovery in prices of crude palm oil. We will undertake various measures to strengthen our Fertilizers Division. Among the initiatives include ensuring all our fertilizer plants operate efficiently at full capacity and timely commissioning of our Lahad Datu plant in March 2011. Besides that, we are also focusing on the commercialisation of Nitro Humic Acid (NHA), a crop booster foliar fertilizer that has been proven to be effective in enhancing the plant crop yield of paddy, chilies, tomatoes and citrus by increasing the size and number of harvested fruits.

Meanwhile, the performance of CCM's Pharmaceuticals Division is expected to remain stable as the healthcare sector has shown resilience against recession and is less affected by the economic crisis compared to other industries. Even in times of economic uncertainty, the pharmaceutical industry is expected to remain resilient especially since more consumers are turning to generic pharmaceutical products which are more affordable than branded medicines. The local market for generic pharmaceutical products is expected to grow following the global trend towards patent expiry of branded medicines, rising healthcare cost as well as stronger Government support for generic medicines to address the increase in healthcare cost in the country. As Malaysia's largest generic pharmaceutical manufacturer, CCM is confident of capturing a bigger share of the local market and aims to aggressively strengthen our presence in the regional market amidst stiff competition. We are already present in ASEAN with Indonesia as our biggest market and foresee greater growth in the ASEAN region which is driven by the increasing demand for high quality generic products.

We are also looking beyond ASEAN and hope to venture into new markets in the Middle East and Australasia. CCM's Pharmaceuticals Division is the Group's major contributor with a 30% of overall profit contribution. We aspire to increase our exports sales to 40% of the Group's revenue by exploring overseas opportunities to market our wide range of products.

As Malaysia's leading halal pharmaceutical manufacturer, we envisage growing our halal business further to cater to the needs of our consumers who are becoming more discerning and always on the lookout for high quality products. We have a strong presence in ASEAN and the Middle East and plan to develop more innovative halal products and expand our market reach to both Muslim nations and countries with a high population of Muslim communities. This is in line with our determination to drive the halal initiative forward and realising Malaysia's ambition of becoming an international halal hub.

In our efforts to create continuous value for our shareholders, the Board of Directors is recommending a dividend of 8.0 sen tax exempt dividend in respect of the financial year ended 31 December 2009.

Acknowledgement

On behalf of the Board of Directors, I would like to thank our shareholders, customers, business associates and partners who have continued to support and place their confidence in the Group. I wish to express our sincere gratitude to our management and employees for their hard work and dedication in putting in place the necessary platform for future growth. I would like to extend my deepest appreciation to my fellow Directors for their invaluable insights and contribution to the Group during the challenging year under review. I would also like to thank Dato' N. Sadasivan for his dedicated service and invaluable contribution to the Board for the past 14 years and wish him all the best in the future.

We are optimistic in improving our business performance for the year ahead by continuously seeking ways to strengthen our productivity and operational efficiency, promote innovation and competitiveness as well as exploring new business opportunities despite the challenges ahead. We believe that the stability and strength of CCM and its leadership is vital to ensure the Group's success during tough times. We are committed to upholding our key policies and values to efficiently accelerate the pace of productivity and innovation to drive the Group forward.

Tan Sri Ab. Rahman bin Omar
Chairman

CR Policy + Action =>

How does a safe environment contribute to greater health?

We take great pride in our commitment to business excellence, caring for people and communities and our concern for the environment. As an industry leader, our commitment to sustainable environmental practices remains strong and extends to our manufacturing processes, proper waste management and good agronomic practice and farming techniques.

Safe Environment