

Statement on Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its adequacy and integrity. The system includes financial, operational, compliance controls and risk management. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that as an integral part of the system of internal control, there is an ongoing group-wide risk management process for identifying, evaluating and managing the significant risks faced by the Group. Management has operated this process during the year under review up to the date of approval of the Annual Report; and the process is subjected to regular review by the Board. The Group has a Risk Management Council which is chaired by the Group Managing Director and comprises Senior Management of the Group, to provide oversight and added impetus to the risk management process.

Management from each business or operations area apply a risk/control self-assessment approach to identify the risks relating to their area; the likelihood of these risks occurring; the consequences if they do occur; and the actions being and/or to be taken to manage these risks to the desired level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operations area having its respective risk register. The risk registers are eventually compiled to form the Group Risk Profile for reporting to the Risk Management Council and also Audit Committee of the Board. The overall process is facilitated by the Risk Management Facilitators who are dedicated to the role.

The Risk Management Facilitators maintain regular communication and consultation with management and also facilitate risk analysis of business or operational initiatives/issues emerging in the Group; conduct periodic follow-up of the updating of risk profiles and the implementation of risk treatment measures by management; facilitate analysis of "just-in-case" risk scenarios; and conduct risk management training workshops. The Group Risk Profile enables the Audit Committee to focus on the key risks inherent in the Group's businesses and operations and the system of internal control necessary to manage such risks.

The Group Internal Audit Department independently reviews the adequacy and integrity of the system of internal control in managing the key risks and report accordingly to the Audit Committee on a quarterly basis. Where significant weaknesses have been identified as a result of the reviews, improvement measures are recommended to strengthen controls; and follow-up audits are conducted by Group Internal Audit Department to assess the status of implementation thereof by management. In carrying out its work, the Group Internal Audit Department focuses on areas of priority which are incorporated in the annual

audit plan approved each year by the Audit Committee.

The Group has a Project Review Council ("PRC") to provide added assurance in the feasibility evaluation of project/investment proposals and subsequent evaluation of the progress and results of endorsed project/investment through a process of due scrutiny. The PRC reviews and approves all projects to be submitted to the Finance & Investment Committee of the Board. Management reports are presented to the Board each quarter providing financial information including key performance and risk indicators. Where areas for improvement are identified including any relating to projects/investments, the Board considers the recommendations made by the Finance & Investment Committee. There were no material weaknesses in the system of internal control that would require separate disclosure in this Annual Report.

Statement on Director's Responsibility

As required under the Companies Act 1965 ("Act"), the Directors on pages 024 to 028 of this Annual Report have made a statement expressing an opinion on the financial statements. The Board is of the opinion that the financial statements have been drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the financial position of the Company and the Group for the financial year ended 31 December 2008.

In the process of preparing these financial statements, the Directors have reviewed the accounting policies and practices to ensure that they were consistently applied throughout the year. In cases where judgement and estimates were made, they were based on reasonableness and prudence.

Additionally, the directors have relied on the system of internal controls to ensure that the information generated for the preparation of the financial statements from the underlying accounting records is accurate and reliable.

This statement is made in accordance with a resolution of the Board of Directors dated 25 February 2009.

Other Disclosures

Material Contracts

Save as disclosed below, there are no other material contracts entered into by the CCM Group during the two (2) years preceding the date of this Circular, other than contracts entered into in the ordinary course of business:

- a. Sale and Purchase Agreement dated 2 April 2007 between CCM Pharma Sdn Bhd, a wholly-owned subsidiary of the Company, with Malayan Pharmaceutical Sdn Bhd ("MPSB") in respect of the purchase of brands, product rights and fixed assets of MPSB for a total consideration of RM22.0 million.

Material Contracts (cont.)

- b. Shares Sale Agreement dated 25 January 2008 made between Chemical Company of Malaysia Berhad (“CCM”) (the “Purchaser”) and Lai Wai Kun (the “Vendor”) for the sale and purchase of 9,567,502 ordinary shares of RM1.00 each in Enersave Water Sdn Bhd (now known as CCM Water Systems Sdn Bhd) for a purchase price of RM38,280,000.00;
- c. Shareholders Agreement dated 17 April 2008 made between CCM and CCM Usaha Kimia (M) Sdn Bhd (formerly known as Usaha Kimia (M) Sdn Bhd), Lai Wai Kun and Aloysius Lai Min Yun governing for the new allotment of 151,248 new ordinary shares in Enersave Water Sdn Bhd) to Aloysius Lai Min Yun, the future purchase by CCM of Lai Wai Kun’s remaining shares and Aloysius Lai Min Yun’s shares in Enersave Water Sdn Bhd, and the relationship between the shareholders of Enersave Water Sdn Bhd;
- d. Letter of Counter Indemnity dated 17 April 2008 issued by CCM pursuant to the terms of the Shares Sale Agreement referred to in Section 6.1(a) above to YM Tunku Tan Sri Dato’ Seri Ahmad Yahaya (a former director of Enersave Water Sdn Bhd) indemnifying him in respect of his liabilities under the Guarantee and Indemnity previously given by him (of which at the time of issuing the said Guarantee and indemnity, he was still a director of Enersave Water Sdn Bhd) to United Overseas Bank (Malaysia) Berhad (Company No. 271809-K) (“UOB”) to guarantee and indemnify UOB in respect of the credit facilities of RM18,800,000.00 granted by UOB to Enersave Water Sdn Bhd;
- e. Letter of Counter Indemnity dated 17 April 2008 issued by CCM pursuant to the terms of the Shares Sale Agreement referred to in Section 6.1(a) above to Tan Eng Chin (a former director of Enersave Water Sdn Bhd) indemnifying him in respect of his liabilities under the Guarantee and Indemnity previously given by him (of which at the time of issuing the said Guarantee and Indemnity, he was still a director of Enersave Water Sdn Bhd) to Bangkok Bank Berhad (Company No.299740-W) (“Bangkok Bank”) to guarantee and indemnify Bangkok Bank in respect of the credit facilities of RM36,000,000.00 granted by Bangkok Bank to Enersave Water Sdn Bhd;
- f. Shares Sale Agreement dated 23 April 2008 made between Paramount Discovery Sdn Bhd (“PDSB”) (Company No. 687108-M) and CCM whereby PDSB had agreed to sell and CCM had agreed to purchase 480,000 ordinary shares of RM1.00 each in Innovative Polymer Systems Sdn Bhd (Company No. 620696-D), 99,999 ordinary shares of RM1.00 each in Innovative Resins Sdn Bhd (Company No. 517494-T), and 1,000 ordinary shares of RM1.00 each in Delta Polymer Systems Sdn Bhd (Company No. 525946-P) (collectively known as “Sale Shares”) for a purchase consideration of RM126,900,000.00 and upon the terms and conditions contained therein (“Proposed Acquisitions”);
- g. Shareholders Agreement dated 23 April 2008 made between CCM Usaha Kimia (M) Sdn Bhd (formerly known as Usaha Kimia (M) Sdn Bhd), Mar Hung Than, Low Kim Choong and Chieng Diing Yaw (“the Key Personnel”) governing, inter alia, the relationship of the parties in their capacities as shareholders in Innovative Polymer Systems Sdn Bhd (Company No. 620696-D), Innovative Resins Sdn Bhd (517494-T) and Delta Polymer Systems Sdn Bhd (Company No. 525946-P) (“Target Companies”) and the future purchase by CCM of the Key Personnel’s shares in the Target Companies;
- h. Conditional Profit Guarantee Agreement dated 23 April 2008 made between AKN Technology Berhad (“Guarantor”) and CCM whereby the Guarantor had agreed to guarantee that the aggregate net profit after tax of the Target Companies for the period of two (2) years from the date of completion of the sale and purchase of the Sale Shares under the Shares Sale Agreement referred to in Section 6.1 (e) above shall not be less than the sum of RM42,000,000.00 (“Aggregate Profit Guaranteed Sum”) upon the terms and conditions contained therein;
- i. Supplemental Shares Sale Agreement dated 3 July 2008 made between CCM and PDSB whereby the parties had agreed to vary the Shares Sale Agreement referred to in Section 6.1(e) above upon the terms and conditions contained therein, including, inter alia, the variation of the purchase price from RM126,900,000.00 to RM122,190,000.00. Subsequent to this, on 20 January 2009, CCM and PDSB had, pursuant to the completion audit, agreed by way of Letter of Agreement dated 20 January 2009, to inter-alia, adjust the purchase price for the Proposed Acquisitions from RM122,190,000 to RM122,733,000. The Proposed Acquisitions have been completed on 20 January 2009; and
- j. Supplemental Conditional Profit Guarantee Agreement dated 3 July 2008 made between the Guarantor and CCM whereby the parties had agreed to vary the Aggregate Profit Guaranteed Sum guaranteed in the Conditional Profit Guarantee Agreement referred to in Section 6.1(g) above from RM42,000,000.00 to RM40,440,000.00.

As at 31st December 2008 (unaudited), the Group has material commitments for capital expenditure of RM1,786,000 (contracted for) and RM106,769,000 (not contracted for), amounting to a total of RM108,555,000.

CCM : The Inside Story 1930-2007 chronicles on the company's roots and its evolution over the decades.

CCM Coffee Table Book

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Recurrent Related Party Transaction of A Revenue Nature

As at the Annual General Meeting held on 28 May 2008, the Company had obtained a shareholders mandate to allow the Company to enter into Recurrent Related Party Transactions of a revenue or trading nature.

In accordance to the Bursa Malaysia Securities Berhad Listing Requirements, details of the Recurrent Related Party Transactions audited during the year financial year ended 31 December 2008 pursuant to the shareholders mandate are as follows:

Transaction	Vendor/ Provider	Purchaser/ Recipient	Aggregate Value ¹ (RM'000)	Related Parties
Purchase/Sale of chemicals	CCM Chemicals Sdn Bhd ("CCMC")	CCM Singapore Pte Ltd ("CCMSPL")	13,000	<i>Person connected:</i> Yeoh Keat Chye ²
Purchase/Sale of chemicals	CCMC	P.T. CCM Indonesia ("PTCCMI")	2,200	<i>Person connected:</i> Yeoh Keat Chye ²
Sale of fertilizers	P.T. CCM Agripharma ("PTCCMA")	P.T. Multigambut Industri	47,000	<i>Interested Major Shareholder:</i> Lembaga Tabung Haji ⁴ ("LTH")
Tenancy ⁶ of land at Lot PT 200, Persiaran Selangor, 40000 Shah Alam, Selangor (Total area - 988,743 sq.ft.)	Chemical Company of Malaysia Berhad ("CCM")	CCM Fertilizers Sdn Bhd ("CCMF")	3,315	<i>Interested Major Shareholder:</i> "LTH" <i>Person connected:</i> Dato' Dr. Mohamad Hashim bin Ahmad Tajudin ⁵
Tenancy ⁶ of land at Lot PT 200, Persiaran Selangor, 40000 Shah Alam, Selangor (Total area - 47,210 sq.ft.)	CCM	CCMC	275	<i>Persons connected:</i> Yeoh Keat Chye ² Dato' Dr. Mohamad Hashim bin Ahmad Tajudin ⁵
Tenancy ⁶ of land at Lot PT 200, Jalan Assam Jawa, 16/15 Off Persiaran Kemajuan, 40000 Shah Alam, Selangor (Total area - 4611 sq.ft.)	CCM	CCMC	90	<i>Persons connected:</i> Yeoh Keat Chye ² Dato' Dr. Mohamad Hashim bin Ahmad Tajudin ⁵

Notes:

- The values are estimates based on the audited financial statements for the financial year ended 31 December 2008. Due to the nature of the transactions, the actual value of transactions may vary from the estimated value disclosed above. Disclosure will be made in CCM's 2008 Annual Report of the actual breakdown of the aggregate value of transactions conducted as required under Paragraph 4.1.5 of Practice Note 12/2001 of the Listing Requirements, pursuant to the Proposed Shareholders' Mandate.
- Yeoh Keat Chye is a Director of CCMC, CCMSPL, PTCCMI and Innovative Group (collectively consist of Innovative Polymer Systems Sdn Bhd, Innovative Resins Sdn Bhd and Delta Polymer Systems Sdn Bhd). He is currently CCM's Director, Chemicals Division. He has indirect interest in CCMC and PTCCMI, a wholly owned subsidiary of CCMC, by virtue of his shareholding in Lanjut Setia Sdn Bhd ("LSSB"), which holds 10% of the issued share capital of CCMC. He also has direct interest of 346,000 ordinary shares in CCM or equivalent to 0.09%.

Notes: (cont.)

3. Lee Yee Chong is deemed interested in the Proposed Shareholders' Mandate under the definition of Director of this Circular. He was the Director of UPHA Pharmaceutical Mfg. (M) Sdn Bhd until 31 March 2009. He has direct interest in CCMC by virtue of his shareholding in LSSB, which holds 10% of the issued share capital of CCMC. He has direct interest of 422,000 ordinary shares in CCM or equivalent to 0.1% and indirect interest of 200,000 ordinary shares held through his wife, Boo Kwie Liang by virtue of Section 122A of the Act.
4. LTH holds direct interest of 49.9% in the issued share capital of CCMF and 2.68% in the issued share capital of CCM. LTH also have interest in P.T. Multigambut Industri and TH Plantations Group.
5. Dato' Dr. Mohamad Hashim bin Ahmad Tajudin is the Group Managing Director of CCM. He is a Director of CCMC, CCMF and CCM Duopharma Biotech Berhad ("CCMD"). He has direct interest in CCMD of 15,000 ordinary shares.
6. The duration for the tenancy of land is less than 3 years.

Share Buy-back

There were no repurchase of its issued and paid up shares since 2003.

As at 31 December 2008, the Company held 2,998,000 of the issued and paid up shares as treasury shares.

Non-Audit Fees

During the year ended 31 December 2008, the Group has paid a sum of RM341,000 being fee for non-audit work performed.

Variation in Results

There is no material variance between the results for the financial period and the unaudited results previously announced by the Company.

Profit Guarantees

There was no profit guarantee given by the Company during the year.

Revaluation Policy of Landed Property

Land & Buildings are stated at cost or Director's valuation based on open market valuations by professional firms of valuer less accumulated depreciation. Additions to land and buildings subsequent to the valuations are stated at cost.

Imposition of Sanction and Penalties

There were no sanctions and/or penalties imposed by the relevant authorities on the Company and/or its subsidiary companies, and Directors arising from any significant breach of regulations.

American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programme

During the financial year, the Company did not issue any ADR or GDR programme.

Musarakah Commercial Paper and Musarakah Medium Term Notes (collectively Sukuk)

On 28 November 2008, the company issued RM150,000,000 nominal amount of 3 year 5.95% fixed rate Musarakah Medium Term Notes (MMTN).

Utilisation of Sukuk Proceeds

(RM'000)	Amount	Utilised	Balance as at 31/12/08
To refinance, wholly or partly the existing external borrowings which may include the existing bonds	300,000	-	300,000
To finance the Group's capital expenditure and/or any investment/acquisitions and/or working capital requirements and for payment of fees arising from the programmes	200,000	150,000	50,000

Utilisation of Bond Proceeds

(RM'000)	Amount	Utilised	Balance as at 31/12/08
Rationalisation of pharmaceutical manufacturing operations	70,000	70,000	0
Refinancing of existing term loans	82,360	82,360	0
Working capital requirements of the Group	47,640	47,640	0
	200,000	200,000	0

Warrants Exercised During the Year

(RM'000)	Balance as at 1/1/08	Exercised	Lapsed	Balance as at 31/12/08
Warrant B	57,508	287	-	57,221