

Group Managing Director's operations review

It has been another year of commendable results for the CCM Group. Our three business divisions, i.e. Chemicals, Fertilizers and Pharmaceuticals, continued their upward trends in sales turnover and profits. We maintained our focus on expanding our facilities, extending our product range and increasing our market network.

At the corporate level, the acquisition of Enersave Water Sdn Bhd [EWSB] and the brands and assets of Malayan Pharmaceutical have helped to facilitate our business expansion.

Our participation in the 50th Merdeka celebrations was a campaign that involved the youth of our community and delivered a meaningful message. Together with our ongoing CSR programmes, it reflected our status as a major player in the corporate sector. Our success was driven by our investment in human capital development, a factor critical in bringing us strategically forward and ensuring that we remained relevant in our industry.

Chemicals division

The year under review has seen further overall growth in trading activities as well as greater business expansion in regional markets. Our sales volume for all manufactured products have improved as well. There were also improvements in our trade working capital due to increased efforts and focus in credit management.

In our ongoing effort to enhance product offerings, we have successfully acquired new agencies with regional distribution rights. The sales of caustic soda in Malaysia were at record volumes and our chlor-alkali manufacturing plants continued to run above nameplate capacities. However, the entry of cheaper imports into the local market had eroded prices, resulting in lower profitability. Regional metal sales remained strong despite a downward trend in nickel prices. The escalating energy costs resulting from higher oil prices have posed a challenge to the business. We have implemented various cost containment measures as well as operational efficiency improvements to minimise the negative impact of rising costs on profitability.

Through EWSB, we will be expanding our range of watercare solutions to include physical water treatment technology in the clean water and waste water sectors.

Our overseas operations, namely CCM Indonesia and CCM Singapore, have achieved impressive turnover figures in 2007 while CCM Vietnam performed to expectations. We expanded our product portfolio in Indonesia to capitalise on the growth in that country's industrial sector. In Vietnam, we have secured new agencies in specialty chemicals and extended our geographical coverage. The official opening of CCM Siam, which commenced operations in the first quarter of 2007, reinforced our presence in Thailand and our regional business network. As part of our business growth strategy, we will continue to actively pursue acquisition and joint venture opportunities to strengthen market positioning in ensuring sustainable growth.

Fertilizers division

We started off the year 2007 with the groundbreaking of our new RM50 million fertilizer plant at the Kidurong Industrial Area in Bintulu, Sarawak, in January. Construction is on schedule with about 60% completed at end-2007. When it becomes operational in 2008, the plant will have an annual capacity of 130,000 tonnes, thereby increasing the CCM Group's fertilizer manufacturing capacity by 50%. Our only plant at present, which began operations in 1967 as the first compound manufacturing facility in Malaysia, is at the Shah Alam Industrial Estate and has an annual capacity of 260,000 tonnes.

The Bintulu plant is the first of three new plants to be set up to increase our manufacturing capacity and to reduce the cycle time in bringing our products to customers in Sabah, Sarawak and Indonesia. The second new plant will be in Medan, Indonesia. Construction commenced in December 2007 and the RM50 million plant is expected to be operational by January 2009. The Medan facility will increase CCM's NPK compound fertilizer product capacity by 30% and will set the Group up to become one of the largest producers of compound fertilizers in the ASEAN region.

The third new plant will be in Lahad Datu, Sabah. Land for the plant has been purchased and civil and building construction is expected to begin in March 2008. Plant commissioning is targeted for January 2010. Once all three plants are in operation, CCM will have a combined capacity of 670,000 tonnes of fertilizers per year.

28.05.2007



CHEMICAL COMPANY OF MALAYSIA BERHAD 45TH ANNUAL GENERAL MEETING

28th MAY 2007



CCM 2006 turnover a record RM1.1 billion

A 36% increase from 2005

Chemical Company of Malaysia Berhad's (CCM) turnover hit a record RM1.1 billion for the financial year ended 31 December 2006.

CCM's Pharmaceuticals division was the main contributor to the Group's performance with an increase in revenue of 106.2%, attributable to the launch of several new and innovative products and strong sales performance to the private and government sectors.

The fertilizers division grew its revenue by 35%. Three new plants are in the pipeline. The new plant in Bintulu will increase fertilizer

manufacturing capacity by 50% when it becomes operational in 2008.

The chemicals division recorded an increase of 16.2% in turnover due mainly to the performance of both its manufacturing and trading businesses. About 28% of turnover was derived from exports and sales outside Malaysia. CCM aims to be a regional industry player following its strong performance in Singapore, Indonesia, Vietnam and Thailand.

The Group Chairman Tan Sri Ab. Rahman Omar said that the Group has been achieving double-digit revenue growth over the last five years.

In September during the year under review, we had to raise the price on CHB compound fertilizers by 15% to mitigate increases in the prices of raw materials. Fierce price competition for base volume in tender exercises continued to affect our margins. Nonetheless, we obtained an award to supply fertilizers to Synergy Drive [now known as Sime Darby Berhad] in Malaysia and expect to be awarded the supply of fertilizers to PT Minamas and Synergy Drive in Indonesia.

Pharmaceuticals division

The acquisition of Malayan Pharmaceutical's brands and assets in 2007 gave us ownership of its registered intellectual property as well as a 60,000 sq ft three-storey pharmaceutical manufacturing facility on a 1.5-acre site in Glenmarie. By October 2007, we had succeeded in fully integrating the people and products of this facility into the CCM Group structure.

The site will eventually be converted into a dedicated cephalosporin manufacturing facility for the Group, a prerequisite of the Ministry of Health as well as ASEAN Good Manufacturing Practice guidelines. It will make us the first Malaysian pharmaceutical company to comply with the guidelines. Our new Innovax research and development centre, complete with pilot production facilities, will also be located on the site.

Our brands, such as Champs, Proviton and Uphamol, are already well known in the market. Through Malayan Pharmaceutical, our product range will cover established OTC names such as Chewies, Milidon, Cosmos and Cosmoplast. The Pharmaceuticals Division launched six new ethical products and two OTC products in 2007, while two existing OTC products were re-launched. Our product mix for the year remained at 20 per cent OTC and 80 per cent ethical products.

While we export our pharmaceutical products to over 20 countries worldwide, our sales in the ASEAN region, particularly Cambodia, Indonesia, Hongkong and Singapore, were the major contributor to our profitability. We are opening a new regional office in the Philippines in 2008, adding to our network of regional offices in Indonesia, Singapore, Thailand and Vietnam. Our interests in Cambodia, Hongkong and Myanmar are represented by regional associates, while agents have been appointed in Taiwan and parts of Africa, Asia-Pacific and Middle East.

07.06.2007



Official opening of CCM Siam office

New office extends regional network

CCM Siam Limited had its opening ceremony at its office in Rasa Tower 11, Phaholyothin Road, Jatujak, Bangkok. The event was officiated by HE Dato' Sharaani Ibrahim, Malaysian Ambassador to Thailand.

Group Managing Director of Chemical Company of Malaysia Berhad (CCM), Dato' Dr Mohd Hashim Tajudin shared the Group's vision with local business associates and other guests present at the ceremony.

Corporate social responsibility

It is the CCM Group's policy to be a responsible corporate organisation through integrating our business values and operations to meet the expectations of our stakeholders.

We are committed to managing our business to the highest standards of integrity and corporate governance practices. We strive to provide our customers with products and services hallmarked by quality and care. Due attention is given towards protecting the health and safety of all individuals affected by our activities as well as to assessing and managing the environmental impact of all our operations. We believe in equal opportunity in all aspects of employment and participation in community programmes to enhance the quality of life for all concerned.

Healthcare in the community

As a leading player in the pharmaceutical industry, we are concerned about healthcare in the community and aim to assist specific sectors that are in need. Our concern about general healthcare needed to begin 'at home'. Therefore, in March 2007, CCM launched the Healthy Living Campaign to increase awareness on the different aspects of healthy living amongst employees of the Group, with the ultimate objective of fostering a supportive social and physical environment to encourage healthy living. The campaign began with all subsidiaries implementing workplace health promotion programmes, which will eventually translate into improved health amongst employees.

Going beyond the organisation and into the community, we extended a helping hand where and when needed. In January 2007, heeding the Government's call to help flood victims in Johor, we donated RM50,000 worth of over-the-counter [OTC] and ethical products. Malaysian soldiers from the army, navy and air force who were part of the United Nations Interim Force in Lebanon were not forgotten. In July 2007, we donated RM170,000 worth of pharmaceutical products to help them maintain their health and well-being during their tour of duty. We also looked into the needs of the elderly. During the year under review, a year's supply of Donna Forte 500mg, a product to alleviate the symptoms of osteoarthritis, and other related products were donated to the aged residents of Penjagaan Warga Tua Sri Tanjung, Kuang, Selangor.

For the fourth year, through the 'Sahabat Korporat Tabung Haji' programme, we assisted Malaysian pilgrims on their Haj with a donation of 40,000 sets of personal first aid kits worth RM700,000, bringing the total number of

kits donated to-date to 137,000 sets worth over RM2.7 million. The pilgrims were provided with products to treat and manage simple ailments such as headache, muscular strain, eye irritation and sore throat.

We collaborated with Yayasan Jantung Malaysia [YJM] in their drive to educate the public on how to care for the heart. We supported YJM's 'Heart Week' programme by sponsoring healthcare gifts for members of the public who participated in the programme's activities held at shopping complexes in Seremban and Kuala Lumpur in March 2007.

Support was also extended to the National Diabetes Institute [NADI] to help them promote greater public awareness on diabetes prevention. At the launch of Diamelon in December 2006, a pledge was made to donate 50 sen to NADI from the proceeds of the sale of every bottle of the product. Subsequently, in November 2007, an amount of RM7,000 was presented to the Institute at a presentation ceremony held in conjunction with 'World Diabetes Day'.

Our two-year Memorandum of Understanding with Yayasan Rahah, which was signed in September 2006, entered its second year in 2007. Our contribution of medicines and pharmaceutical products helped the foundation in providing free medical services to rural communities where healthcare services were not so easily accessible.

Education

Education and knowledge development is an important part of our CSR programme. We continued our commitment to supply science, technology and health books to students in nine national type primary schools in Perak. The year 2007 marked the second year that we have provided English and Bahasa Malaysia books to the resource centres of the selected schools. Rural schools were specifically chosen to provide them with the same opportunities and options as those in urban areas.

Another programme to help rural school children was the PINTAR programme, an initiative by Government-linked Companies [GLC] to adopt schools in rural areas and help them improve the academic performance of their students. As a GLC, the CCM Group participated in the PINTAR programme by adopting Sekolah Kebangsaan Juru in Penang. During the school's Excellence Day in 2007, we donated a set of reference books to the school while students who excelled in the national UPSR examination were presented with cash incentives for their achievement. In November 2007, a two-day one-night motivational camp was organised to officially kick off the CCM-PINTAR programme with the school.

To enhance English spelling capabilities, improve English proficiency and enrich the vocabulary of primary school children as well as to encourage good reading habit, we sponsored Malaysia's first national English spelling championship. Twenty-six 10 and 11-year-olds from 13 states participated in the competition that was co-organised with the Knowledge Discovery magazine and the Ministry of Education.

Other on-going projects are a testament to our belief and commitment towards educational pursuits. The CCM Foundation scholarships continue to enable deserving students to undertake undergraduate studies at local higher educational institutions. To-date, we have awarded more than 110 scholarships worth more than RM2.9 million. These CCM scholars receive an annual grant of RM7,000 each, are given industrial training during their semester breaks within the Group and offered employment upon graduation. We also offer scholarships for higher education under the auspices of our parent company, Permodalan Nasional Berhad, with contributions to Yayasan Tun Ismail.

Closer to home, children of members of our Golden Growers Club continue to receive Education Excellence awards for exemplary performance in the national SPM and STPM examinations. This club, set up in 1998, has a membership of more than 4,000 registered smallholders. In addition to educational assistance for their children, the smallholders also benefit through joint educational programmes conducted by CCM through an alliance with the Malaysian Palm Oil Board. Covering areas such as management and cultivation of smallholdings, these programmes aim to help smallholders boost productivity in line with the best agricultural and industry practices. They are also given discounts and incentives for newly developed clones and purchases of fertilizers and other products. The ultimate aim of these endeavours is to develop a professional and knowledgeable smallholder community with entrepreneurial skills.

Sports

The promotion of sports goes hand in hand with our commitment towards healthy living and healthcare. For the second year running, CCM was the main sponsor of the CCM Selangor International Open Bowling Championship in 2007. This event, which has been responsible for producing internationally-recognised Malaysian bowlers over the decades, attracted participants from various parts of the world.

The Group has also been contributing to the development of other sports, particularly lawn bowling and cricket.

Environment

Our involvement in actively promoting the Responsible Care Programme [RCP] reflects our serious commitment towards continuous improvement in the chemical industry's environmental, health and safety performance. The RCP, which is being promoted by the Chemical Industries Council of Malaysia [CICM], is a voluntary worldwide initiative to encourage chemical corporations to practise good safety, health and environmental management. CCM, an RCP pioneer signatory since 1994, sponsored the CICM Responsible Care Awards 2006 that were presented during the year under review.

At the community level, a 'Greening the School' project was undertaken in June 2007 at Sekolah Kebangsaan Padang Jawa in Shah Alam. Awnings were installed at the school canteen area to provide students with better cover from the sun as well as rain during their break-time. Thirty Asoka trees were planted in the school grounds to create a more conducive environment for learning. The school playing field was also turf-ed and we undertook to maintain it for a three-month period.

Celebrating Malaysia's 50th Anniversary

The year under review was special in being the 50th anniversary of Malaysia's independence from British rule. We joined in the celebrations with the 'CHAMPS 50th Merdeka Prayer' television commercial, which featured ten children representing the country's different races, religions and cultures offering prayers in various languages to express gratitude for the country's peace and prosperity. CHAMPS is our brand of multivitamins for children, providing them with sufficient supplemental nutrients to lead a healthy and active lifestyle.

In a slogan-writing contest held in conjunction with the launch of the Merdeka Prayer commercial, 15-year-old Christina Soh Ling Xian won the first prize. A contest was also held for our retailers to show their display creativity at their outlets, which was won by 51 Avenue Pharmacy in Kajang. At the prize presentation ceremony in December 2007, we pledged a year's supply of CHAMPS Emulsion Cod Liver Oil and CHAMPS D-Worm6 to the children of Rumah Darul Izzah and Rumah Keluarga Kami.

Another Merdeka-related activity was our sponsorship of a competition organised by Utusan Malaysia during the year under review. The 'Kreatif Cerita: Sembang Merdeka' competition was to help encourage children to tap their creativity through story-telling in a conversational-dialogue format.

21.06.2007

Educational Excellence Awards 2007

Recognition for children of Golden Growers Club members

The 9th CCM Fertilizers Educational Excellence Awards for the children of members of the Golden Growers Club was held in recognition for those who had achieved excellent results in their SPM and STPM 2006 examinations.

Haji Mohd Ali Sabri, Chief Operating Officer of CCM Fertilizers Sdn Bhd, said in his welcoming address that the Company would continue to provide such awards as part of its social responsibility towards the planters' community.

A total of 33 recipients received cheques and premium saving certificates from the Group Managing Director, Dato' Dr Mohd Hashim Tajudin who encouraged students to continue learning and searching for knowledge to excel in their studies.

Human resource development

With the CCM Group becoming a larger entity through internal organic growth and strategic acquisitions, the quality and capability of our human capital become even more critical to ensure that we maintain our competitiveness and position in our industry sectors. Our employees need to be committed to the philosophy and values of the Group and actively engaged in its overall development.

The essentials of an effective human resource management and development system are in place. With a workforce of 1,693 people, we continue to build capacity and capability through promoting the concept of a lifelong learning organisation group-wide. Our training structure accommodates both the organisation's requirements as well as individual needs, bringing our employees up to mark in operational and technical knowledge. At the same time, the development of soft skills to enhance personal effectiveness is given due emphasis.

As an organisation adhering to the principles of Good Manufacturing Practices advocated by the Ministry of Health and the European PICS standards, training programmes are conducted in areas such as ISO Lead Assessor training, internal quality audit, safe handling of chemicals, emergency response planning and water processing technology. Such programmes are held at the Group as well as subsidiary levels for greater effectiveness and efficiency. Most of the developmental training is organised internally and conducted by external trainers. Nevertheless, our employees also attend external programmes, within the country as well as abroad, to help them acquire the latest skills and knowledge.

To retain top talents and ensure an available pool of capable managers, a succession planning programme has been implemented that has to-date enabled the Group to fill about 80% of key management positions internally. For this programme to be more successful, CCM has a flexible business structure to allow our employees to progress in their careers in line with business and market expansion within the Group. A leadership programme has been developed so that our pool of future leaders acquire the critical thinking and problem solving skills necessary for them to be innovative and results-oriented.

For the years ahead, we will be enhancing our human resources further through the implementation of a Strategic HR Roadmap for 2008-2010. This initiative will be critical in helping us to achieve our strategic business plans.

Research & development

Our future growth depends to a great extent on our research and development [R&D] capabilities, particularly our willingness to invest in this area. We have therefore, made a deliberate commitment towards establishing strategic partnerships with international R&D companies and other organisations to achieve timely and effective results.

We hold a 15% stake in the equity of Synergy America, Inc. [SynAm] through our wholly-owned subsidiary, CCM Investments Limited. SynAm is a private R&D company based in Maryland, USA, which is undertaking work on a new and innovative vaccine that will be effective against *streptococcus pneumoniae*. These bacteria can cause diseases such as pneumonia and meningitis. The potential global market for this vaccine is about USD10 billion and CCM has been given the exclusive rights to market it in Asia [excluding Japan].

Our wholly-owned R&D company, Innovax Sdn Bhd, has a Memorandum of Understanding [MOU] with Golden Hope Research Sdn Bhd [GHR] to jointly undertake R&D and commercialisation of herbal healthcare and wellbeing products. In April 2007, the CCM Group signed another MOU with GHR, this time through wholly-owned subsidiary, CCM Agri-Max Sdn Bhd. Under this MOU, CCM Agri-Max would lead market research in the organic fertilizer industry and undertake sales and marketing activities, while CCM Agri-Max and GHR would jointly develop commercial grade compost from empty fruit bunches, mesocarp fibers and palm oil mill effluent and produce commercial grade organic fertilizer from oil palm decanter solids.

In 2007, CCM Fertilizers Sdn Bhd started a synergistic collaboration with the Malaysia Agricultural Research and Development Institute in developing a nitro-humic acid-based crop booster liquid fertilizer. Our role is to develop and formulate a suitable formulation to boost crops' yield such as paddy, tomato and fruit crops. At the same time, an arrangement to build a pilot plant on the premises of CCM Fertilizers at Shah Alam has been made. The prospective market for such a fertilizer is estimated at RM15 million per year.

During Minggu Saham Amanah Malaysia 2007 in Kuantan, Pahang, our Fertilizers Division conducted test marketing of its latest product, the HortiFert range of home garden fertilizer. This new product was developed to fulfill the retail sector's demand for quality fertilizers to be used by homeowners and landscape enthusiasts. This market sector is full of potential and will provide tremendous growth opportunity for the Group.

While CCM's own R&D facilities are actively creating products such as Diamelon, strategic partnerships do enhance the Group's capabilities not only in R&D but also in commercialising new products to meet market needs.

Safety, health & environment

As a listed company on the Main Board of Bursa Malaysia and a key player in its industry sectors, CCM does not compromise where Safety, Health and Environmental [SHE] issues are concerned.

SHE programmes are an ongoing feature at various locations of the CCM Group. These include a comprehensive SHE induction programme for all recruits, detailing all aspects of SHE requirements within the company and regulatory compliance issues that impact business performance. Mock drills to test the level, quality and preparedness of the Group to respond to emergencies coupled with community awareness and neighbourhood programmes are frequent initiatives. Product stewardship programmes involving customers, suppliers and transporters are yet another feature of the SHE management protocol at CCM. The Group continues to give attention to minimising and reducing greenhouse gas emissions in line with the United Nations Framework Convention on Climate Change and the tenets of the Kyoto Protocol. There is constant benchmarking against international best practices to ensure that CCM is at par with similar companies worldwide in regard to SHE management.

CCM's commitment towards SHE is best exemplified in its involvement in the Responsible Care Programme [RCP] pursued by the Chemical Industries Council of Malaysia [CICM]. The Group has been an RCP pioneer signatory since 1994. CICM is spearheading the RCP in Malaysia to increase the industry's adherence to the RC Codes. The RCP is a voluntary worldwide initiative to encourage chemical corporations to practise good SHE management. In Malaysia, there are now 109 RCP signatories. It is a mark of the industry's seriousness in implementing RCP in Malaysia and the acknowledgement of the need to excel and be competitive in the face of global challenges.

To promote greater understanding of RCP, CICM has been organising the Responsible Care Awards since 2002. The Awards aim to recognise the RCP signatories that have made the most progress in implementing the programme's Six Codes of Management Practices. CCM sponsored the Awards for 2006, which were presented at the Council's annual dinner in September 2007. In the General Chemicals category, CCM Chemicals won the Gold Awards for Distribution Code, Community Awareness and Emergency Response Code, Pollution Prevention Code, Process Safety Code and Product Stewardship Code. The Company also won a Merit Award for Employee Health and Safety Code.

CCM will continue to address SHE issues in the industry sectors that it operates in and work towards improving its performance in these areas for a better future for all concerned.

Dato' Dr Mohamad Hashim bin Ahmad Tajudin

10.07.2007



Signing ceremony for construction of Bintulu plant

Plant will boost fertilizers production to 400,000 tonnes per year

A signing ceremony between Chemical Company of Malaysia Berhad (CCM) and Johabaru Sdn Bhd was held to mark the construction of the new fertilizer plant in Bintulu, Sarawak.

The plant, designed to produce 130,000 tonnes of urea-based NPK compound fertilizer, will boost

CCM's fertilizer production to 400,000 tonnes per year when it is completed.

The construction of the fertilizer plant is ahead of schedule and will be ready for operation in June 2008.



Sustaining
momentum,
maintaining
growth.