



RELIABI



LITY

RELIABILITY



TAN SRI AB. RAHMAN BIN OMAR
Chairman

Chairman's Statement

THE CCM GROUP IS
THE LARGEST GENERIC
PHARMACEUTICAL
COMPANY IN MALAYSIA,
WITH CCM'S
PHARMACEUTICALS
DIVISION GENERATING
A TOTAL TURNOVER OF
RM204.1 MILLION.

dear shareholders,

Chemical Company of Malaysia Berhad (CCM) is soaring to greater heights. For the first time, the CCM Group's turnover has breached the RM1.0 billion mark for the financial year ended 31 December 2006 (FY 2006), a hefty 36.3% increase from the previous year. These results incorporated the first full-year's contribution of CCMD to the Group's financial performance. Today, the CCM Group is the largest generic pharmaceutical company in Malaysia with CCM's pharmaceuticals division generating a total turnover of RM204.1 million.

The unveiling of the CCM Group's First 3-Year Strategic Plan in 2005 has served as an effective road map for the Group in moving forward. The main thrust of the plan is a 3-pronged strategy to:

- Continue to grow CCM's three core businesses in Malaysia
- Accelerate regional growth, especially in the ASEAN region
- Improve earnings through mergers and acquisitions

Evidenced by the Group's performance on both the financial and operational fronts, the plan is working and we are already reaping tangible results. Although much has been achieved the past year, I personally feel that we are still beginning to unlock the full potential of the newly enlarged CCM Group. We are fortunate to be in an industry that is rapidly expanding and to be operating in a region whose increasing prosperity will guarantee a growing demand for our products. Our strategies placed the Group on a stronger footing to become a major player in the healthcare segment, one of the fastest growing industries of the 21st Century.

BUSINESS ENVIRONMENT

According to Bank Negara Malaysia, the nation's gross domestic product (GDP) grew by 5.9% in 2006, buoyed by sustained global growth and resilient domestic demand. However, the overall operating environment has had varying impacts on CCM's core Chemicals, Fertilizers and Pharmaceuticals businesses.

For CCM's Chemicals Division, 2006 was another challenging year. Record high oil prices resulted in rising costs of production, while our chlor-alkali business had to grapple with hikes in salt prices and electricity tariff.

In the case of CCM's Fertilizers Division, the demand for fertilizers is largely determined by domestic and international prices for agricultural products and commodities. Since oil palm is the dominant plantation crop in Malaysia, the international crude palm oil (CPO) prices are the key determinants for fertilizer consumption in the country. During 2006, sustainable CPO prices have translated into a buoyant demand for fertilizers.

Although the pharmaceutical industry has registered annual growth rates of between 8% and 10%, CCM's Pharmaceuticals division has to deal with intense competition from local pharmaceutical companies and contend with cheaper generic imports from India and China.

FINANCIAL PERFORMANCE

The overall financial performance of the CCM Group over the past five years has been very encouraging. Over this period, the Group achieved a double-digit average revenue growth that exceeded the country's average GDP growth of about 5% per annum.



For the FY 2006, the CCM Group achieved a turnover of RM1.1 billion, an increase of 36% from RM814.2 million (restated) posted the previous year. Correspondingly, profit before tax rose by 7.1% to RM138.4 million, compared to RM129.2 million achieved previously. On the strength of the Group's improved bottom line, basic earnings per share rose to 26.9 sen, against 24.0 sen a year ago.

DIVIDENDS

As part of the Company's good governance and in line with the recommendation of the Purple Book on Optimising Capital Management Practices under the GLC Transformation Programme, the Company has adopted a dividend policy of 50% – 75% of the Group's Consolidated Profit After Tax And Minority Interests for the year, taking into account growth targets and funding requirements of the Group and the availability of appropriate tax credit to provide the dividends.

On the strength of the CCM Group's commendable financial performance, we are pleased to extend our long-standing record of rewarding our shareholders. The Board is recommending total dividends of 24 sen per share (gross) in respect of the FY 2006, compared to 20 sen per share (gross) paid for the FY 2005.

CORPORATE DEVELOPMENTS

The FY 2006 was no less busy and eventful on the corporate front. Closing the chapter on the acquisition exercise that began in early 2005, CCMD assumed its present name on 8 June 2006. The name-change is in line with our strategy to enhance brand imaging and identification. Consequently, the CCM logo has now been incorporated on all CCMD's packaging materials. The change management process has also entailed a review and subsequent upgrading of structures, systems, methods and procedures and this has proceeded smoothly with no disruptions to operations.

In line with CCM's long-term aspirations of becoming a regional player, we will continue to forge strategic partnerships with foreign companies, leveraging on their expertise and strengths to gain further inroads into ASEAN and global markets. Thus, in September 2006, CCM through its wholly-owned subsidiary CCM International Sdn Bhd, has entered into a Share Subscription Deed with the Perth-based CI Resources Ltd (CII) to purchase 12 million ordinary shares or about 16% equity in the Australian company. CII has a 39.06% stake in Phosphate Resources Ltd (PRL), which operates the largest phosphate mine in Australia. As CCM is already PRL's biggest customer, our investment in CII is strategic and will ensure an uninterrupted and cost-competitive supply of phosphates, a raw material for the fertilizers industry.

The Board believes that investment in R&D is imperative to ensure a successful and sustainable future. In October 2006, our wholly-owned subsidiary, CCM Investments Ltd concluded a Stock Purchase and Marketing Rights Agreement in October 2006 to purchase a strategic equity of 15% in Synergy America, Inc. (SynAm) enlarged share capital for USD5.0 million. SynAm is a private company based in Maryland, USA and has a strong scientific team with extensive experience in vaccine R&D. It is currently undertaking R&D on a new and innovative vaccine that will be effective against pneumococcal diseases such as pneumonia and meningitis.

CCM is confident that our investments in SynAm and CII will bring excellent value to the Group. SynAm has completed the pre-clinical laboratory studies for a new vaccine against pneumococcal diseases and has been given US and global patent approval. The company is now moving towards full-scale pre-clinical studies and hopes to obtain approval from the US Federal Drugs Authority (FDA) by end-2007. The potential global market for this vaccine is about USD10.0 billion, and with our investment, CCM has been given exclusive rights to market this vaccine in Asia, with the exception of Japan.



In another major corporate development, CCM International Sdn Bhd has signed a Share Purchase Agreement to acquire the entire stake of Singapore-based, Duopharma Trading (S) Pte Ltd (DTSB). The company is engaged in the retailing of pharmaceutical chemicals, veterinary and agricultural products. It has control over 100 pharmaceuticals products registered in Singapore and trades in about 70 active pharmaceutical products. With DTSB now called CCM Pharmaceuticals (S) Pte Ltd, part of our corporate stable, CCM can consolidate the marketing activities of its pharmaceutical business in Singapore.

OPERATIONAL HIGHLIGHTS

CCM Pharma Sdn Bhd, a wholly-owned subsidiary of the Company, has entered into a Sale and Purchase Agreement with Malayan Pharmaceuticals Sdn Bhd (MPSB) in respect of the purchase of brands, product rights and fixed assets of MPSB. Among MPSB's leading brands include *Chewies* children's chewable vitamins, *Milidon* paracetamol analgesics, Cosmos dietary supplements and *Cosmoplast* medicated plasters and first-aid dressing.

The acquisition of MPSB's established leading brands and assets would enrich CCM's Over-the-Counter product pipeline and enable the Group to leverage the combined strength and capture a bigger share of the market. With the acquisition, CCM plans to convert the site to a dedicated Cephalosporin manufacturing facility for the Group and also to house its research and development centre. The acquisition is expected to give CCM a better synergy between the Group's pharmaceutical units.

CCM's wholly-owned subsidiary, Prima Health Pharmacy (Retail) Sdn Bhd, which is involved in the pharmaceutical retail business has ceased operations on 30 March 2007.

All of our three core operating divisions have further consolidated their positions in Malaysia. On the international front, CCM continued to make good progress to establish itself as a regional player of repute, while spreading its wings into markets further afield.

Despite significant challenges, CCMC ended the FY 2006 on a satisfactory note. The division achieved a record turnover on the back of commendable performances from its manufacturing and trading businesses.

In the Group's fertilizer business, CCMF achieved a turnover of RM535.6 million for the FY 2006, as compared to RM396.7 million posted the preceding year. Two new products, 99 Plus and FERT 300, were launched during the year.

For the Group's pharmaceutical business, the FY 2006 was both rewarding and satisfying. The acquisition of CCMD has met all our expectations, and this was reflected most emphatically in the financial performance of the Group. For CCMP, FY 2006 also represented its sixth consecutive year of record-breaking sales and profitability. Revenue generated from the pharmaceuticals division in 2006 rose 106% to RM204.1 million, accounting for 18.4% of Group turnover.

Several new products were launched during the year, including a range of herbal products. As reported last year, CCMD is also the only company in Malaysia permitted to produce SLN 30 and SLN 40. It began supplying these 3-in-1 anti-retroviral drugs to the Ministry of Health (MoH) in 2006. With the extension of a pilot programme for the use of Methadone for the treatment of narcotic withdrawal, CCMD has now secured the tender award to supply the drug to the MoH up to the year 2009.

While such awards and recognition are gratifying, CCM is not about to rest on its laurels. We will continually review our structures, systems, policies and procedures in place to see where there can be room for improvement. In our efforts to improve corporate governance, for instance, we are continually improving the terms of reference of the respective Board Committees. Our directors also attend relevant training sessions to keep them updated with the latest industry and regulatory developments. We also recognise training as an important platform for CCM to achieve its goals. During the year, we embarked on developing our own leadership programme to ensure leadership continuity for key positions. This is a prerequisite in our quest to reach new heights.

EXPANDING OUR HORIZONS

Guided by CCM's First 3-Year Strategic Plan, all three business divisions are on course to achieve set targets and objectives. FY 2007 will see the opening of a new CCM trading office in Manila, Philippines. This will complete the loop in CCM's regional expansion plans, with operations in all the key ASEAN markets to tap into the region's critical mass of 570 million people. Meanwhile, CCMC's Vietnam representative office in Ho Chi Minh City commenced operations in January 2006. In neighbouring Thailand, CCM Siam Ltd was incorporated in August 2006 and its Bangkok office is operational from early 2007.

CCM is Malaysia's largest producer of compound fertilizers as well as generic drugs and a leading producer of chlor-alkali. Our products are currently exported to over 20 countries, with the Singapore and Hong Kong markets being our biggest customers. In our ambition to be a global player, we are accelerating our efforts to penetrate new markets, particularly in the Middle East and Africa. CCMP has already established a foothold in these markets, and is set to build on its presence there leveraging on its *halal* pharmaceutical products. On our part, we have set up a new market development department at the headquarters to spearhead our marketing activities and to penetrate new markets.

The Group's multi-million Ringgit plant expansion programme remains on track. Three new plants have been planned to support CCM's growing fertilizers business, one each in Bintulu (Sarawak), Lahad Datu (Sabah) and Medan (Indonesia). When all three plants are commissioned, this will increase CCM's total manufacturing capacity to 730,000 tonnes of compound fertilizers per annum. This will undoubtedly make CCM one of the biggest fertilizer companies in ASEAN.

To support the expansion of the Group's pharmaceutical business, CCM is in the midst of constructing a RM60.0 million state-of-the-art pharmaceutical plant adjacent to its existing oral dosage plant in Bangi. The Group is also evaluating plans to grow its chemical business with the expansion of its chlor-alkali facility in Pasir Gudang.

A LOOK AHEAD

Bank Negara Malaysia is confident that the nation's economy will remain resilient to register a healthy growth of 6.0% for FY 2007. Malaysia's sustained economic expansion will translate into growth opportunities for all three core businesses of CCM. However, if the operating scenario is the same as FY 2006, persistently high oil prices and resulting inflationary pressures will in turn impact on costs and result in reduced margins. Our operating divisions are taking these challenges in their stride, and are responding in various ways, such as increasing plant efficiency or by operating the plant at above design capacity. Since CCM buys its raw materials in US Dollars, we are also hopeful that the strengthening of the Ringgit would mitigate rising operational costs at the factory level.

CCM remains upbeat about the local pharmaceutical market, which is growing at around 8% to 10% annually. Following the acquisition of CCMD, our pharmaceuticals business has increased its contribution to Group turnover to 18.4% from 12.2% in 2005. In the coming year, CCMD will be launching more OTC, ethical and herbal-based drugs and medication. Meanwhile, we will be stepping up our export drive to ASEAN



countries, which will remain at the forefront of the Company's plans. Simultaneously, we will be aggressively pursuing new markets in the South Pacific, West Asia, the African continent and Organisation of Islamic Countries (OIC).

In Malaysia and Indonesia, the present demand for fertilizers already outstrips supply. The Ninth Malaysia Plan's (9MP) focus on agriculture as the third growth engine of the economy augurs well for our fertilizer business. Indonesia's plan to expand its oil palm hectareage from 5 million hectares to 10 million hectares will also offer opportunities for CCM to expand its fertilizer business. There is also an increased usage of palm oil for bio-diesel, thereby indirectly ensuring that the demand for fertilizers will be sustained.

In the chemical business, the demand for chlorine is expected to remain stable given Malaysia's need for a clean source of water supply. CCMC already supplies chemicals and engineering services to a majority of state water authorities for the treatment of potable water. CCM plans to expand its chemical business regionally, where CCMC is already operating in Thailand, Vietnam and Singapore.

CCM is presently developing the Second 3-Year Strategic Plan, which will chart the Group's future direction and set the road map from 2008 to 2010. Under the plan that will be subject to approval by the Board, we will build on the momentum already established to better position CCM as a reputable regional player in the three core businesses.

ACKNOWLEDGEMENTS

It may sound like a cliché, but at CCM, we really mean it when we say that our people are the Group's greatest assets. They are truly the driving force of the organisation. We have a great team, fortified by new members from CCMD who have quickly integrated into our corporate culture and work ethics. I salute all of you for your professionalism, commitment and support of all that CCM is trying to achieve.

CCM has been fortunate in getting the full cooperation and support from the various government agencies, suppliers, principals and business partners. Our shareholders and the millions from all over the world who make up our growing customer base deserve special mention. To all of you, I extend my sincere gratitude and appreciation.

Last but not least, I thank my fellow members of the Board. Your astute insights and unstinting support have been a tremendous help.

Thank you.

TAN SRI AB. RAHMAN BIN OMAR

Chairman