Inspiring Moments

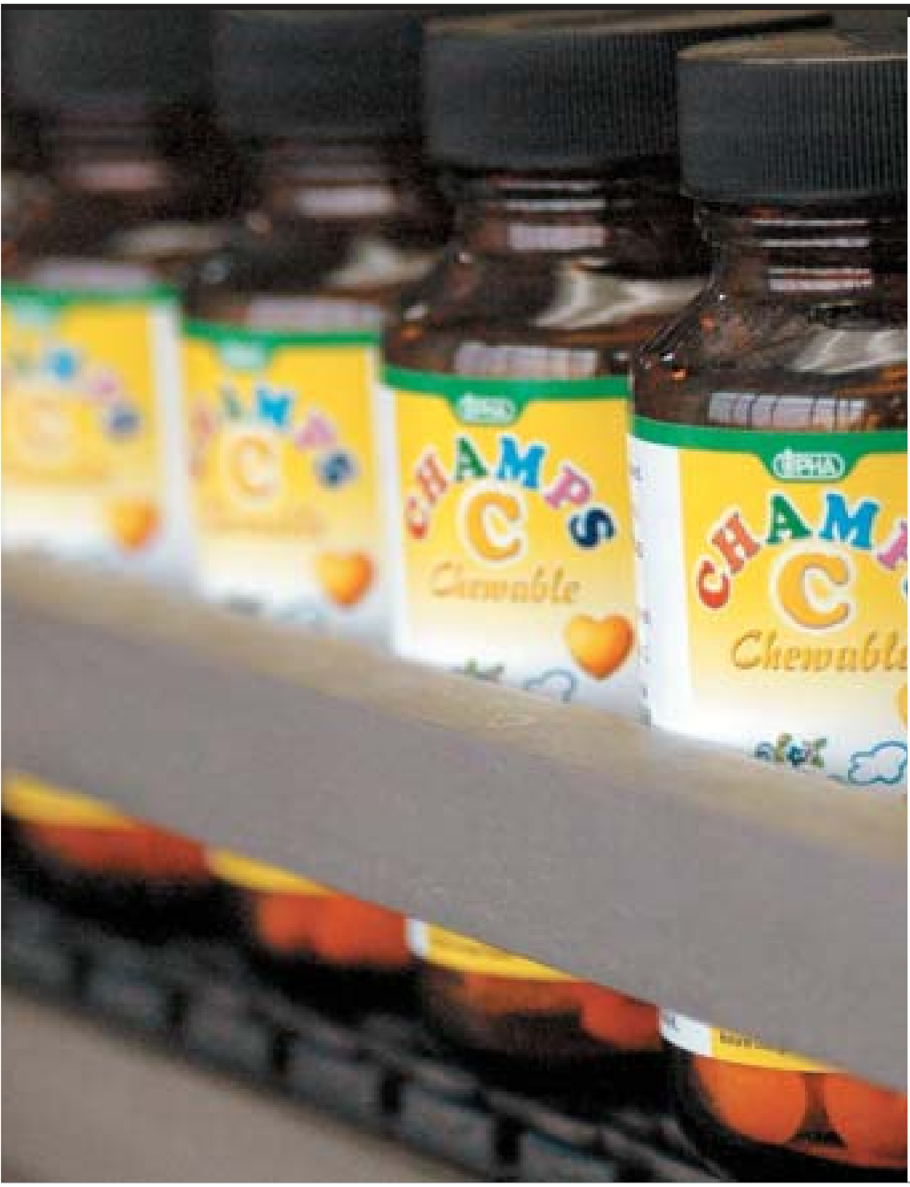
Life is wonderful.

Cherish every precious second.

We make the most of our time.

To make yours better.

PERFORMANCEreview



02

WE ARE CURRENTLY MOVING INTO A NEW PHASE IN THE PHARMACEUTICAL INDUSTRY. WE INTEND TO INCREASE OUR MARKET SHARE IN THE REGION IN THE NEXT FEW YEARS.

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dear shareholders,

The year under review ended 31 December 2005 was a significant achievement for Chemical Company of Malaysia Berhad (CCM). Looking back on what was a successful year, I am very pleased to report that your Company has met, if not exceeded, most of the key targets set for the period under review. Notwithstanding a challenging operating environment, CCM posted a 17% improvement in revenue of RM814.2 million in 2005 compared to RM696.9 million in 2004. Business profit before tax was RM73.2 million, 85% increase from RM39.4 million previously. Profit before tax decreased to RM130.3 million from RM190.0 million as a significant proportion of operating profits in 2004 was derived from the disposal of investments.

> gearing towards expansion >

CHAIRMAN'S statement

On the corporate front, the acquisition of Duopharma Biotech Berhad (Duopharma) has propelled CCM a step closer towards achieving its vision to be the flagship pharmaceutical company in Malaysia. By acquiring Duopharma, a company listed on the Main Board of Bursa Malaysia Securities Berhad, we have positioned CCM on a stronger footing to expand and consolidate our presence in the growing Malaysian pharmaceutical industry and deliver long-term shareholder value.

Even as we steadfastly pursue our business objectives, we have not lost sight of our responsibility as a corporate citizen. CCM's ultimate social objective is to inspire life, the theme adopted for this year's report. Through our activities, we provide quality products and services at affordable prices and in doing so, we touch the lives of millions in Malaysia and beyond. That is how CCM is making the difference, providing the spark to inspire life in a myriad of ways.

INDUSTRY OVERVIEW

Throughout 2005, CCM continued to operate in a challenging business environment. The Malaysian economy had to contend with greater external challenges, particularly a moderation in global growth and an unprecedented rise in oil prices. Notwithstanding these developments, the Malaysian economy remained resilient, buoyed by strong underlying domestic fundamentals. As a result, the gross domestic product (GDP) is forecast to grow by 6.0% for the year under review. (Source: Bank Negara Report 2005). As a net importer of raw materials, CCM was also able to benefit from the Government's decision to remove the seven-year Ringgit peg against the US Dollar.

Against the backdrop of a sustained economic expansion, CCM's core pharmaceuticals, fertilizers and chemicals businesses all registered growth in excess of 11%. The commendable performance was achieved despite major challenges posed by soaring oil prices, increases in the cost of raw materials and intensifying competition.

The healthcare industry in Malaysia is currently valued at around RM2 billion, and continues to grow steadily between 6 and 8% annually. The demand for pharmaceuticals and other healthcare products are expected to rise in tandem with sustained economic growth and as Malaysians become more knowledgeable and health-conscious. As the fertilizer market in Malaysia has already reached maturity, annual growth rate has moderated to around 3% per annum. For much of 2005, CCM's chemical business was subject to cyclical movements in world chemical prices, but this was offset by higher prices in caustic soda and increased export sales.

FINANCIAL PERFORMANCE

CCM achieved considerable success with a 17% improvement in turnover of RM814.2 million as compared to 2004. Business profit before tax rose to RM73.2 million with an 85% increase while total profit witness a drop from RM190.0 million to RM130.3 million as a significant proportion of operating profits in 2004 was derived from the disposal of investments. Next year will see Duopharma's full year financial results consolidated into the CCM Group.

> raised above the capacity of our current success >

DIVIDEND

CCM has a long-standing record of rewarding its loyal shareholders. For the year under review, a gross interim dividend of 6 sen per share (tax exempt) was declared and paid on 23 September 2005. The Board of Directors is pleased to recommend a gross final dividend of 9 sen per share (less 28% tax) and a special tax exempt dividend of 5 sen per share, which will result in a total dividend of 20 sen per share for the year ended 31 December 2005.

CORPORATE DEVELOPMENTS

For the year under review, two major corporate developments took place in CCM. The first development was CCM becoming a subsidiary of Permodalan Nasional Berhad (PNB). PNB initially owned 30.45% of CCM and increased its stake to 52.81% in January 2005. Thereafter, PNB exercised a mandatory offer for the remaining CCM shares and by April 2005, PNB owns 62.55% equity interest in CCM. We are glad to note that being a subsidiary of PNB has given us synergistic benefits in doing business with the other members in PNB Group of Companies.

The next important corporate development during the year was the completion of the exercise to acquire Duopharma Biotech Bhd (Duopharma), a leading manufacturer of niche pharmaceutical products such as small volume injectables (SVI). Acquiring Duopharma was a strategic move on the part of CCM to expand and consolidate its position in the Malaysian pharmaceutical industry.

CCM is already the biggest manufacturer of generic pharmaceutical products in the country. The acquisition of Duopharma has positioned CCM in the lucrative SVI market in a short period of time since it is estimated that it would take at least 5 years to set up a plant and bring it to production.

We will also be able to leverage Duopharma's expertise in other specialised and ethical products, besides expanding our distribution network to the government sector, and tapping into new markets and its considerable customer base. Duopharma's export markets include countries not only in the Asian region but also in the Middle East and Africa. Moreover, CCM will benefit from greater economies of scale as well as operating synergies in the key areas of manufacturing, production capacity, research and development (R&D) initiatives and distribution channel. From the financial perspective, we have acquired a profitable enterprise with an impressive record of revenue growth for the past five years.

With the acquisition exercise now behind us, a new organisation structure is now in place and the process of merging Duopharma into the CCM Group is progressing smoothly. In this period of transition, I am pleased to note that all those affected have embraced change in a very positive manner.

SUSTAINING THE MOMENTUM

The CCM Group is going through an exciting time as we begin the new expansionary phase. We have every reason to be optimistic about the future. Building on its many strengths, the CCM Group is on the right track to realise the vision we have set out to achieve. In this regard, we need look no further than the quality of our balance sheet, which provides a strong foundation to continue growing our businesses. The Group's gearing is kept at a comfortable level, well within our means to manage. We also have sufficient resources for working capital, pay future dividends and to finance any future business expansion plans or strategic acquisitions.

In moving forward, all three divisions have mapped out cogent strategies to meet the challenges ahead and sustain growth momentum. Our Pharmaceuticals Division has identified various initiatives to expand its healthcare business as part of a long-term plan to transform the division into the Group's biggest revenue earner. These include increasing the present manufacturing capacity, introduction

BY IDENTIFYING KEY INITIATIVES AND LONG TERM GOALS, CCM'S DIVISIONS ARE GEARED FOR GREATER EXPANSION AND EXPLORATION OF NEW OPPORTUNITIES.

of new products and exploring acquisition and joint-venture opportunities. Several new ethical and over-the-counter (OTC) products are already in the pipeline and will be launched in the coming year. Marketing efforts will also intensify, and the focus will be on targeted customers, notably institutional sales and private hospitals. As stated in last year's report, we are increasingly looking towards the export market as a key growth driver.

In the fertilizer business, CCM's Fertilizers Division will build on its strategic partnerships with major customers in Malaysia and the region to consolidate its position as the preferred fertilizer supplier. At the same time, it will embark on more market-focused activities to lock in customers and secure brand loyalty over the long term.

CCM Chemicals Division's multi-pronged strategies to grow its chlor-alkali, trading and watercare businesses will focus on increasing export sales, expanding its product portfolio and moving further up the value chain. The division will also step up activities to further its vision to be a key player in the ASEAN chemical business. To this end, it has already set up three regional offices in Indonesia, Singapore and Vietnam. Two other offices, in Thailand and the Philippines, are targeted to begin operations in the near future.

CCM remains committed to the objective of increasing shareholder value in the long-term. In this regard, we realise that organic growth alone may not be sufficient to sustain our momentum in the years ahead. Thus, when the right opportunities come our way, we will continue to invest in promising, high-growth areas synergistic to our existing businesses.

A POSITIVE OUTLOOK

The coming financial year is already shaping up to be a promising one. Although domestic and external challenges continue to cast their shadow, the Malaysian economy is sufficiently resilient to achieve a projected GDP growth of 6% for 2006. All key economic sectors that have a bearing on CCM's businesses are projected to record positive growth. Consequently, the newly announced 9th Malaysian Plan will also benefit CCM. The emphasis on the agricultural and healthcare sector in the 9th Malaysian Plan would provide more business opportunities for the Group too.

The following financial year will see Duopharma's full-year financial results incorporated into the CCM Group. Given Duopharma's excellent financial track record, we are confident that our earnings base would be further enhanced. The recent award of contracts to Duopharma to supply SLN 30 and SLN 40 drugs for the treatment of HIV/AIDS and participation in the supply of Methadone for the Ministry of Health's (MOH) pilot project towards drug rehabilitation are further indications of a promising year ahead.

We are also encouraged by the results achieved todate of our internationalisation efforts. Already a player to be reckoned with in regional markets, CCM is looking further afield towards new markets such as the Middle East and China.

It is a strategy that is proving lucrative, with 20% of 2005 turnover generated by overseas sales. This figure is expected to rise in the coming years.

DIRECTORSHIPS

During the year, Mr. Lai Chee Leong and Mr. Tan Peng Hock resigned from the company on 11 April 2005. Ms. Eva Hui Yin Fun, the alternate director to Tan Sri Dato' David Chiu resigned on 16 August 2005 and En. Paisol Ahmad ceased directorship on 3 April 2006. On behalf of the Board of Directors, I wish to record our sincere appreciation to them for their services to the company.

I would also like to welcome Mr. Tang Seng Mun the alternate director to Tan Sri Dato' David Chiu, Pn. Jamiah binti Abdul Hamid and En. Abdul Rahim bin Abdul Hamid to the Board.

APPRECIATION

A great deal of hard work has come to fruition in the past year, and this was attributed to the hard work, commitment and professionalism of CCM's management and staff. In what was a year of transition and significant challenges, I fully appreciate the great team we have onboard.

Our success todate is also attributed to the help and cooperation of several quarters. These would include the various government agencies, our contractors, suppliers, principals and business partners. Special mention must be made of our customers and shareholders, with whom we have developed a special relationship over the years. Last but not least, I would like to express my appreciation to my fellow members on the Board.

I thank all of you.

Thank you.

TAN SRI AB. RAHMAN BIN OMAR
Chairman

Inspiring Bonds

Life is made of relationships.

It can be complex or simple.

The key for us is to find a balance.

From our customers to our shareholders.

OPERATIONS review

Chemicals Division

CCM's extensive range of products has made it a market leader in the chemical industry.

Fertilizers Division

The boost for market demand for fertilizers is indicative of the stable growth that not only marks our positioning in this industry but also as a solutions provider for our customers.

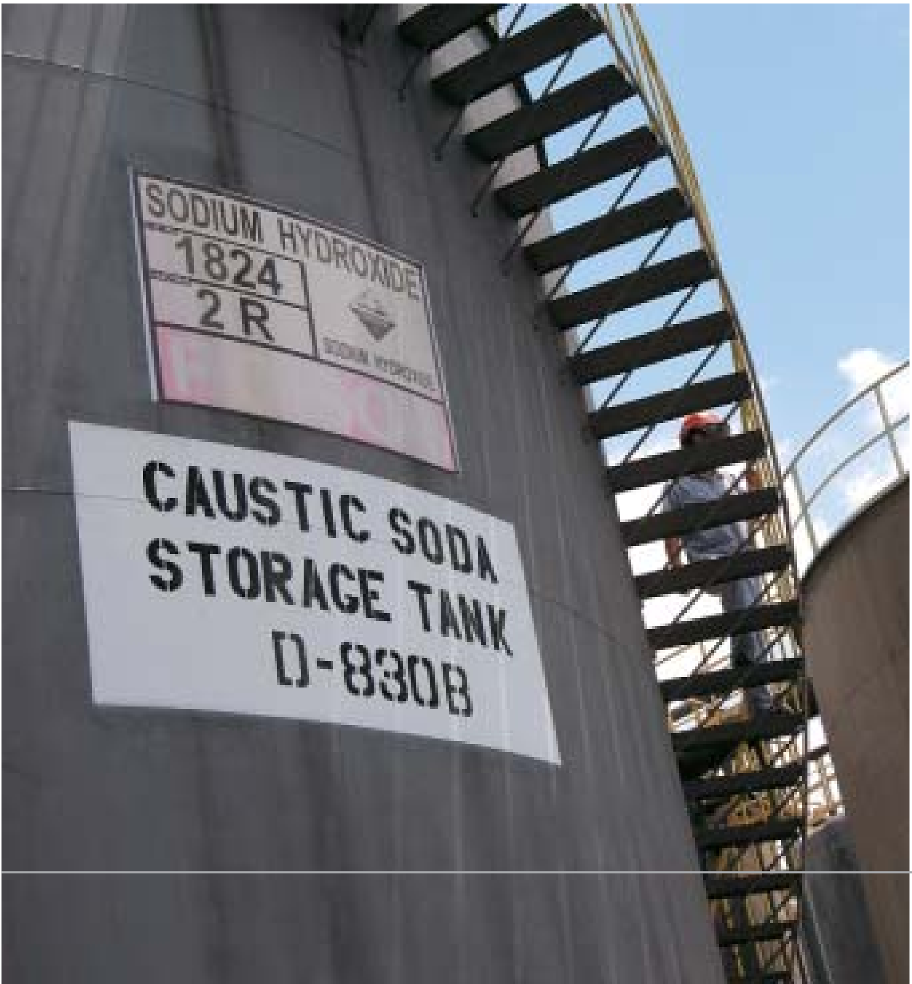
Pharmaceuticals Division

This division will be our Group's biggest revenue channel in the near future. From investing in various pharmaceutical businesses, to overseeing the total strategic production and development of our products, we take on a new corporate direction through the expansion of our leading business.

CHEMICALS
DIVISION

IN THE CHEMICALS INDUSTRY, OUR DIVISION IS THE NATION'S LEADING MANUFACTURER OF CHLOR-ALKALI AND A MAJOR TRADING HOUSE. WE ALSO INSPIRE TO BE THE LEADING TOTAL SOLUTIONS PROVIDER IN THE WATER INDUSTRY.

> leading total solutions for future demands >



Despite significant domestic and external challenges, 2005 was a banner year for CCM's Chemicals (CCMC) Division. CCMC achieved a profit before tax of RM27 million, on the back of a record turnover of RM318 million, an increase of 21% from the previous year.

CCMC has three main business activities: it is a leading manufacturer of chlor alkali, coagulants and calcium nitrate in Malaysia and also a major trading house, representing many renowned principals. CCMC is also aspiring to be a leading total solutions provider in the water industry.

CCMC operates in a challenging business environment. The year under review saw energy and raw materials costs rising to unprecedented levels. With the impact of the AFTA regime in 2005, CCMC has had to contend with low-cost producers in the region and beyond selling their products in the Malaysian market without any tariff barriers. Other challenges included the growing trend of its existing customers relocating to lower-cost producing countries within the ASEAN region. In the trading area, several major merger/acquisition exercises involving the principals have affected CCMC's role as an agent cum distributor.

CCMC continues to achieve remarkable customer loyalty in the industry through excellence in product quality, reliability, technical support service and competitive pricing.

...growing from strength to strength

Structuring our business to provide greater focus and flexibility.

In the face of these challenges, CCMC has initiated various strategies:

- Cost reduction measures have been introduced cutting across all areas in an effort to improve cost efficiency
- Fully utilising plant asset to ensure cost competitiveness as a counter measure against higher energy and raw material costs
- Setting up offices in low-cost producing countries, following the cue of customers
- Continue to grow the agencies line
- Aggressively pursue CCM's own branding formulations to achieve product differentiation and identity
- Position ourselves more effectively in terms of cost, product and service excellence to better manage the competition
- Move higher up the supply value chain, notably in the market for higher value chlorine derivatives
- Increase sourcing from lower cost suppliers of raw materials
- Diversification to specialty-based chemicals

The year under review saw CCMC continue to forge ahead in its vision to be an ASEAN chemical company in line with its regionalisation plan crafted in 2003. In just two years, the regional expansion strategy has begun to bear fruit with our overseas operations in Singapore and Indonesia achieving record turnover in 2005. CCMC has a third regional sales office located in Vietnam. Exports and non-Malaysian sales have also grown exponentially by around 55% over this period and now constitutes some 23% of the division's annual turnover. CCMC's target is to increase this figure to about 40% of total turnover in the not too distant future. Under the next phase of its regionalisation plan, CCMC will establish a new office in Thailand in 2006, followed by the Philippines by the year 2007/2008.

In what was a very busy and eventful year, CCMC was also successful in securing a number of new principals, adding at least three renowned principals in the business to our existing stable. Several new products were launched in 2005: which includes sodium hypophosphite, silica, triadine, zinc omadine, specialised acrylic and PU resins. The division was also successful in penetrating new markets, establishing a presence over a wide geographical spread covering a diversity of countries that include Vietnam, Bangladesh, Korea, New Zealand, Australia, Hong Kong and Japan.

FERTILIZERS DIVISION

BY LISTENING TO OUR CLIENTS, WE ARE ABLE TO PROVIDE THEM WITH A CHOICE OF PRODUCTS TO SUIT THEIR NEEDS.

> staying ahead by capitalizing on our inherent strengths >

As a result of focused market initiatives and operational excellence, the year under review was an outstanding one for CCM's Fertilizers (CCMF) Division. Profit before tax was posted at an all time high of RM30 million, which was achieved on a record annual turnover of RM397 million.

Market demand for fertilizers is determined largely by domestic and international commodity prices. As oil palm is the dominant plantation crop in Malaysia, international crude oil prices (CPO) have a major influence on fertilizer off-take. Through most of 2005, CPO prices have remained stable averaging between RM1300 and RM1400 per metric ton. The total market size for all types of fertilizers is estimated to be in excess of 3 million tons per annum, of which about 30% constitutes compound fertilizers.

During the year in review, competition within the domestic industry has stiffened with the emergence of a new manufacturer of compound fertilizers. Elsewhere within the region, another compound NPK plant located in Sumatra began production. The increasing cost of raw materials especially ammonia and Muriate of Potash (MOP), and the unprecedented hike in oil prices that has pushed up transportation and logistic costs are other major challenges to the industry.

The Group has been able to meet these challenges by capitalizing on its inherent strengths:

- CCMF's compound fertilizer plant at Padang Jawa, Shah Alam, is the only plant in Malaysia that is capable of producing the unique potassium nitrate compound fertilizer necessary for healthy plant growth. It has the flexibility to produce a wide range of formulations suited for all crop types and ages. The product is also pH neutral, which makes it suitable not only for Malaysian acidic soils but also alkaline soil conditions in export markets.
- CCMF has positioned itself not just to sell fertilizers, but as a provider of solutions to its customers. Its sales personnel are technically competent and trained to address the specific needs of customers.
- A customer-oriented strategy is also a key factor for staying ahead. Customer-focused marketing programmes such as the setting up of the Golden Growers Club and the publication of the Agrinfo magazine have gone a long way towards helping customers improve agronomic practices and thus retain brand loyalty.

...how we innovate our products

We target to be the one-stop crop nutrient provider in the region by introducing new product range.

Operationally, the major highlights of the year included the launch of Gromax, a foliar fertilizer that is a combination of humic acid and highly soluble plant nutrients. CCMF was also successful in penetrating and gaining a foothold in the direct application market in Sumatra. To cater for an expected expansion in demand from the region, the Group has established warehousing facilities at strategic major ports in Indonesia.

CCM's leadership position in the compound fertilizer market is attributed in part to the significant resources we have invested in research and development (R&D). Among the more significant recent breakthroughs include the development of a new NPK compound fertilizer called MPOB F2, jointly undertaken with the Malaysian Palm Oil Board (MPOB). Another product is the 'Loong Choong Pau' red and green formulations developed for the vegetable market. The product contains highly soluble phosphates for quick uptake by plants, while its low chlorine content will enhance vegetable growth. CCMF was also involved in the highly successful 'big-hole planting' technique as a method of moisture conservation. The technique has been adopted by our key customers as a standard agronomic practice, with very favourable results.

PHARMACEUTICALS DIVISION

CCM HAS IDENTIFIED ITS PHARMACEUTICALS DIVISION AS A KEY COMPONENT OF ITS FUTURE GROWTH.

> to explore and tap new opportunity >

The past year saw CCM taking on a new corporate direction. Through past reports and announcements, we have set our sights to grow our pharmaceuticals business, turning it into the Group's biggest revenue channel. Our ultimate vision is not only to become the leading pharmaceutical company in Malaysia but also a significant regional player. Recognising that organic growth may not be enough to realise this ambition, CCM has been on the lookout for quality investments in the pharmaceutical business synergistic to our own operations. Such an opportunity came our way in 2005, leading to the acquisition of Duopharma Biotech Bhd, a company that is principally involved in the manufacture, distribution, import and export of pharmaceutical products and medicines. CCM now has five companies involved in the pharmaceuticals business, the others being CCM Pharma Sdn Bhd, Prima Health Pharmacy (Retail) Sdn Bhd, UPHA Pharmaceutical Mfg (M) Sdn Bhd and CCM Pharmaceuticals Sdn Bhd (formerly known as UPHA Corpn (M) Sdn Bhd).

CCM PHARMACEUTICALS

During the year under review ended 31 December 2005, CCM Pharmaceuticals continued to register healthy growth and this was reflected in its financial performance. Turnover for the year under review was recorded at RM78.2 million, an increase of 9% from the previous year. Profit before tax was a record RM12.5 million, up 18% from 2004. This performance was achieved despite challenges posed by keen competition, and increasing energy and raw material costs. However, this was mitigated by the inroads the division has made in the export markets. Export sales accounted for 12% of the division's bottomline in 2005.

As reported last year, CCM Pharmaceuticals manufacturing facilities located at Bangi, Petaling Jaya and Subang Jaya are near capacity. Expansion works are currently underway at the Bangi plant to increase capacity and will be completed by 2007. The Bangi plant specialises in producing oral solid dosage products, while the Petaling Jaya and Subang Jaya plants concentrate on complex products and cephalosporin respectively.

...products innovation

We focus on delivering new product developments that are aligned with consumer needs.

All of CCM's manufacturing facilities comply with the most stringent quality assurance specifications conforming to national and international pharmaceutical standards set by the National Pharmaceutical Control Bureau, Ministry of Health (MoH) Malaysia, World Health Organisation and the Pharmaceutical Inspection Cooperation Scheme. By adhering to these internationally recognised standards of quality assurance, our products find ready acceptance in the international markets.

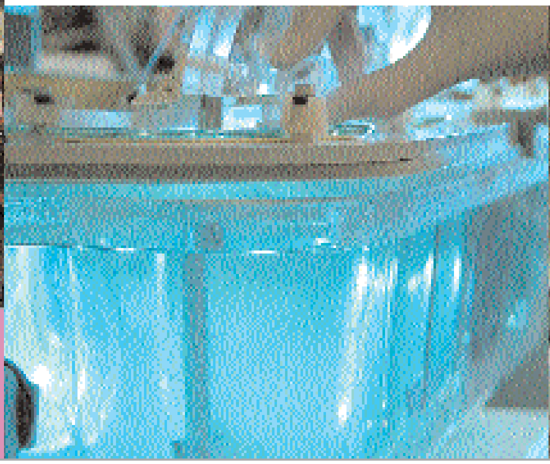
Several new products were launched in 2005, including ***Perinace, Efurox, Allavin Plus*** and ***Promedyl DM.*** Efforts to expand our export market base have also paid off, and during the year, we were successful in penetrating new markets, namely Vietnam, the Philippines and several Muslim countries. In stride with our marketing efforts, we have also increased our dealer networks.

The retail business of the pharmaceuticals division is currently undergoing consolidation. The proposed sale of this division did not materialize in 2005.

DUOPHARMA BIOTECH BERHAD

Under CCM's new structure, Duopharma's principal activities continue to be the manufacturing, distribution, import and export of pharmaceutical products and medicines. Duopharma's pharmaceutical facilities located in Klang and its manufacturing process are certified to the 'current Good Manufacturing Practice' (cGMP) endorsed by the National Pharmaceutical Control Bureau, (NPCB), Ministry of Health (MOH) Malaysia. They also conform to the exacting standards of the World Health Organisation (WHO).

The Duopharma Group currently manufactures over 380 items approved by the MoH. The range of products are primarily classified as sterile products (injectables and irrigation solution) and non-sterile products (capsules, tablets, syrups, creams, ointments and haemodialysis liquid). Duopharma has established a niche market in specialised and ethical products where there are relatively few reputable players in the local market. The acquisition of Duopharma therefore presented a unique opportunity for CCM to jumpstart its entry into the premium pharmaceutical products market such as small volume injectables (SVI). As the pharmaceutical industry is well regulated, it is estimated that it would take a minimum of five years lead-time to set up a SVI plant to production.



To improve its competitive edge, the Group continued to place emphasis on product innovation with several new products launched in 2005. Going by their brand names, they included Cool Melon (herbal lozenges), Proactive (energy booster) and Tempol (pain relief).

Operationally, one of the most significant developments of the year was a RM9.5 million contract awarded by the MOH to Duopharma to supply drugs for HIV/AIDS patients to all government hospitals in Malaysia for two years. Duopharma is the only company in Malaysia permitted by the patent holder, GlaxoSmithKline, to produce the SLN 30 and SLN 40 tablets, a 3-in-1 fixed dose combination anti-retroviral product. The supply of these drugs will commence from 2006. Duopharma is also actively involved in the pilot project of the MOH for the supply of Methadone for its drug rehabilitation programme.

With Duopharma now part of our corporate stable, CCM and its pharmaceutical subsidiaries can reap significant economies of scale and operating synergies in the key areas of manufacturing, production capacity, R&D and distribution channels. Both CCM and Duopharma complement one another in many aspects. In R&D, for example, Duopharma's strength is in niche pharmaceutical products while CCM Pharmaceutical's strength lies in over-the-counter (OTC) and ethical pharmaceutical products. In terms of distribution channels, Duopharma has a strong distribution network in the government sector, whereas CCM Pharmaceuticals' strength is in the private sector. By fully exploiting and leveraging on these synergistic benefits, CCM's Pharmaceuticals Division will be on course to capture a larger slice of the market.