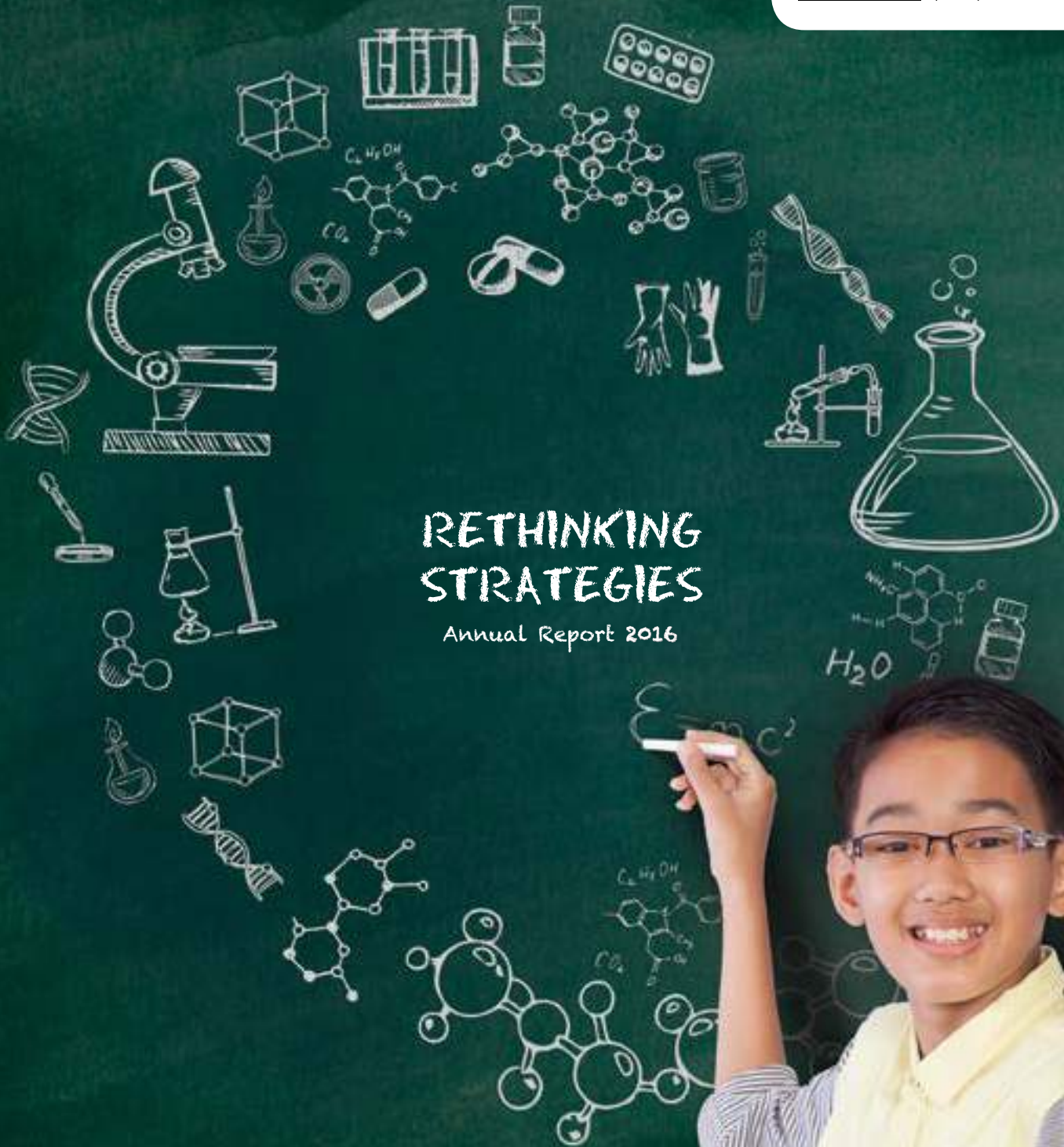




CHEMICAL COMPANY
OF MALAYSIA BERHAD
(5136-T)



RETHINKING STRATEGIES

Annual Report 2016



NEGARAKU

RETHINKING STRATEGIES

Our more than 50 years of experience has enabled us to always think ahead at identifying and anticipating market shifts, adapting our strategy to keep pace with rapid industry changes. Guided by our vision of 'Enhancing Quality of Life', we continually strategise in building for the future, focused on improving efficiency and sustainable innovation towards excellence as the core driver of our competitive advantage.



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OUR VISION

Enhancing Quality of Life

OUR MISSION

To be a responsible company committed to enhancing quality of life by providing sustainable solutions based on innovative sciences



With appreciation and thanks to SK Kg. Johan Setia, our CCM PINTAR Alumni School, for providing their premise and students as talents in the images used in our Annual Report.







WINNING FORMULA

We continue to grow and evolve by generating lasting value — building competitive advantage from operational efficiency initiatives to sustaining growth for the future across our Pharmaceuticals, Chemicals and Polymers businesses.



CORE VALUES

Passion

We inspire and energise everyone to be the best

Excellence

We consistently deliver outstanding performance through innovative solutions

Respect

We value differences and sincere intentions as the basis for achieving shared aspirations



Teamwork

We succeed together because we work as one

Responsible

We honour the trust given to us by being accountable for our actions

Integrity

We conduct ourselves with pride in being honest and ethical

FINANCIAL CALENDAR

Financial year end	31 December 2016
Annual General Meeting	24 May 2017

ANNOUNCEMENT OF 2016 QUARTERLY RESULTS

1 st Quarter	23 May 2016
2 nd Quarter	26 August 2016
3 rd Quarter	25 November 2016
4 th Quarter	27 February 2017

FINANCIAL REVIEW

TURNOVER AND PROFITABILITY

(RM'mil)	Turnover		Profit/(Loss) before tax	
	2016	2015	2016	2015
Pharmaceuticals	312.9	334.8	31.5	46.1
Chemicals	214.7	213.9	18.0	6.6
Polymers	81.2	80.8	17.7	25.2
Fertilizers (discontinued)	145.9	367.5	(102.8)	(96.1)
Intersegment eliminations and others	0.5	0.8	(33.6)	(24.9)
Group	755.2	997.8	(69.2)	(43.1)

LIQUIDITY

(RM'mil)	2016	2015
Net cash from operating activities	64.3	14.2
Net cash from/(used in) investing activities	14.3	(60.2)
Net cash (used in)/from financing activities	(111.2)	142.5
Exchange difference on translation of the financial statements of foreign operations	8.2	8.0
Net (decrease)/increase in cash and cash equivalents	(24.4)	104.5
Cash and cash equivalents at 1 January	312.7	208.2
Cash and cash equivalents at 31 December	288.3	312.7

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION AS AT 31 DECEMBER

(RM'mil)	2016	2015
Total non-current assets	1,000.9	804.0
Total current assets	684.4	932.9
Total assets	1,685.3	1,736.9
Financed by :		
Share Capital	457.6	457.6
Reserves	183.6	29.0
Retained earnings	98.4	184.8
Equity attributable to owners of the Company	739.6	671.4
Non-controlling interests	152.2	178.6
Total equity	891.8	850.0
Total non-current liabilities	565.7	473.7
Total current liabilities	227.8	413.2
Total liabilities	793.5	886.9
Total equity and liabilities	1,685.3	1,736.9

PROFIT OR LOSS FOR THE FINANCIAL YEAR

(RM'mil)	2016	2015
Continuing Operations:		
Revenue	609.3	630.3
Profit before tax	33.6	53.0
Tax expense	(14.6)	(24.4)
Profit from continuing operations	19.0	28.6
Discontinued Operations:		
Loss from discontinued operations, net of tax	(102.8)	(101.9)
Loss for the year	(83.8)	(73.3)
Loss attributable to:		
Owners of the Company	(63.6)	(62.5)
Non-controlling interests	(20.2)	(10.8)
Loss for the year	(83.8)	(73.3)

GROUP FINANCIAL RATIOS

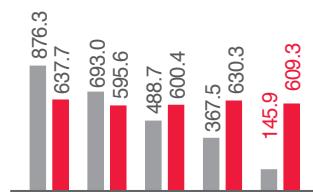
	2016	2015
Profitability (%)		
Turnover growth rate of continuing operations	(3.33)	4.98
Profit from continuing operation as a % of turnover	3.12	4.54
Continuing operation return on equity	2.13	3.37

Liquidity		
Current Ratio (x)	3.00	2.26
Acid test ratio (x)	2.17	1.75

	2016	2015
Market Ratios		
Net Assets per share (RM)	1.63	1.48
Earning per share (sen)		
- from continuing operation	2.05	4.35
- from discontinued operation	(16.04)	(18.09)
Total Dividend per share (sen)	5.00	2.50

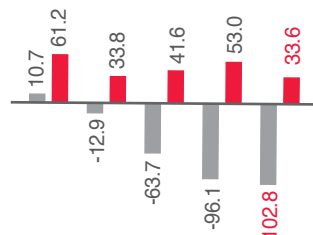
Productivity		
Turnover per employee (RM'000)	472	578
Total Assets per employee (RM'000)	1,053	1,006
Number of employees	1,601	1,726

TURNOVER (RM'mil)



2012 2013 2014 2015 2016
■ Discontinued ■ Continuing

PROFIT BEFORE TAX (RM'mil)



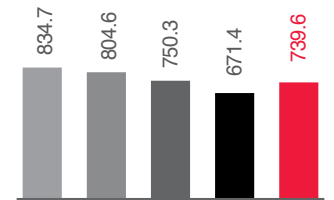
2012 2013 2014 2015 2016
■ Discontinued ■ Continuing

BASIC EARNINGS PER SHARE (Sen)



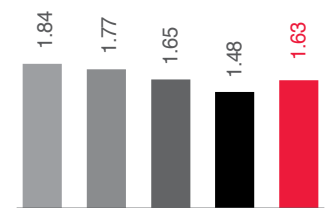
2012 2013 2014 2015 2016
■ Discontinued ■ Continuing

EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (RM'mil)



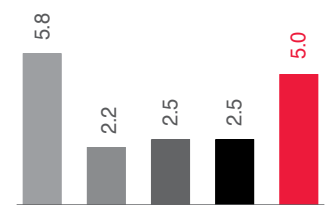
2012 2013 2014 2015 2016

NET ASSETS PER SHARE (RM)



2012 2013 2014 2015 2016

DIVIDEND PER SHARE (Sen)



2012 2013 2014 2015 2016

CHAIRMAN'S STATEMENT



DATO' HAJAH NORMALA BINTI ABDUL SAMAD

Non-Independent Non-Executive Chairman

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present to you the Chemical Company of Malaysia Berhad ("CCM") annual report for the financial year ended 31 December 2016 ("FY2016").

John. F. Kennedy once said, "For time and the world do not stand still. Change is the law of life." Indeed, through the years, our organisation has grown in leaps and bounds to keep up with the changing times. As a matter of fact, CCM's business transformation in Malaysia mimics the development of our country. We started the Fertilizers business during the Agriculture era in the 1960s and progressed into the Chemicals business during the Industrialisation era in the 1980s and now, have a solid presence in the Pharmaceuticals and Polymers businesses which are in line with the Innovation and Sustainability era of the nation.

While it was a difficult decision to exit the Fertilizers business, we are certain that we have made the right choice for the Group. Moving forward, our Polymers business will stand on its own instead of being part of the Chemicals business. Effectively, we will still have three major businesses, i.e. Pharmaceuticals, Chemicals and Polymers. These three businesses have strong footings in Malaysia and in the region. We will remain steadfast to strengthen our strategic initiatives and use our working capital efficiently to boost our business.

As for our performance for FY2016, CCM recorded a revenue of RM609.3 million from our core businesses, 3.3 percent lower from RM630.3 million recorded in the corresponding period in 2015 while continuing to consolidate our core businesses following the exit from the fertilizers business.

The Group's profit before tax from its core businesses for the financial year under review, fell 36.6 percent to RM33.6 million from RM53.0 million. An in-depth analysis of CCM's results and business review is presented in the Group Managing Director's Management Discussion and Analysis which can be found in pages 12 to 19 of this annual report.

DIVIDEND

The Group continued its commitment to pay dividends albeit registering financial losses for the year. In 2016, the Group declared and paid two single tier interim dividends (paid on 3 June 2016 and 18 November 2016). Total dividend payout for 2016 was 5.0 sen (2015: 5.0 sen) per share, all totalling RM22.74 million.

ACKNOWLEDGEMENT

The year 2016 saw its fair share of ups and downs but we are positive that all our stumbling blocks will serve as stepping stones for success in the coming years. We believe that we are where we are today because of the unending support from our stakeholders, employees, shareholders and customers. On behalf of the Board, I wish to extend our appreciation to our staff for their continuous dedication, perseverance, commitment and contributions to the Group.

We recently welcomed Datuk Nik Moustpha bin Haji Nik Hassan to join the CCM Board. We look forward to his contributions to the sustainable growth of the Group. At the same time, our subsidiary, CCM Duopharma Biotech Berhad ("CCMD") saw the retirement of Tan Sri Dato' Dr. Abu Bakar bin Suleiman and Tan Sri Dato' Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam followed with the resignations of Datuk Alias bin Ali and Dato' Haji Ghazali bin Awang in 2016. In February 2017, Dr Byung-Geon Rhee also resigned from the Board. We thank them for their services and wise counsel.

We have made changes to our CCMD Board of Directors as part of our planning for the next stage of growth. We welcome Razalee bin Amin, Puan Sri Datuk Rohani Parkash binti Abdullah, Zaiton binti Jamaluddin and Dato' Eisah binti A. Rahman as new Board members of CCMD. We have also appointed Tan Sri Siti Sa'diah binti Sh. Bakir, Dato' Azmi bin Mohd Ali and myself to sit on the CCMD Board. We believe the strong line up of Board members and senior management will steer the Group to newer heights.

With that, I thank you very much for your support and I look forward to your continuous support for the coming year.

DATO' HAJAH NORMALA BINTI ABDUL SAMAD

Chairman

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS



LEONARD ARIFF BIN ABDUL SHATAR
Group Managing Director

Dear Shareholders,

Many say the year 2016 will go down in history as one most remembered by all. With the US elections and Brexit, it was a year of economic uncertainty, both globally and in Malaysia.

For your Company, one of our notable decisions throughout the year was our exit and divestment of our Fertilizers business that has had a short-term negative impact on our financial performance. However, we are confident that this decision will enable your Company to move forward and focus our efforts on our remaining businesses. From this year onwards, the Polymers business will be reported as a business segment on its own, in addition to the Pharmaceuticals and Chemicals business segments.

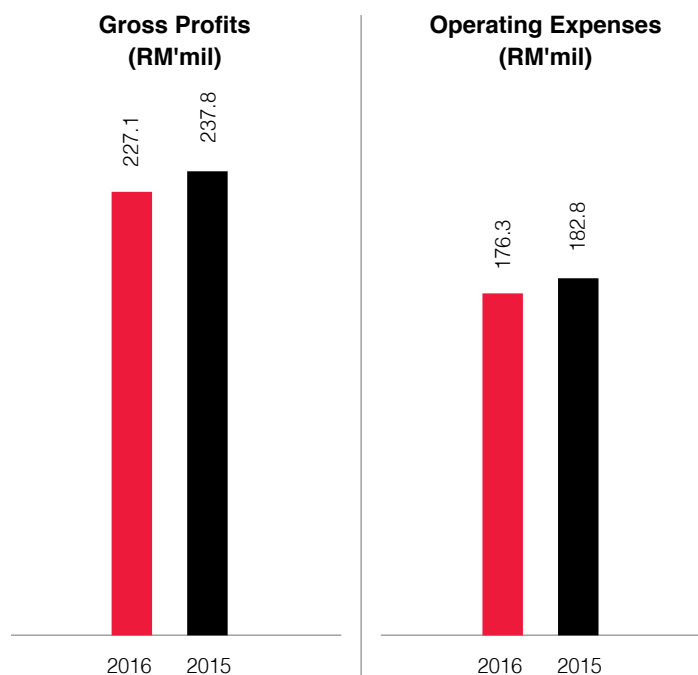
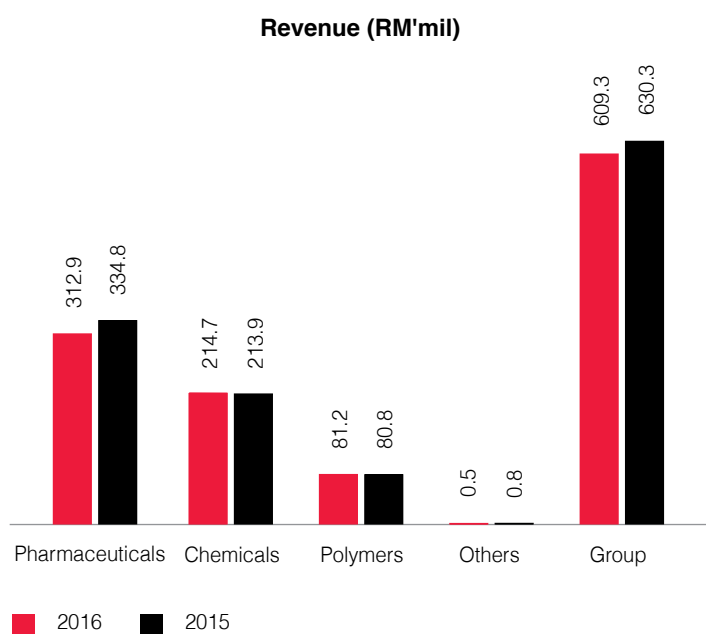
FINANCIAL HIGHLIGHTS

Overall for financial year 2016, CCM Group posted a net loss of RM83.8 million, primarily driven from another year of losses from our Discontinued Operations; and lower profit contributions from our core businesses.

The data below depicts our key financial results as compared to financial year 2015:

In RM'mil	FY 2016	FY 2015	Variance
Continuing Operations			
Revenue	609.3	630.3	- 3.3%
Profits from operations	55.1	68.1	- 19.0%
Profit before tax	33.6	53.0	- 36.6%
Profit after tax	19.0	28.6	- 33.6%
Discontinued Operations			
Loss from discontinued operations	(102.9)	(101.9)	1.0%
Loss for the year	(83.8)	(73.3)	14.3%

Continuing Operations



From its continuing businesses, CCM Group registered a decline in revenue of 3.3 percent to RM609.3 million, and its gross profit decreased by 4.5 percent to RM227.1 million; when compared to the financial year 2015. Key drivers to this performance were the decline in demand from its Pharmaceuticals business due to change in sales mix between government and private sectors, and margin compression from both its Pharmaceuticals and Polymers businesses, on the back of increased production costs due to the weakened Ringgit against other major currencies. The causes of the decline are not seen as systemic as we still believe the businesses are robust and will recover.

However, despite inflationary pressure, the Group's operating expenses from its core businesses were 3.6 percent lower when compared to 2015. This was largely attributed to the Group's continuous efforts in driving further efficiencies in its expenditures and overhead costs.

Other income fell to RM4.3 million from RM13.1 million in 2015. Included in the other income for 2015 was the recognition of fair value gains on our investment properties of RM5.8 million. With the slowdown in property market, the market value of our investment properties remained stagnant in 2016, and thus no fair value gains were recognised during the year.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Accordingly, the profits from operations for 2016 dipped by 19.0 percent to RM55.1 million from RM68.1 million in the corresponding year 2015.

Discontinued Operations

The Fertilizers business recorded a net loss of RM102.9 million in the financial year 2016. Apart from operational losses, we have also taken a more prudent position on inventories balance whereby further impairment was made in the year totaling to RM29.4 million.

We have completed the divestment of our subsidiaries in East Malaysia, together with two parcels of land in Bintulu and certain trademarks to Hextar Fertilizers Group on 15 November 2016, which resulted in a net loss of RM24.5 million recognised during the year.

In the second quarter of 2016, we have also completed the disposal of three parcels of land together with the buildings thereon in Medan, Indonesia with a net gain of RM21.5 million.

With the said divestments, we have now completely exited from the Fertilizers business. Our only active subsidiary now in the Fertilizers segment is CCM Fertilizers Sdn. Bhd., whereby its activity is limited to rehabilitating the factory site and selling of remaining inventories.

Financial Position and Liquidity

The Group remained in a strong financial position as at 31 December 2016 with RM288.3 million in cash and cash equivalents, though a reduction of RM24.4 million from 2015. The net cash outflow for the year 2016 was largely attributed by net repayment of borrowings and planned capital expenditure incurred in 2016. These outflows were partially offset by proceeds received from our divestments of Fertilizers' assets of RM98.9 million during the year.

Total debts as at 31 December 2016 stood at RM621.8 million, a reduction of 12.0 percent as compared to 2015 of RM703.8 million. Net gearing (net debt-to-equity) has improved to 0.37 times from 0.46 times in the year 2015. This reflects our continuous efforts to strengthen our fiscal position, which will give us ample agility to pursue our planned capital expansion and growth strategy going forward.

RISKS MANAGEMENT

A comprehensive explanation of the Group's approach to risk management and the key risks to the Group is reported in the Report of the Risk Management Committee and Statement on Risk Management and Internal Control, in this Report.

SEGMENTAL BUSINESS REVIEW

I am pleased to report the financial and operational highlights for each of our business segments for 2016, in the following sections:

Pharmaceuticals Business

The year under review was a challenging one for our Pharmaceuticals business where it recorded a decline in its revenue by 6.5 percent to RM312.9 million from RM334.8 million for the financial year ended 31 December 2016. Accordingly, the profit before tax ("PBT") declined to RM31.5 million from RM46.1 million reported in the previous financial year due to changes in product mix between Private and Government sales and higher production costs as impacted by a weaker Ringgit.

Although our sales to the Government has declined, sales of our ethical products to the Private Sector yielded a commendable growth of 6.0 percent despite IMS reporting a 1.0 percent growth for the generic market. Our Over-the-Counter sales grew by 2.0 percent with the Private Sector sales growing at 9.0 percent despite a slowdown in consumer spending.

A recent report by QuintilesIMS Institute has forecasted global total spending on medicines will reach an estimate US\$1.5 trillion by 2021, up 33.0 percent from 2016 levels, even as annual growth moderates from the record pace set in 2014 and 2015. At the same time, it was reported that medicine spending will grow at a 4.0 to 7.0 percent compound annual rate during the next five years, down from the nearly 9.0 percent growth level seen in 2014 and 2015. The total global spend for pharmaceuticals through 2021 will increase by US\$367.0 billion on a constant-dollar basis.

In Malaysia, the budget 2017 announced an allocation of RM25.0 billion for the Ministry of Health to boost the quality of healthcare in the country. Among others, RM4.0 billion is allocated for the supply of drugs, consumables, vaccines and reagents to all government hospitals and facilities. All of these paint a positive outlook for the coming years for the pharmaceutical industry.

For us, the prospect for our Pharmaceuticals business remains positive as the Group consolidates its position in the local and regional markets. We will continue rationalizing our business segments with focus on Diabetes, Renal, Oncology and Cardiology care as well as vaccines and also reinforcing our Halal leadership in the country. We have also implemented the Manufacturing Optimisation Strategy which encompasses the rationalisation and upgrading of manufacturing assets in Klang, Bangi and Glenmarie into state-of-the-art facilities with enhanced cGMP (current Good Manufacturing Practice), purpose designed centralised warehouse and distribution hubs targeted for completion in 2018.

For the year under review, we saw PanGen Biotech Inc. (“PanGen”) which we acquired a 13.86 percent interest in year 2014 being listed on the Korea Exchange’s Korean Securities Dealers Automated Quotations (“KOSDAQ”) board under the category of New Growth Engine Companies. Pursuant to the listing on KOSDAQ, our shareholding interest in PanGen diluted to 9.34 percent. This listing did not have material impact on our earnings for this financial year.

Our collaboration with PanGen for the development and manufacturing of Erythropoietin (“EPO”) biosimilar treatment for anaemia and end stage renal failure patients has just completed the Phase III Clinical Trial (both in Malaysia and Korea). The clinical trial was closed in January 2017 and the “code break” was conducted in early February 2017. The results of the code break prove that our EPO (code named: PDA10) has similar efficacy with the reference product. This is CCM’s first step into the biosimilars arena and it will be the first biotherapeutic product to be developed successfully by a Malaysian company and the second Epoetin-Alfa biosimilar to be developed globally. We expect the product to be launched in the Malaysia market upon receiving the marketing authorisation from National Pharmaceutical Regulatory Agency (“NPRA”) (formerly known as National Pharmaceutical Control Bureau (“NPCB”).

We are currently retrofitting our Cephalosporin plant in Glenmarie, Selangor into a High Potency Active Pharmaceutical Ingredients (“HAPI”) plant, the first of its kind in the country to jumpstart our foray in the oncology segment while widening our portfolio of generic cancer therapies in Malaysia and across Asia. The investment for this initiative is RM33.4 million and is expected to be completed by end 2018.

We also inked a technological partnership with Natco Pharma Limited, India to aid us to widen our product portfolio capabilities in offering generic oncology medicines to treat breast cancer, lung cancer, colorectal cancer, cervical cancer and blood cancer. The year also saw us introducing two new ethical products for cancer treatment, *Kytron* and *Letronat*. *Kytron* is an antiemetic used to treat nausea and vomiting due to the side effects of chemotherapy while *Letronat* is an oral non-steroidal aromatase inhibitor for the treatment of hormonally-responsive breast cancer after surgery.

The Group also launched the Lavender Ribbon Campaign to initiate our Cancer Care Franchise in December 2016 with the name, *ACE*, an acronym for *Accessibility, Commitment* and *Excellence*. This initiative entails us to work closely with various cancer-related Non-Governmental Organisations (“NGOs”) in raising awareness for early detection of cancer and counselling assistance to cancer patients and caregivers.

Our Diabetes Care portfolio carries the theme “Working Together Against Diabetes”. We launched the country’s first insulin glargine biosimilar, *Basalog*® which is a long acting (24 hours) peakless human insulin analog in Q4 2016. Our strategic partnership with Biocon Ltd., India for exclusive distribution rights to market, sell and distribute their range of insulin products, *Insugen*® launched in 2014 and *Basalog*® to Malaysia will offer diabetes patients in Malaysia with a more affordable insulin therapy for their disease. In December 2016, the Malaysian Ministry of Health awarded a Letter of Award to our subsidiary, CCM Pharmaceuticals Sdn. Bhd. to supply Human Insulin to all government hospitals and clinics valued at RM300 million over three years until 2019.

On the Over-the-Counter (“OTC”) business, we launched a new product under the *CHAMPS* brand. We offered *CHAMPS* Vitamin C 30mg to cater to the younger age group of 2 to 6 years category which requires a lower dosage consumption. In our continuous bid to create brand awareness of our products, we carried out a livery change to our *Uphamol* and *Dermoplex* range of products. This was done to ensure our packaging is vibrant and will stand out amongst other competitors.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

The year 2016 also saw the Pharmaceuticals business receiving numerous awards for their commitment and perseverance to provide excellent quality products for our consumers. The Pharmaceuticals business received the 'Best Brand in Malaysia' from the International Congress of the Economic Relations' Development in the Health Field with the Focus on Islamic Countries, Pharmaceutical Company of the Year – Generics Market from Frost & Sullivan and Best in Sustainability Reporting (RM500 mil - RM950 mil category) by Focus Malaysia. It was also in the third placing for the Excellence Award for Top Corporate Governance and Performance under the Special Category for Market Cap Between RM300 million to RM1 billion and Merit Award for the Best Annual General Meeting by the Minority Shareholder Watchdog Group ("MSWG") and was also a finalist in the award for "HR Asia Best Companies To Work For In Asia 2016".

We are aware that some of challenges from 2016 will remain in the coming years. These include expanding product portfolios to remain competitive, the weaker Ringgit which results in higher cost of imported raw materials, and also cost of increased cGMP compliance. However, we are confident that our strategy remains robust and that the Manufacturing Optimising Strategy in place will remain as a key lever to push us through the challenges.

Chemicals Business

Strong performance was shown in our Chemicals business, where its PBT rose to RM18.0 million in financial year 2016 from RM6.6 million in 2015. Its revenue for the year grew by only 0.4 percent to RM214.7 million from RM213.9 million in 2015, as the year 2016 saw the full impact of closure of its regional businesses; which contributed RM17.5 million in revenue for year 2015 and also a prolonged shut down at its facility in Pasir Gudang for upgrading and modernisation works.

The year 2016 saw a commendable performance from the Chemicals business on the back of a strong demand from the water industry, concurrently riding on higher average selling prices of its chlor alkali products, coupled with successful operational efficiency initiatives undertaken throughout the business resulting in significant improvement in its margins. We believe the business is now fundamentally strong and will continue to be a key contributor to the Group's overall profitability.

2016 saw the water industry in Malaysia undergoing significant transformation that was in line with the Government's goal to elevate the industry's operational capability towards global standards. The relatively healthy economy coupled with rapid population growth had contributed to an increase in demand for clean water. In tandem with this, demand for high quality water treatment chemicals such as chlorine and polyaluminium chloride ("PAC") manufactured in our plant in Pasir Gudang has been strong. Demand for chlorine from the rubber glove manufacturers also remained robust given the industry's rapid growth in recent times.

The Asia Pacific caustic soda market saw a shortage of supply during the second half of 2016 arising from lower exports from Japan. This has caused strong competition for limited available supply, thus pushing prices up. On the domestic front, the weaker Ringgit has also contributed to higher domestic market prices for caustic soda.

During the year under review, our Chemicals business embarked on a major upgrading and modernisation exercise of our chlor alkali plant in Pasir Gudang. It was successfully completed according to schedule within the allocated budget. The upgraded and modernised plant is equipped with the latest energy-efficient membrane cell technology, four new electrolyzers as well as a new liquefaction plant, was successfully commissioned in December 2016. We are pleased to note that our chlor alkali plant is now operating at a similar or better level of efficiency as compared to other chlor alkali plants in the region.

In line with our growth aspirations, we will continue to be on the lookout for attractive investment opportunities domestically and regionally to complement our existing business portfolio.

On the Safety, Health and Environment ("SHE") front, we are pleased to note that the Chemicals business was awarded a number of industry awards; including three Gold Awards for Product Stewardship Code, Distribution Code and the Pollution Prevention Code and three Silver Awards for the Community Awareness & Emergency Response Code, Employee Health & Safety Code and the Process Safety Code by the Chemical Industries Council of Malaysia ("CICM").

Polymers Business

Our Polymers business performed relatively well, where it recorded a PBT of RM17.7 million in the year 2016, even though this is a reduction of 29.8 percent from the previous year. The revenue remained stable at RM81.2 million from RM80.8 million in the year 2015, despite the contraction of average selling price experienced in the first half of 2016 and challenges with foreign exchange fluctuations. The market has also become highly competitive with the influx of new capacity added into the industry.

World glove demand remained robust as gloves remained a necessity in the healthcare industry as the most basic form of protection against diseases. Malaysia remained the world's number one rubber gloves producing country, supplying 63.0 percent of the global market share.

According to the Malaysian Rubber Glove Manufacturers ("MARGMA"), the growth in global demand for rubber gloves is expected to be maintained at 8.0 percent to 10.0 percent in 2017. This is supported by continuous demand from the ageing population in developed markets such as the US, EU and Japan. Improved healthcare awareness, progressive emphasis on healthcare regulations and increasing resources allocated to the wellbeing of the high population density countries such as India, China and the Middle East are drivers for the rising demand from emerging markets. On a per capita basis, the US and EU still lead at approximately 100 gloves per capita per annum compared with an approximate of 11 gloves per capita in Asia. With a healthy economic growth and increased healthcare awareness from these countries in Asia, it will trigger a strong potential demand for rubber gloves that could further increase the growth above the projected growth rate. Rising pandemic diseases could also potentially create spikes in the demand for rubber gloves.

Due to the resilient global demand for rubber gloves, glove manufacturers have responded by accelerating their capacity expansion as well as improvement in their production efficiency. Contraction of average selling price ("ASP") was experienced mainly in the first half of 2016 due to heightened competition driven by the influx of new capacity added. Higher raw material prices following weakening of the Ringgit and rising production costs remain an issue.

On 22 March 2016, the US Food and Drug Administration ("FDA") published a Federal Register notice proposing to ban powdered surgeons' gloves, powdered patient evaluation gloves and absorbable powder for lubricating surgeons' gloves. The proposed regulation, if finalised, will ban the powdered gloves currently being used in the marketplace, making them adulterated and subject to enforcement action.

Our Polymers business with primary focused on the supply of polymer coating system for the manufacturing of powder-free rubber gloves will benefit from the glove production expansion and higher global glove demand. To keep abreast with the advancement in gloves manufacturing technology and its application performance, we continue to enhance our research and development capability and resources; at the same time, widen our product offering whilst expanding and developing current products.

We are continuously working with our various stakeholders; customers and suppliers included, as well as research centres for the development of high impact products. This gives us the exposure and to gain access to the latest technologies and modern glove application requirements to facilitate our product enhancement initiatives. Furthermore, a Memorandum of Understanding ("MOU") was signed with Monash University of Malaysia in March 2016 for co-development of advanced materials to provide unique performance feature targeted for specialty gloves.

Fertilizers Business

The Fertilizers business posted another year of losses at RM102.9 million, from a net loss of RM101.9 million in 2015. The losses were attributed from its operating activities, impairments made on inventories and receivables, and net losses recorded on disposals of all *Assets held For Sale* during the year. Our Fertilizers business recorded revenue of RM145.9 million during the year 2016, a decrease by 60.3 percent when compared to 2015 of RM367.5 million. Pursuant to the decision to exit the fertilizers business, the subsidiaries focused its operational activities to selling of existing inventories and fulfilling already awarded tender obligations from the plantation companies.

On 15 November 2016, we concluded the divestment of CCM Agriculture (Sabah) Sdn. Bhd. and CCM Agriculture Sdn. Bhd. to Hextar Fertilizers Group Sdn. Bhd. for a total sum of RM40.8 million. The divestment included certain trademarks relating to the Cock's Head brand and the two parcels of land including the buildings thereon in Bintulu, Sarawak. The Group recorded a net loss of RM24.5 million from the said divestment.

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

We also completed the disposal of three parcels of land in Medan, Indonesia together with the building thereon by P.T. CCM Agripharma to P.T. Feedmill Indonesia for IDR121.8 billion on 20 May 2016. We recognised a net gain of RM21.5 million from these disposals.

As for the land in Shah Alam, we have started working on the restoration of the site to an acceptable condition in 2016 and will continue with the dismantling, demolishing and restoration phases which are expected to be completed by 2019.

We would also wish to note that this year would be the last reporting on our Fertilizers business. Any updates henceforth, will be reported as an overall Group operations. We thank you for all your support towards our Fertilizers business throughout the years and we hope to continuously serve you better through our other businesses.

Halal

On the Halal front, we continued our efforts on the national Halal agenda through our active involvement in developing standards for chemical and pharmaceutical products. Among others, the Company participated in various workshops and technical working groups led by Jabatan Kemajuan Islam Malaysia ("JAKIM") and the Halal Industry Development Corporation ("HDC").

CCM has also actively organised seminars, talks and discussions on Halal awareness since 2007. On 21 December 2016, we hosted a Halal symposium entitled 'Malaysia Global Leadership in Halal Pharmaceuticals' for 200 delegates from the pharmacy fraternity. This was held in collaboration with JAKIM, HDC, Standards Malaysia, Ministry of Defence ("MinDef") and Malaysian Pharmaceutical Society ("MPS").

CCM's top management also participated in the annual JAKIM International Halal Certification Bodies Convention with CCM's Halal Assurance Management System, which was officiated in March 2016. Our Halal journey was further affirmed to be the right strategy when we created another milestone with JAKIM as the first Halal certifying body to certify controlled/prescriptive medicines (Ethical Products) based on the world's first Halal pharmaceutical standard MS 2424:2012 Halal Pharmaceuticals – General Guidelines to CCM during a special award ceremony at Pullman Putrajaya in February 2017.

As always, we will continue to raise awareness on Halal pharmaceuticals to ensure Muslims have the option for Halal alternatives and also able to meet their Islamic obligations.

Bumiputera Empowerment

To support the Government's efforts to create a "Bumiputera Commercial and Industrial Community" (*Masyarakat Pemiagaan dan Perindustrian Bumiputera*) under the *Majlis Ekonomi Bumiputera* ("MEB"), CCM established the Bumiputera Vendor Development Programme ("BVDP") to develop its own pool of capable Bumiputera vendors to tap into the game-changing opportunities for Bumiputeras in Halal pharmaceuticals and also in the chemicals and polymer industries.

Our recognition as an industry driver in the Halal arena helps to expand market potentials for Halal compliant vendors, including manufacturers, importing agents and logistics providers in making Malaysia the global leader in Halal Pharmaceuticals which has a global potential of US\$132.0 billion by 2021.

We strongly believe that our Bumiputera entrepreneurs have the knowledge and experience on Halal matters and they will be the key driving force behind the Halal Pharmaceuticals ecosystem, making Malaysia the global thought leader for this industry through the convergence of minds – Shariah and Science, opening opportunities for research and development in terms of products, services and also key reference documents.

A workshop, themed “*Spurring the Bumiputera Agenda through BVDP*” that involved pocket-talks, knowledge-sharing sessions and business clinics was organised to serve as a valuable platform for our BVDP participants to gain beneficial insights on various areas including business facilitation and enablement. A series of pocket-talks were presented by the Technical Agencies of the Ministry of International Trade and Industry (“MITI”) with topics including technology commercialisation, Enterprise Innovation and Intervention Programme (“EIIIP”) and ideal technology partners for small and medium enterprises (“SMEs”) as well as an overview of Halal logistics.

OUTLOOK

The year 2017 looks set to be as challenging on the economic front as 2016 was. Within this environment, we believe that there are opportunities to make progress in all our key business segments based on their respective business strategies and plan.

With the exit from the Fertilizers business, our financial position will be more predictable and solid.

The Pharmaceuticals business’ Manufacturing Optimisation Strategy together with its various collaborative efforts on new product portfolios, the improvement in operational efficiency level of our newly modernised chlor alkali plant and continuous expansion of product offerings of our Polymers business; are aptly crafted to drive the sustainability of our Company.

ACKNOWLEDGEMENT

The year 2016 saw its fair share of ups and downs but we are positive that all our stumbling blocks will serve as stepping stones for success in the coming years. We believe that we are where we are today because of the unending support from our stakeholders, employees, shareholders and customers.

On that note, we recently welcomed Datuk Nik Moustpha bin Haji Nik Hassan to join the CCM Board while our subsidiary, CCM Duopharma Biotech Berhad (“CCMD”) saw the retirement of Tan Sri Dato’ Dr. Abu Bakar bin Suleiman and Tan Sri Dato’ Dr. Jegathesan a/l N.M. Vasagam @ Manikavasagam and the resignations of Datuk Alias bin Ali and Dato’ Haji Ghazali bin Awang in 2016 while Dr. Byung-Geon Rhee resigned in February 2017. We thank all of them for their past contribution and for paving the strategic journey to take CCMD to greater heights.

Meanwhile, our welcome to Dato’ Hajah Normala binti Abdul Samad as the new Chairman for both CCM and CCMD and also Tan Sri Siti Sa’diah binti Sh. Bakir, Dato’ Azmi bin Mohd Ali, Razalee bin Amin, Puan Sri Datuk Rohani Parkash binti Abdullah, Zaiton binti Jamaluddin and Dato’ Eisah binti A. Rahman who have been appointed as new Board members of CCMD.

I would also like to acknowledge all our stakeholders, particularly our shareholders, employees, customers and business partners for their commitment and support rendered throughout our years of operation. We look forward to strive ahead with the tenacity and vigour that has often driven us to success.

Thank you.

LEONARD ARIFF BIN ABDUL SHATAR

Group Managing Director

SUSTAINABILITY & CORPORATE RESPONSIBILITY

SUSTAINABILITY AT CCM

Sustainability has been a guiding principle within CCM. Today, sustainability is integrated throughout our entire business, allowing us to maximise opportunities in areas such as innovation, community development and value creation.

Sustainability is a strategic priority for us. We seek opportunities to leverage our influence as the leader in each of the sectors in which we operate to further the sustainable development agenda of our nation. Our holistic approach to sustainability is achieved by successfully integrating social, environmental and economic aspects into our business operations. As we take steps in our sustainability journey, we are more convinced of our role than ever to achieve a better way of living and working to enhance the quality of life of all our stakeholders. Each of our businesses takes a proactive role by reaching out to stakeholders and positively affecting their lives.

VALUING OUR STAKEHOLDERS

We have a long history of stakeholder engagement and are committed to engaging in constructive and meaningful dialogue with stakeholders. Effective communication helps us to build trust, leverage their expertise and gain insights into the most pressing issues. Stakeholder engagement helps us to reaffirm the most material issues and devise ways to address them within the Group.

ECONOMIC

CCM is a Government-linked company and is presently one of the largest manufacturers of pharmaceuticals, chemicals and polymers in Malaysia. It also has regional offices in Singapore, Indonesia and the Philippines. CCM has set benchmarks by implementing responsible, sustainable and consistent compliance procedures throughout the Group to meet the growing needs, domestically and overseas.

Championing Halal initiatives for more than a decade, CCM has emerged as a leading Halal industry driver within the region. Growing alongside the Malaysian economy, we have made significant contributions to the country's development to nationhood. We generate economic value for nations, regions and communities by providing employment, paying taxes, supporting local goods and services and developing infrastructure. We consider it as our responsibility to make a broader contribution to sustainable development in the communities in which we operate and invest in national projects.

We work in partnership with local communities, the Government, NGOs and industry experts in realising our vision of 'Enhancing Quality of Life'. As a key player in the pharmaceuticals, chemicals and polymer industries, we continue to assume a leadership role to intensify efforts and strengthen ties with industry peers.

ENVIRONMENTAL

CCM has a long standing commitment on managing our environmental footprint. We address key impacts across our businesses and focus on continuous improvement, with particular emphasis in the areas that are most relevant to each business.

We continuously evaluate on how we can reduce the environmental impact of our operations and in the manufacturing of our products. At CCM, we focus the bulk of our environmental sustainability efforts in two complementary areas: minimising the environmental footprint of our operations and supply chain, and reducing the environmental impact of our products and packaging. We also engage our employees, customers and communities to promote a culture of environmental responsibility.

Wastewater Recovery Project

All CCM manufacturing plants are equipped with wastewater treatment facilities. We embarked on a wastewater recovery project for our polyaluminium chloride ("PAC") plant in Pasir Gudang which was successfully completed in April 2016 to manage the wastewater generated to ensure our compliance with Environment Quality (Industrial Effluent) Regulations 2009.

Styrofoam-free Initiatives

CCM headquarters initiated and launched a project called "Project Styro free zone", ahead of the Government's initiative to enforce the ban on the usage of *Styrofoam* to discourage, reduce or perhaps eliminate its usage in view of its negative effects on our health and the environment.

Program Rakan Saintis Sungai CCM ("RSS")

Program Rakan Saintis Sungai CCM raises awareness by educating primary and secondary schools students on the importance of environmental conservation, emphasising river health in particular.

CCM worked closely with the Department of Environment and various institutions in advocating the importance of preserving our natural water resources. This holistic approach educated school-goers on the importance of environmental conservation and protecting our natural resources.

SOCIAL: SOCIETY

We view investment in communities as an instrument for contributing to the development of the societies where we operate. We are committed to enhancing the well-being of the community with our direct financial support, voluntary participation by employees in humanitarian projects, fundraising activities, partnership with organisations and other philanthropic causes.

Building Love Starts Young with CHAMPS

Our Pharmaceuticals business launched the 'Building Love Starts Young' campaign through one of its established brands, CHAMPS in collaboration with the National Autism Society of Malaysia ("NASOM") to address misconceptions and raise awareness of autism to children and the public.

Our pledge to contribute 50 sen to NASOM for every bottle of CHAMPS Vitamin C sold during the campaign period yielded RM44,217.50 which was presented to NASOM on 26 August 2016.

CCM Supports Care for Parkinson's Disease

Parkinson's disease ("PD") is a debilitating progressive disease of the nervous system marked by tremor, muscular rigidity and slow, imprecise movement. With no known cure, PD takes a toll on a patient's mobility day by day.

As a leading manufacturer of pharmaceuticals, CCM takes on the responsible role of fighting this disease, providing patient care and boosting morale. CCM contributed RM100,000 to the Perak Parkinson Association ("PPA") in April 2016 for 40 representatives, including local medical professionals, to participate in the World Parkinson Congress ("WPC") that was held in Portland, Oregon, USA in September 2016 to enable them to interact with global professionals and obtain first-hand information on research, treatment, diagnosis and living with PD.

CCM Improves Diabetes Treatment

Diabetes is a disease that occurs when a person's blood sugar level is too high. Worryingly, 3.5 million or 17.5 percent of Malaysian citizens aged 18 years and above have this disease - the highest number in ASEAN. CCM launched *Basalog*® on 13 November 2016 with the introduction of the first insulin glargine biosimilar in Malaysia.

Basalog®, as approved by the National Pharmaceutical Regulatory Agency ("NPRA"), has passed strenuous international tests and approvals in highly-regulated markets such as Japan. Treatment with *Basalog*® being more competitively priced and can ensure blood sugar levels to remain constant for up to 24 hours for both Type 1 and Type 2 diabetes.

CCM PINTAR Programme

Promoting Intelligence, Nurturing Talent and Advocating Responsibility ("PINTAR") is a school adoption programme inspired by Yayasan Pintar. Supported by Government-linked Companies ("GLCs") and some private corporations in Malaysia, this programme aims to improve socio-economic standards through educational achievement.

Our involvement in the PINTAR programme began in 2007 and we have adopted 15 schools to date. Our involvement focuses on increasing English proficiency of students and providing funding to support teaching and learning aids.

The CCM PINTAR Programme has touched more than 8,800 lives including students, teachers, parents and community members in the surrounding areas where the adopted schools are located.

CCM Jalanan Antara Universiti Dan Industri ("JATI")

CCM JATI is a collaboration between CCM and public universities. This three-year capacity building programme provides pharmacy undergraduates with a holistic industry overview and develops their entrepreneurial capabilities as they venture into working life. These undergraduates are exposed to marketing, business management and hands-on retailing through interaction with CCM professionals and training sessions.

Skim Latihan 1Malaysia Programme

CCM supported the national human capital development through its parent company, Permodalan Nasional Berhad under the Skim Latihan 1Malaysia ("SL1M") programme to provide on-the-job training to unemployed graduates so as to enhance their employability. CCM took in 58 trainees under this scheme with 15 of them being absorbed into the CCM workforce in 2016.

SOCIAL: LABOUR PRACTICES

Our employees are a vital factor for success in our competitive environment and we value our human capital. An important part of our sustainability strategy focuses on our internal operations, namely those related to our employees.

Employee Engagement

Our success depends on our people performing to the best of their abilities. To achieve this, they must feel motivated, connected and valued. Numerous initiatives have been held to foster teamwork and interpersonal relationships between employees of all levels to ensure our employees are continuously engaged and motivated.

SUSTAINABILITY & CORPORATE RESPONSIBILITY (Cont'd)

Our 2016 engagement survey shows an overall improved results of 82 percent compared to 77 percent in 2015. This result shows our employees are engaged and motivated which will ultimately cascade to an overall culture built on the Company's Core Values.

Kelab Sukan CCM

Kelab Sukan CCM ("KSCCM") acts as an informal platform for employees to come together and interact on matters informally. A series of activities were organised which saw remarkable participation among its members.

my Millennial Apprentice Programme

The my Millennial Apprentice Programme ("myMAP") was introduced in 2014 to transform the Company into a talent-powered organisation that targets the new generation of graduates in the market. We recruited 13 graduates from different disciplines in 2016 for this 18-month programme.

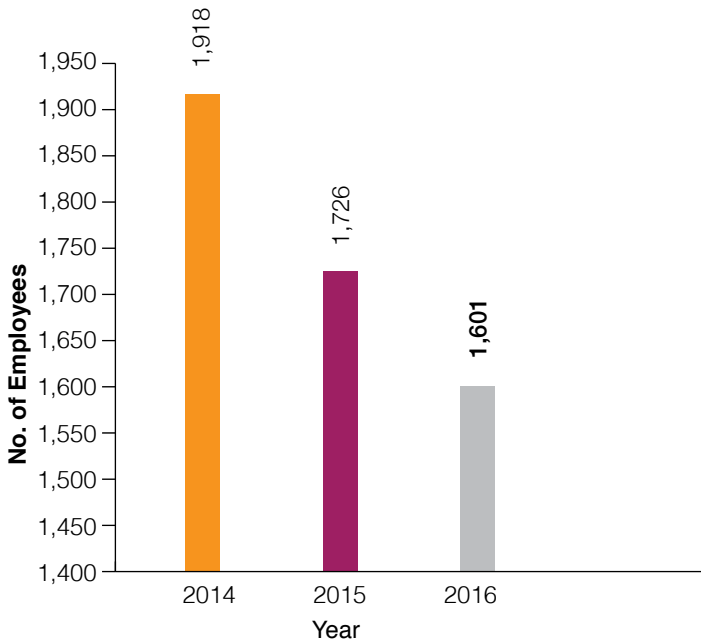
my Career Acceleration Programme

CCM's my Career Acceleration Programme ("myCAP") launched in 2013, is a collaboration with the Department of Skills Development ("DSD"), an agency under the Ministry of Human Resources to develop and further train our non-executive employees to strengthen their skills, competencies and capabilities in order to promote greater career growth and mobility. 21 of our employees were certified with Sijil Kemahiran Malaysia ("SKM") in 2016.

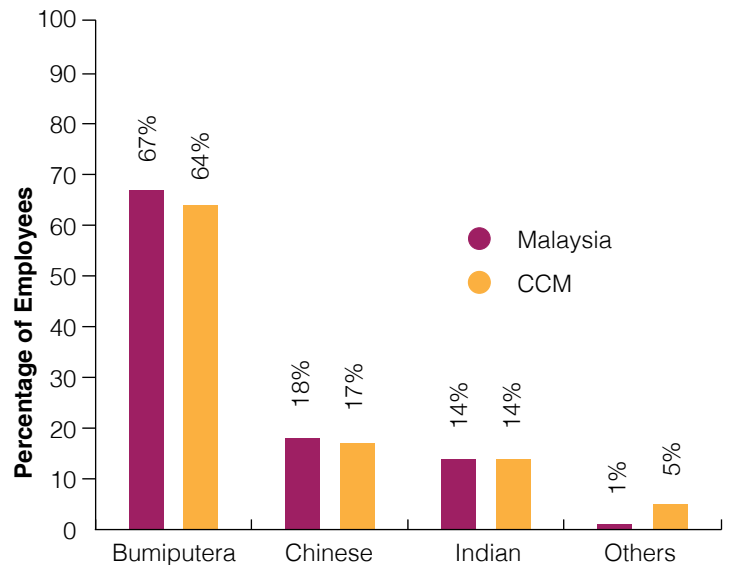
Diversity

CCM welcomes diversity and the benefits that the differences between people can bring to the Company. Workplace diversity fosters mutual respect among employees. Diversity not only involves how people perceive themselves, but how they perceive others, and those perceptions affect their interaction with their peers.

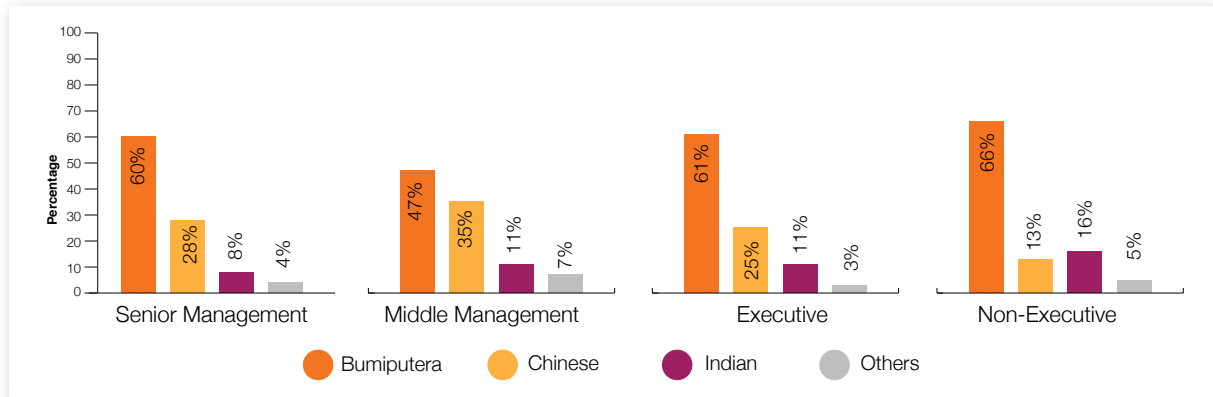
Total No. of Employees



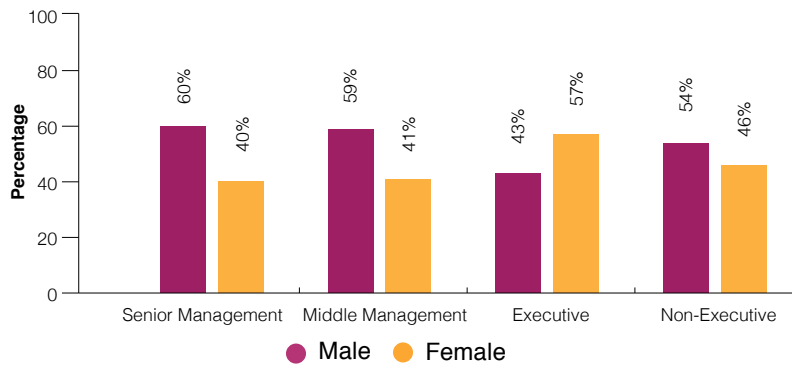
Ethnicity at CCM



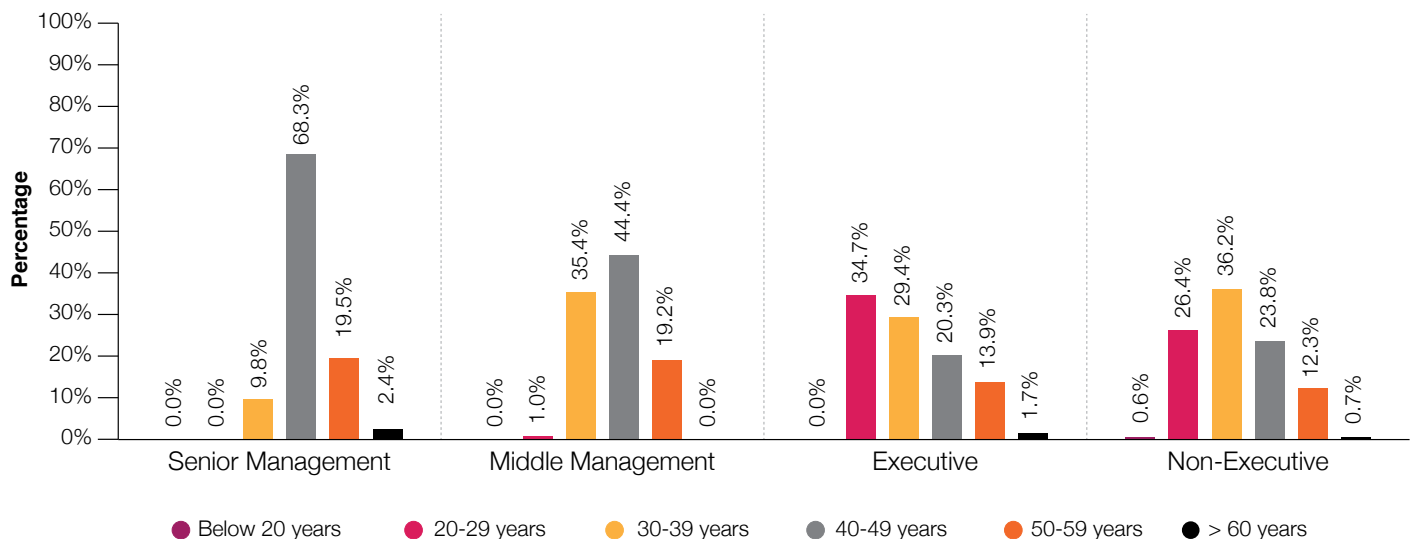
Breakdown by Ethnicity



Breakdown by Gender



Breakdown by Age



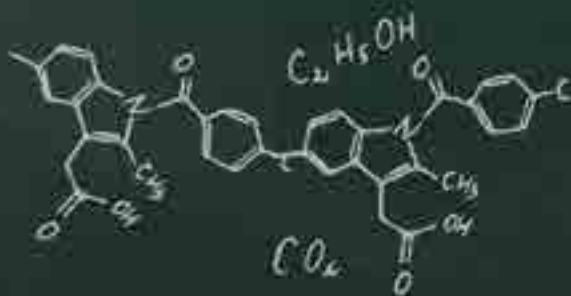
Full disclosure of our sustainability efforts can be found in our CCM Sustainability Report 2016 which is available on the Company's website, www.ccMBERHAD.com





FULFILLING COMMITMENTS

We collaborate closely with our customers to deliver profitable solutions that address market needs and trends of today and tomorrow, while remaining resolute in delivering our commitments.



CALENDAR OF MAJOR EVENTS

27-30 JAN 2016

CCM's contribution to the development of golf through the sponsorship of the PGM CCM Rahman Putra Championship



22 FEB 2016

CCM Pharmaceuticals Sdn. Bhd. awarded *Best Brand in Malaysia* at the International Congress of the Economic Relations' Development in the Health Field with the Focus on Islamic Countries



1 MAR 2016

CCM won the Industry Excellence Award in the Healthcare Sector by Utusan Malaysia



14 APR 2016

CCM Pharmaceuticals Sdn. Bhd. bestowed with the Frost & Sullivan Award for *Pharmaceutical Company of the Year - Generics Market*



20-30 APR 2016

CCM's participation at the annual *Minggu Saham Amanah Malaysia* in Tapah, Perak Darul Ridzuan



22 MAY 2016

Sahabat Korporat Tabung Haji



25 MAY 2016
Annual General Meeting of CCM Duopharma Biotech Berhad



21 JUN 2016
CCM Innovative Solutions Sdn. Bhd. is now known as CCM Polymers Sdn. Bhd.



26 MAY 2016
Annual General Meeting of Chemical Company of Malaysia Berhad



30 JUN 2016
Divestment of CCM Fertilizers business to Hextar Fertilizers Group Sdn. Bhd.



14 OCT 2016
CCM Duopharma Biotech Berhad won Best in Sustainability Reporting (RM500 mil - RM950 mil category) by Focus Malaysia



29 OCT 2016
CCM Duopharma Biotech Berhad awarded the HR Asia Best Companies To Work For In Asia 2016



CALENDAR OF MAJOR EVENTS (Cont'd)



31 OCT 2016
CCM Pharmaceuticals Sdn. Bhd. inking a partnership with Becton Dickinson for our needles business



7 NOV 2016
Selangor Excellence Business Award 2016 - Pharmaceutical by Dewan Perniagaan Melayu Malaysia Negeri Selangor



13 NOV 2016
Launch of *Basalog*[®] - Winning Together Against Diabetes



2 DEC 2016
CCM Chemicals Sdn. Bhd. awarded the CICM Responsible Care Awards

7 DEC 2016
Launch of Lavender Ribbon Campaign



15 DEC 2016
3rd Placing Excellence Award for TOP CG and Performance – MSWG (Special Category) for Market Cap Between RM300 million to RM1 billion and Merit Award for Best AGM Market Cap Below RM300 million for CCM Duopharma Biotech Berhad

