



CHEMICAL COMPANY OF MALAYSIA BERHAD (5136-T)
(Incorporated in Malaysia)
For the Period Ended 30 June 2017

NOTES TO THE INTERIM FINANCIAL REPORT

A1) Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*.

A2) Changes in Accounting Policies

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2016 except for the adoption of the following MFRS and Amendments to MFRSs during the current financial period :-

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS12, *Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of the above MFRS and Amendments to MFRSs did not have any material impact on these condensed consolidated interim financial statements.

The following revised MFRSs and Amendments to MFRSs have been issued by the MASB and are not yet effective for adoption by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018;

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 2, *Classification and measurement of share-based payment transactions*
- Amendments to MFRS 4, *Applying MFRS 9- Financial Instruments with MFRS 4-Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 140, *Transfer of Investment Property*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*



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A2) Changes in Accounting Policies (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, Leases

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group is currently assessing the financial impact that may arise from the adoption of the above amendments.

A3) Disclosure of audit report qualification

The auditor's report on the financial statements of the Group and the Company for the year ended 31 December 2016 was not subject to any qualification.

A4) Explanatory comments about the seasonality or cyclicity of operations

The Group's operations were not subjected to any material seasonal or cyclical factor other than market fluctuations in selling prices and costs of raw materials.

A5) Unusual Items due to their nature, size or incidence

There was no item affecting assets, liabilities, net income or cash flows that were unusual because of their nature, size or incidence for the current quarter and financial period under review.

A6) Changes in prior estimates of amounts which materially affect the current interim period

There were no material changes in prior year estimates which would materially affect the current interim period.

A7) Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the period under review

The number of Treasury Shares held as at end of the current period under review was 2,998,000.



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A8) Dividends paid

On 1 June 2017, the Company paid first interim single tier dividend of 2.50 sen per ordinary share totaling RM11.37 million for the financial year ending 31 December 2017.

A9) Segment reporting

<i>In thousands of RM</i>	Segment Revenue			
	Individual 2nd Quarter		Cumulative 2nd Quarter	
	2017	2016	2017	2016
<u>Continuing operations</u>				
Pharmaceuticals	117,049	79,135	240,355	158,605
Chemicals	65,136	56,287	129,659	109,155
Polymers	19,483	19,737	40,238	40,449
Others* and inter-segment transactions	(198)	(950)	3,462	(2,469)
Group result	201,470	154,209	413,714	305,740
<u>Discontinued operations</u>				
Fertilizers	-	35,580	-	89,144
	201,470	189,789	413,714	394,884

* Administrative and non-core activities

<i>In thousands of RM</i>	Segment Profit/(Loss) Before Tax			
	Individual 2nd Quarter		Cumulative 2nd Quarter	
	2017	2016	2017	2016
<u>Continuing operations</u>				
Pharmaceuticals	12,641	7,725	24,764	17,664
Chemicals	9,942	4,803	16,245	9,601
Polymers	4,591	4,295	9,867	9,169
Others* and inter-segment transactions	(11,490)	(9,322)	(19,047)	(16,687)
Group result	15,684	7,501	31,829	19,747
<u>Discontinued operations</u>				
Fertilizers	-	7,334	-	12,476
	15,684	14,835	31,829	32,223

* Administrative and non-core activities



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A10) Property, plant and equipment

The Group adopts the cost model for its property, land and building.

A11) Post balance sheet event

There are no material events after the period end that has not been reflected in the Interim Financial Reports for the current financial period under review.

A12) Effect of changes in the composition of the Group

There were no other material changes in the composition of the Group for the period under review.

A13) Changes in contingent liabilities or contingent assets since the last annual balance sheet date

During financial year 2014, PT CCM Indonesia ("PTCCMI"), a subsidiary of the Company appealed against tax auditor's assessment with respect to year of assessment 2011. The contingent liability involved in the tax appeal amounted to IDR36,100,000,000 (equivalent to approximately RM11.6 million). The hearing of the appeals was concluded on 29th July 2015 and the matter is still pending decision from the Indonesian Tax Court.

Save as disclosed, there are no changes in contingent liabilities or assets as at end of the current interim financial period.

A14) Capital Commitments

	30 June	31 December
	2017	2016
	RM'000	RM'000
Approved but not contracted for	314,819	325,189
Contracted but not provided for	23,346	8,308
	<u>338,165</u>	<u>333,497</u>

A15) Discontinued operations and assets/liabilities classified as held for sale

In 2015, the Group committed to a plan to scale down its Fertilizers operating segment. The decision is consistent with the Group's strategy to place greater focus on enhancing business profitability on its Pharmaceuticals, Chemicals and Polymers segments and to exit business operations which have been consistently underperforming over the years.


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A15) Discontinued operations and assets/liabilities classified as held for sale (continued)

Part of the business operations under the Fertilizers operating segment is presented as a disposal group held for sale following the commitment of the Group's management to a plan to sell the disposal group. The sale of disposal group was completed during the financial year ended 31 December 2016.

With the completion of the sale of the disposal group, the presentation of Discontinued Operations in the Consolidated Comprehensive Income is not required for the current period, save for its comparatives.

The results of the discontinued operations are as follows:-

<i>In thousands of RM</i>	Current Period	
	6 months ended 30 June	
	2017	2016
<u>Results of discontinued operation</u>		
Revenue	-	89,144
Expenses	-	(103,749)
Other income		27,081
Results from operating activities	-	12,476
Income tax expense	-	(31)
Profit from discontinued operations	-	12,445
<u>Cash flows of discontinued operation</u>		
Cash generated from operating activities	-	26,367
Cash used in investing activities	-	32,508
Cash used in financing activities	-	(60,730)
Effect of cash flows	-	(1,855)
	As at	As at
	30 June	31 December
<i>In thousands of RM</i>	2017	2016
<u>Assets classified as held for sale</u>		
Property, plant and equipment	1,000	1,000
	1,000	1,000



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Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

B1) Review of Performance

Continuing operations

Commentary for Individual Quarter ended 30 June 2017

For the current quarter ended 30 June 2017, the Group recorded revenue of RM201.5 million, higher by 6% compared to the corresponding quarter last year. Group's profit before tax for the current quarter under review, increased to RM15.7 million from RM7.5 million recorded in the same quarter last year.

Pharmaceuticals Business's revenue for the quarter was RM117.0 million, increased by 48% compared to the same quarter last year, mainly due to supply of renal and endocrine products and increased demand from public health sector via tenders. The Business recorded profit before tax of RM12.6 million, an increase of 64% as compared to the corresponding quarter last year. The higher profit recorded was mainly attributed by the increase in sales, though margin was compressed due to product mix and higher production costs.

Chemicals Business recorded revenue of RM65.1 million during the quarter under review, which was 16% higher compared to the same quarter last year of RM56.3 million. The Business recorded a higher profit before tax of RM9.9 million, an increase of 107% as compared to the corresponding quarter last year. The growth in profit before tax is primarily due to higher sales and margin as a result of higher average selling prices of its chlor alkali products, higher volume sold during the quarter under review and positive impact on operational efficiency initiatives.

Polymers Business recorded revenue of RM19.5 million during the quarter under review, which was 1% lower compared to the same quarter last year of RM19.7 million. The Business recorded a higher profit before tax of RM4.6 million, an increase of 7% as compared to the corresponding quarter last year. The increase in profit before tax is primarily due to changes in product mix and price increases on certain products.

Commentary for Cumulative Quarter ended 30 June 2017

For the cumulative quarter ended 30 June 2017, the Group recorded revenue of RM413.7 million, higher by 35% compared to the corresponding period last year. Group's profit before tax for the cumulative quarter under review, increased to RM31.8 million from RM19.7 million recorded in the same period last year.

Pharmaceuticals Business's revenue for the period was RM240.4 million, increased by 52% compared to the same period last year mainly due to supply of renal and endocrine products and increased demand from public health sector via tenders. The Business recorded profit before tax of RM24.8 million, an increase of 40% as compared to the corresponding period last year. The higher profit recorded was mainly attributed by the increase in sales, though margin was compressed due to product mix and higher production costs.



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B1) Review of Performance (continued)

Commentary for Cumulative Quarter ended 30 June 2017 (continued)

Chemicals Business recorded revenue of RM129.7 million during the period under review, which was 19% higher compared to the same period last year of RM109.2 million. The Business recorded a higher profit before tax of RM16.2 million, an increase of 69% as compared to the corresponding period last year. The growth in profit before tax is primarily due to higher sales and margin as a result of higher average selling prices of its chlor alkali products, higher volume sold during the period under review and positive impact on operational efficiency initiatives.

Polymers Business recorded revenue of RM40.2 million during the period under review, which was 0.5% lower compared to the same period last year of RM40.4 million. The Business recorded a higher profit before tax of RM9.9 million, an increase of 7.6% as compared to the corresponding period last year. The increase in profit before tax is primarily due to changes in product mix and price increases on certain products.

Discontinued operations

In Note A15, the Group presents and discloses in its financial statements, the financial effects of discontinued operations in accordance to MFRS 5 (*Non Current Assets Held For Sale and Discontinued Operations*).

The Group completed the disposal of Assets Held for Sale, namely the 2 subsidiaries in East Malaysia, certain trade marks and 2 parcels of land in Bintulu, Sarawak in the year 2016. For the period ended 30 June 2016, the Discontinued Operation financial results included gain from disposal of Medan land of RM21.5 million.

B2) Material changes in the Quarterly Results compared to the results of the Preceding Quarter

The Group's revenue for the current quarter of RM201.5 million was lower by 5% as compared to the immediate preceding quarter revenue of RM212.2 million. The lower revenue was mainly contributed by the decrease in revenue recorded in Pharmaceuticals business due to lower demand from public health sector. Revenue from the preceding quarter also included RM3.7 million from trading of fertilizers from its subsidiary, CCM Fertilizers Sdn Bhd.. The Group's profit before tax fell to RM15.7 million for the current quarter from the preceding quarter ended 31 March 2017 of RM16.1 million, primarily driven by lower revenue in Pharmaceuticals business but offset by increased margin of Chemicals business.

B3) Prospects

Demand in pharmaceutical industry is expected to remain stable for the rest of the year, however persistent foreign exchange volatility and uncertainties in the economy may further put pressure on manufacturing margin. To address the continuous industry challenges, the Business is embarking on the rationalization and upgrading of its manufacturing assets with enhanced Current Good Manufacturing Practice (cGMP), enabling the Business to tap into new markets and simultaneously meeting the increasing cGMP standards of the international markets.

Although the markets remain competitive, the Chemicals Business is expected to continue to perform positively. The Chemical business is implementing continuous improvement program to extract operational savings, and striving to increase its trading margin while expanding its customer base within the region. The Business will continue to expand its core capabilities both domestically and regionally to improve its market share.



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Prospects (continued)

Polymer Business is expected to remain stable. The Business will continue to roll out research and development (R&D) programs to develop newer products to enhance competitiveness and market share.

The Group is continuously consolidating its position to make steady progress in each of its core businesses. The exit from Fertilizers business in 2016 had enabled the Group to move forward premised on its strength and focus on areas of greater potential, within the pharmaceuticals, chemicals and polymer businesses.

The Group will be undertaking de-gearing plans to continuously strengthen its financial position, which will give the Group ample agility to pursue its planned expansion and growth strategy moving forward.

B4) Variance of Actual Profit from Forecast Profit

The Group did not make any profit forecast or issue any profit guarantee.

B5) Taxation

Taxation charge of the Group for the current quarter and financial period was as follows:

	Current Quarter RM'000	Current Period RM'000
Taxation		
In respect of profit for the year	5,661	12,384
Transfer from deferred tax	103	(2,226)
	<u>5,764</u>	<u>10,158</u>

The Group's effective tax rate is higher than the statutory tax rate mainly due to non-deductibility of certain expenses for tax purposes.



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B6) (Loss)/Profit Before Tax

	Current Quarter RM'000	Current Period RM'000
Operating profit is arrived at after charging / (crediting):		
Depreciation and amortization	11,334	22,362
Provision for receivables	52	128
Provision for and write-off of inventories	893	2,373
Net foreign exchange loss / (gain)	(215)	119
Interest expense	6,977	14,377
Interest income	(1,645)	(3,502)
	<hr/>	<hr/>

Other than the above, there were no impairment of assets and gain or loss on derivatives for the current quarter and current period under review.

B7) Status of corporate proposals

- A. On 2 August 2017, followed by amendments and clarifications on 4 August 2017, the Company announced and made further clarification on the following proposals :
- (i) Proposed placement of up to 10% of the issued share capital of the Company (excluding treasury shares) (“Proposed Placement”);
 - (ii) Proposed disposal of the following three (3) parcels of leasehold land measuring approximately 70.93 acres for a cash consideration of RM190 million to GBA Corporation Sdn Bhd (“GBA Corp”):
 - a) PN 112585 Lot 818 Seksyen 16 Bandar Shah Alam, Daerah Petaling, Negeri Selangor (“Lot 818”) (excluding that portion of Lot 818 measuring 11,655 square metres which has been taken over by Perbadanan Kemajuan Negeri Selangor and which is to be surrendered to the relevant authority(ies) pursuant to the terms and conditions of the Land Exchange Agreement dated 1 July 2004 as amended and supplemented by a supplemental agreement to the Land Exchange Agreement dated 4 April 2016);
 - b) HS(D) 135878, PT 757 Sek 16, Bandar Shah Alam, Daerah Petaling, Negeri Selangor (“PT 757”); and
 - c) HS(D) 135879, PT 758 Sek 16, Bandar Shah Alam, Daerah Petaling, Negeri Selangor (“PT 758”)

(The aforesaid three (3) parcels of land are collectively referred to as “Shah Alam Land”) (“Proposed disposal of Shah Alam Land”);



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B7) Status of corporate proposals (continued)

- (iii) Proposed distribution of the entire shareholding in CCM Duopharma Biotech Berhad (“CCMD”) (“Proposed distribution”) to the shareholders of the Company by way of a reduction of the paid up capital of the Company pursuant to Section 116 of the Companies Act 2016 (“Proposed distribution and capital reduction”); and
- (iv) Proposed share consolidation of every 3 existing ordinary shares in the Company (“CCMB share(s)” or “share(s)”) into 1 ordinary share in the Company (“Consolidated share(s)”) (“Proposed share consolidation”)

B. On 11 August 2017, the Company announced a Debt Settlement Agreement with CCM Marketing Sdn Bhd (“CCMM”), a wholly owned subsidiary, whereby all debts owing and payable by CCMM to the Company (including interest) calculated as at a closing date, shall be satisfied by way of a transfer of CCM Duopharma Biotech Berhad shares owned by CCMM to the Company.

All of the above proposals are still pending approvals by relevant authorities.

Save for as disclosed above, there are no corporate proposals that have been announced by the Company but not completed as at the date of this report.

B8) Group Borrowings and Debt Securities

	30 June	31 December
	2017	2016
	RM'000	RM'000
<u>Continuing operations</u>		
Short term borrowings		
Unsecured		
Ringgit Malaysia denominated	209,232	79,135
US Dollar denominated	17,036	6,498
	<u>226,268</u>	<u>85,633</u>
Long term borrowings		
Unsecured		
Ringgit Malaysia denominated	396,438	536,118
	<u>622,706</u>	<u>621,751</u>

B9) Off Balance Sheet Financial Instruments

The Group did not have any financial instruments with off balance sheet risks as at the date of this report.


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B10) Earnings per share

	Individual 2nd Quarter		Cumulative 2nd Quarter	
	30 June 2017 RM'000	30 June 2016 RM'000	30 June 2017 RM'000	30 June 2016 RM'000
Basic and Diluted Earnings Per Share:-				
Profit after tax and minority shareholders' interests (RM'000)				
- from continuing operations	6,414	4,387	14,641	9,759
- from discontinued operations	-	19,572	-	13,950
	<u>6,414</u>	<u>23,959</u>	<u>14,641</u>	<u>23,709</u>
Issued ordinary shares at beginning of the quarter/year ('000)	457,630	457,630	457,630	457,630
Effects of treasury shares issued ('000)	(2,998)	(2,998)	(2,998)	(2,998)
Weighted average number of ordinary shares ('000) at ending of the quarter/year	<u>454,632</u>	<u>454,632</u>	<u>454,632</u>	<u>454,632</u>
Basic earnings per share (sen)				
- from continuing operations	1.41	0.96	3.22	2.15
- from discontinued operations	-	4.31	-	3.07
	<u>1.41</u>	<u>5.27</u>	<u>3.22</u>	<u>5.22</u>

There is no dilution to the earnings per ordinary share as there are no dilutive potential ordinary shares.

B11) Dividend

No dividend is proposed for the current quarter under review.



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B12) Economic Profit (“EP”) Statement

<u>Net operating profit after tax</u> <u>computation:</u> <i>In millions of RM</i>	Individual 2nd Quarter 30 June		Cumulative 2nd Quarter 30 June	
	2017	2016	2017	2016
Earnings before interest and tax	21.0	12.6	42.7	29.3
Adjusted tax	(5.3)	(3.2)	(10.7)	(7.3)
NOPAT	15.7	9.4	32.0	22.0
<u>Economic charge computation:</u>				
Average invested capital	1,230.4	1,217.3	1,230.4	1,217.3
Weighted average cost of capital	7.98%	6.18%	7.98%	6.18%
Economic charge	24.5	18.8	49.1	37.6
Economic (loss)/ profit	(8.8)	(9.4)	(17.1)	(15.6)

The EP statement is as prescribed under the Government-Linked Corporations (GLC) Transformation program, and is disclosed on a voluntary basis. EP measures the value created by a business during a single period reflecting how much return a business makes over its cost of capital.

B13) Material litigation

There were no material litigations as at the end of period under review.

B14) Disclosure of Realised and Unrealised Profits or Losses

	30 June 2017 RM'000	31 December 2016 RM'000
Total retained earnings		
- Realised	71,977	73,890
- Unrealised	29,727	24,539
	101,704	98,429



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B15) Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 August 2017.

By Order of the Board

NOOR AZWAH SAMSUDIN (LS0006071)
Company Secretary
25 August 2017