









**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 2013.

The following MFRSs, Interpretations and Amendments to MFRSs applicable to the Group have been adopted with effect from 1 January 2014.

* Amendments to MFRS 10, *Consolidated Financial Statements: Investments Entities*
* Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investments Entities*
* Amendments to MFRS 127, *Separate Financial Statements* (2011) : *Investments Entities*
* Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
* Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount disclosure for Non-Financial Assets.*
* Amendments to MFRS 139, *Financial Instruments : Recognition and Measurement – Novation of Derivative and Continuation of Hedge Accounting*
* IC Interpretation 21*, Levies*

The adoption of the above standards and amendments did not have any material impact to the current and prior period’s financial statements of the Group.

The following revised MFRSs and Amendments to MFRSs applicable to the Group 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 July 2014**

* Amendments to MFRS 1, *First-time Adoption of Malaysia Financial Reporting Standards ( Annual Improvements 2011-2013 Cycle)*
* Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
* Amendments to MFRS 3, *Business Combination (Annual Improvement 2010-2012 Cycle and 2011-2013 Cycle)*
* Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
* Amendments to MFRS 13, *Fair Value Measurement ( Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
* Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
* Amendments to MFRS 119, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
* Amendments to MFRS 124, *Related Party Disclosures ( Annual Improvements 2010-2012 Cycle)*
* Amendments to MFRS 138, *Intangible Asset (Annual Improvements 2010-2012 Cycle)*
* Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

**A2) Changes in Accounting Policies (continued)**

* MFRS 9, *Financial Instruments (2009)*
* MFRS 9 , *Financial Instruments (2010)*
* MFRS 9, *Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
* Amendments to MFRS 7, *Financial Instruments : Disclosure – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

**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 2013 was not subject to any qualification.

**A4) Explanatory comments about the seasonality or cyclicality 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 the prior 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 save for repayments of the unsecured term loans on 22 September 2014 and 27 May 2014 of RM50 million each.

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

**A8) Dividends paid**

No dividend was paid in the current quarter under review.

**A9) Segment reporting**





**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 other 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 changes in the composition of the Group for the period under review, except for the dissolution of the following dormant subsidiary companies:-

1. Chemtrade Sdn Bhd
2. CCMF Agronomic & Technical Services Sdn Bhd
3. CCM Chemtrans Sdn Bhd
4. Usaha Progresif Sdn Bhd
5. Liberal Wira Sdn Bhd
6. Euphorex Corporation Sdn Bhd

The changes did not give rise to any material effect on the composition of Group for the period under review.

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

There were no changes in contingent liabilities or assets as at end of the current interim financial period save for the following:

On 23 September 2014, a subsidiary of Chemical Company of Malaysia Berhad, PT CCM Indonesia, had submitted several appeals to the Indonesian Tax Court against objection decisions of the Director General of Tax on several tax adjustments / corrections made by tax auditor totalling IDR36.1 billion (or equivalent to RM9.7 million) in aggregate.

The matter is now pending the Director General of Tax Indonesia’s filing into the Indonesian Tax Court, of his reply to PT CCM Indonesia’s letters of appeal

**A14) Capital Commitments**

Commitments for the purchase of property, plant and equipments as at 30 September 2014.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **At**  **30 September**  **2014** |  | **At**  **31 December 2013** |
|  | **RM'000** |  | **RM'000** |
|  |  |  |  |
| Approved but not contracted for | 11,122 |  | 36,075 |
| Contracted but not provided for | 37,710 |  | 38,281 |
|  | 48,832 |  | 74,356 |

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

**B1) Review of Performance**

Commentary for Individual Quarter ended 30 September 2014

For the current quarter ended 30 September 2014, the Group recorded revenue of RM263.7 million, lower by 15.3% compared to the corresponding quarter last year. The Group’s profit before tax for the current quarter under review decreased to RM0.5 million from RM11.1 million recorded in the same quarter last year. The Group’s profit for 2013’s corresponding quarter included recognition of change in fair value of investment properties of RM13.1 million.

Pharmaceuticals Division recorded profit before tax of RM7.8 million, an increase of 16.8% as compared to the corresponding quarter last year. The increase was mainly due to the higher revenue generated during the quarter under review, as well as improved margin on its ethical, Over-the-counter (“OTC”) and private market.

Chemicals Division recorded a higher profit before tax of RM3.5 million, an increase of 23.5% as compared to the corresponding quarter last year. The increase was mainly due to consolidation of its business by focusing on higher margin product group and lower operating expenses incurred during the quarter.

Fertilizers Division recorded revenue of RM112.5 million during the quarter under review. This was 32.9% lower compared to the same quarter last year primarily contributed by lower sales to dealers segments and competitive pricing for the plantation sector. Fertilizers Division recorded a loss before tax of RM6.8 million during the quarter as compared to RM9.8 million (lower by RM3.0 million) in the same quarter last year The lower loss incurred for the quarter, was primarily due to lower finance and operating expenses, coupled with a slight improvement in margins.

Commentary for Cumulative Quarters ended 30 September 2014

For the nine months period ended 30 September 2014, the Group recorded revenue of RM848.5 million. This was lower by RM146.5 million or 14.7% as compared to the corresponding period last year. Lower sales were recorded by Chemicals and Fertilizers Divisions. The Group recorded a profit before tax of RM13.2 million for the period under review. This represented a decline of 63.5% from RM36.2 million in the same period last year. (Note: The financial results of RM36.2 million for 9 months period 2013 comprised an amount of RM16.8 million of change in fair value adjustments of investment properties).

Pharmaceuticals Division recorded revenue of RM231.0 million for the period under review, an increase of 7.8% as compared to the same period last year. Profit before tax increased by RM5.0 million (or 28.4%) from RM17.7 million in the same period 2013 to RM22.7 million in the current period. The higher profit recorded in the current period was primarily attributable to higher revenue generated from both its ethical and OTC segments; as well as higher plant utilisation rate during the period under review.

**B1) Review of Performance (Continued)**

Chemicals Division recorded revenue of RM215.2 million during the period under review, representing a decrease of 5.2% as compared to the corresponding period last year. The lower revenue recorded during the period was primarily due to lower sales volume of its trading and regional businesses. The Division’s profit before tax of RM11.9 million for the period under review was lower by 5.8% compared to the same period last year. The decrease in profit was largely attributable to the lower sales recorded in its trading and regional businesses.

The Fertilizers Division recorded revenue of RM400.7 million during the period under review. This was 27.3% lower compared to the same period last year, contributed by the lower volume of compound fertilisers sold to dealers sectors due to extended dry season during the first six months of the period under review. The Division recorded a loss before tax of RM11.3 million in the period under review compared to a loss of RM3.6 million in the corresponding period last year.The lower revenue, lower gross margins and higher plant operation costs were the major contributors to the loss position recorded during the period under review.

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

The Group’s revenue for the current quarter of RM263.7 million was lower by RM47.4 million (or 15.2%) as compared to the immediate preceding quarter revenue of RM311.1 million. This was primarily attributable to the decrease in revenue contribution from Fertilizers Division. The Group recorded profit before tax of RM0.5 million during the quarter compared to a profit of RM4.0 million in the preceding quarter primarily due to the decline in revenue by 15.2%.

**B3) Prospects for the current financial year**

The Group will continue to focus on enhancing business profitability by increasing sales growth domestically and regionally, improving production efficiency and cost effectiveness across all of its business divisions.

The demand for pharmaceuticals products is expected to remain relatively stable throughout the financial year. The prospects for the Division remain positive as it consolidates its position in the local and regional markets.

For Chemicals Division, the chlor alkali market is still experiencing a phase of consolidation but the regional market has shown signs of stability. The polymer coating businesses is expected to soften the cyclical effect of the chlor alkali market. The Division is continuously striving to increase its trading margin for the current financial year, which focuses on new trading segments and expansion of its customer base within the region.

The demand of fertilizers is expected to be challenging in view of high inventory level of crude palm oil (CPO) and low CPO prices. Notwithstanding the above, Fertilizers Division will continue to focus on aggressive sales and promotions activities, operational excellence and a review of the business in an effort to improve its profitability.

The Group’s performance for the financial year ending 31 December 2014 is expected to continue to be challenging.

**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** |  | **Current Period** |
|  | **30 September**  **2014** |  | **30 September**  **2014** |
|  | **RM’000** |  | **RM’000** |
| Taxation |  |  |  |
| In respect of profit for the year | 1,410 |  | 3,498 |
| Transfer from deferred tax | (1,039) |  | (318) |
|  | 371 |  | 3,180 |

**B6) Profit Before Tax**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Current** |  | **Current** |
|  |  | **Quarter** |  | **Period** |
|  |  | **30 September** |  | **30 September** |
|  |  | **2014** |  | **2014** |
|  |  | **RM’000** |  | **RM’000** |
|  |  |  |  |  |
| **Operating profit is arrived at after charging / (crediting):** |  |  |  |  |
|  |  |  |  |  |
| Allowance for doubtful debt |  | 1,019 |  | 1,697 |
| Depreciation of property, plant and equipment |  | 12,369 |  | 36,927 |
| Interest expense |  | 6,506 |  | 20,687 |
| Provision for and write-off of inventories |  | 6,224 |  | 8,993 |
| Net foreign exchange gain |  | 694 |  | (380) |
| Interest income |  | (988) |  | (3,845) |
|  |  |  |  |  |
|  |  |  |  |  |

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

**B7) Status of corporate proposals**

On 27 June 2014, the Company announced a Proposed Internal Restructuring Exercise involving disposals of all of its 50.1% equity interest in CCM Fertilizers Sdn Bhd and 100% equity interests in both CCM Agriculture Sdn Bhd and CCM Agriculture (Sabah) Sdn Bhd to its wholly-owned subsidiary, CCM Agri-Max Sdn Bhd.

The Internal Restructuring exercise has been completed on 19 November 2014 and will not have any material financial effects on the Group and the Company.

**B8) Group Borrowings and Debt Securities**

The Group borrowings as at 30 September 2014 were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30-September-14** |  | **31-Dec-13** |
|  | **RM’000** |  | **RM’000** |
| **Short term borrowings** |  |  |  |
| Unsecured |  |  |  |
| Ringgit Malaysia denominated | 337,895 |  | 318,724 |
| United States Dollar denominated | 11,469 |  | 50,260 |
| Singapore Dollar denominated | 257 |  | 650 |
|  | 349,621 |  | 369,634 |
|  |  |  |  |
| **Long term borrowings** |  |  |  |
| Unsecured |  |  |  |
| Ringgit Malaysia denominated | 250,000 |  | 380,000 |
|  | 250,000 |  | 380,000 |

**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.

**B10) Earnings per share**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Current Quarter** |  | **Current Period** |
|  |  | **30 September 2014** |  | **30 September 2014** |
|  | **Basic and Diluted Earnings Per Share:-** |  |  |  |
|  | Profit after tax and minority  shareholders’ interests (RM’000) | (2,280) |  | 3,614 |
|  | Issued ordinary shares at beginning  of the period (‘000) | 457,630 |  | 457,630 |
|  | Weighted average number of ordinary  shares (‘000) at ending of the quarter/year | 457,630 |  | 457,630 |
|  |  |  |  |  |
|  | Basic and diluted earnings per share (sen) | (0.50) |  | 0.79 |

**B11) Dividend**

The Board of Directors has approved an interim single tier dividend of 2.50 sen per share (2013:2.15 sen per share) based on paid up capital of 457.6 million shares at par value of RM1.00 each amounting to approximately RM11.4 million. The entitlement date in respect of the interim single tier dividend is on 31 December 2014 and the payment date is on 15 January 2015.

**B12) Economic Profit (“EP”) Statement**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Current Quarter** | | |  | **Current Period** | | |
|  | **30 September** | | |  | **30 September** | | |
| ***In millions of RM*** | **2014** |  | **2013** |  | **2014** |  | **2013** |
| **Net operating profit after tax ("NOPAT")** |  |  |  |  |  |  |  |
| **computation:** |  |  |  |  |  |  |  |
| Earnings before interest and tax | 5.9 |  | 17.0 |  | 28.7 |  | 53.3 |
| Adjusted tax | (1.5) |  | (4.3) |  | (7.2) |  | (13.3) |
| **NOPAT** | **4.4** |  | **12.8** |  | **21.6** |  | **40.0** |
| **Economic charge computation:** |  |  |  |  |  |  |  |
| Average invested capital | 1,447.8 |  | 1,564.6 |  | 1,447.8 |  | 1,564.6 |
| Weighted average cost of capital (%) | 6.04% |  | 5.27% |  | 6.04% |  | 5.27% |
| **Economic charge** | **21.9** |  | **20.6** |  | **65.6** |  | **61.8** |
| **Economic (loss)/ profit** | **(17.5)** |  | **(7.8)** |  | **(44.1)** |  | **(21.8)** |

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 was no material litigation against the Group as at the end of period under review.

**B14) Disclosure of Realised and Unrealised**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **As at  30 September 2014** |  | **As at  31 December 2013** |
|  |  |  |  |
|  | **RM’000** |  | **RM’000** |
| Total retained profits of CCM Berhad |  |  |  |
| and its subsidiaries: |  |  |  |
| - Realised | 269,538 |  | 261,129 |
| - Unrealised | 44,586 |  | 49,381 |
| **Total** | **314,124** |  | **310,510** |

**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 27 November 2014.

By Order of the Board

NOOR AZWAH SAMSUDIN (LS0006071)

Company Secretary

27 November 2014