

LOTTE CHEMICAL TITAN HOLDING BERHAD
199101012045 (222357-P)

**Unaudited condensed consolidated
interim financial statements**

For the quarter and year-to-date ended 30 September 2020

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

| Contents | Page |
|--|-------------|
| Unaudited condensed consolidated statement of comprehensive income | 1 - 2 |
| Unaudited condensed consolidated statement of financial position | 3 - 4 |
| Unaudited condensed consolidated statement of changes in equity | 5 |
| Unaudited condensed consolidated statement of cash flows | 6 - 7 |
| Explanatory notes pursuant to MFRS 134 | 8 - 17 |
| Other explanatory notes | 18 - 29 |

Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020

The Board of Directors of Lotte Chemical Titan Holding Berhad ("LCT" or "the Company") is pleased to announce the following unaudited condensed consolidated financial statements of LCT and its subsidiaries ("the Group") For the quarter and year-to-date ended 30 September 2020, which should be read in conjunction with the accompanying explanatory notes on page 8 to 29.

Unaudited condensed consolidated statement of comprehensive income

| | | Individual Quarter ended 30.09.2020 | Individual Quarter ended 30.09.2019 | Changes | | Cumulative Quarter ended 30.09.2020 | Cumulative Quarter ended 30.09.2019 | Changes | |
|-----------------------------------|------|--|--|-----------|-------|--|--|-------------|-------|
| | Note | RM'000 | RM'000 | RM'000 | % | RM'000 | RM'000 | RM'000 | % |
| Revenue | A8 | 1,940,593 | 2,166,989 | (226,396) | -10% | 4,978,691 | 6,464,146 | (1,485,455) | -23% |
| Cost of goods sold | | (1,720,622) | (2,033,328) | 312,706 | -15% | (4,788,011) | (6,037,873) | 1,249,862 | -21% |
| Gross profit | | 219,971 | 133,661 | 86,310 | 65% | 190,680 | 426,273 | (235,593) | -55% |
| Other income | | 14,334 | 5,835 | 8,499 | 146% | 28,101 | 62,623 | (34,522) | -55% |
| Distribution expenses | | (22,787) | (32,371) | 9,584 | -30% | (64,985) | (98,300) | 33,315 | -34% |
| Administrative expenses | | (25,807) | (28,555) | 2,748 | -10% | (73,702) | (85,238) | 11,536 | -14% |
| Foreign exchange differences | | (44,603) | 11,631 | (56,234) | -483% | 13,656 | 6,768 | 6,888 | 102% |
| Fair value changes on derivatives | | (107) | 898 | (1,005) | -112% | 2,698 | 1,178 | 1,520 | 129% |
| Other expenses | | (2,813) | (4,516) | 1,703 | -38% | (29,499) | (12,420) | (17,079) | 138% |
| Profit from operations | | 138,188 | 86,583 | 51,605 | 60% | 66,949 | 300,884 | (233,935) | -78% |
| Finance income | | 12,501 | 24,221 | (11,720) | -48% | 54,614 | 76,819 | (22,205) | -29% |
| Finance costs | B6 | (3,479) | (3,767) | 288 | -8% | (10,978) | (11,845) | 867 | -7% |
| Net finance income | | 9,022 | 20,454 | (11,432) | -56% | 43,636 | 64,974 | (21,338) | -33% |
| Share of results of associates | | (48,845) | 26,618 | (75,463) | -284% | (108,780) | (4,880) | (103,900) | 2129% |
| Profit before tax | B5 | 98,365 | 133,655 | (35,290) | -26% | 1,805 | 360,978 | (359,173) | -99% |
| Income tax | B7 | (20,497) | (42,302) | 21,805 | -52% | 2,451 | (108,778) | 111,229 | -102% |
| Net profit for the period | | 77,868 | 91,353 | (13,485) | -15% | 4,256 | 252,200 | (247,944) | -98% |

Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020

Unaudited condensed consolidated statement of comprehensive income (cont'd)

| | Individual Quarter ended Note 30.09.2020 RM'000 | Individual Quarter ended 30.09.2019 RM'000 | Cumulative Quarter ended 30.09.2020 RM'000 | Cumulative Quarter ended 30.09.2019 RM'000 |
|---|---|--|--|--|
| Other comprehensive (loss)/ income, net of tax | | | | |
| Item that may be reclassified subsequently to profit or loss: | | | | |
| Foreign currency translation differences | (297,333) | 101,946 | 134,510 | 95,483 |
| | <u>(297,333)</u> | <u>101,946</u> | <u>134,510</u> | <u>95,483</u> |
| Total comprehensive (loss)/ income for the period | <u>(219,465)</u> | <u>193,299</u> | <u>138,766</u> | <u>347,683</u> |
| Net profit/(loss) for the period attributable to: | | | | |
| Owner of the Company | 78,767 | 91,298 | (2,572) | 251,977 |
| Non-controlling interests | (899) | 55 | 6,828 | 223 |
| | <u>77,868</u> | <u>91,353</u> | <u>4,256</u> | <u>252,200</u> |
| Total comprehensive (loss)/ income for the period attributable to: | | | | |
| Owner of the Company | (204,352) | 192,871 | 133,744 | 347,823 |
| Non-controlling interests | (15,113) | 428 | 5,022 | (140) |
| | <u>(219,465)</u> | <u>193,299</u> | <u>138,766</u> | <u>347,683</u> |
| Basic and diluted earnings/ (loss) per ordinary share (sen) | B18 <u>3.47</u> | <u>4.02</u> | <u>(0.11)</u> | <u>11.09</u> |

The unaudited condensed consolidated statement of other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020

Unaudited condensed consolidated statement of financial position

| | Note | As at 30.09.2020 RM'000 | As at 31.12.2019 RM'000 |
|---|------|-------------------------------|-------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 5,365,600 | 4,909,584 |
| Right-of-use assets | | 540,785 | 555,618 |
| Prepayment for acquisition of land | | 19,863 | 19,574 |
| Investments in associates | | 2,170,201 | 2,232,689 |
| | | <u>8,096,449</u> | <u>7,717,465</u> |
| Current assets | | | |
| Inventories | | 1,072,324 | 1,324,854 |
| Trade and other receivables | | 718,173 | 857,356 |
| Tax recoverable | | 8,511 | 17,075 |
| Prepayments | | 46,389 | 26,159 |
| Other investments | B13 | 3,007,508 | 2,915,971 |
| Cash and bank balances | B14 | 967,149 | 999,769 |
| | | <u>5,820,054</u> | <u>6,141,184</u> |
| Total assets | | <u><u>13,916,503</u></u> | <u><u>13,858,649</u></u> |
| Equity and liabilities | | | |
| Capital and reserves | | | |
| Share capital | | 5,816,813 | 5,816,813 |
| Other reserves | | 1,335,541 | 1,199,225 |
| Retained earnings | | 5,010,173 | 5,171,854 |
| Treasury shares, at cost | | <u>(226,252)</u> | <u>(226,252)</u> |
| Total equity attributable to owner of the Company | | 11,936,275 | 11,961,640 |
| Non-controlling interests | | 460,502 | 317,584 |
| | | <u>12,396,777</u> | <u>12,279,224</u> |

Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020

Unaudited condensed consolidated statement of financial position (cont'd)

| | Note | As at 30.09.2020 RM'000 | As at 31.12.2019 RM'000 |
|---|------|-------------------------------|-------------------------------|
| Non-current liabilities | | | |
| Provision | | 430,318 | 323,650 |
| Deferred tax liabilities | | 397,602 | 416,040 |
| Defined benefit obligation | | 22,759 | 21,439 |
| Lease liabilities | | 38,502 | 47,488 |
| | | <u>889,181</u> | <u>808,617</u> |
| Current liabilities | | | |
| Trade and other payables | | 617,180 | 752,527 |
| Provision for taxation | | 1,309 | 3,175 |
| Other financial liabilities | | 73 | 72 |
| Lease liabilities | | 11,983 | 12,320 |
| Derivative financial instruments | | - | 2,714 |
| | | <u>630,545</u> | <u>770,808</u> |
| Total liabilities | | <u>1,519,726</u> | <u>1,579,425</u> |
| Total equity and liabilities | | <u>13,916,503</u> | <u>13,858,649</u> |
| Net assets per share attributable to ordinary equity holders of the parent (RM) | | <u>5.25</u> | <u>5.26</u> |

The unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020

Unaudited condensed consolidated statement of changes in equity

| | <----- Attributable to owners of the Company -----> | | | | | | | | |
|--|---|--|---|--------|---|---|--|---|-----------------|
| | Note | <----- Non-distributable reserves -----> | | | Foreign currency translation reserve RM'000 | Distributable Retained earnings RM'000 | Total equity attributable to owners of the Company RM'000 | Non- controlling interest RM'000 | Total RM'000 |
| Share capital RM'000 | | Treasury Shares RM'000 | Equity transaction reserves RM'000 | | | | | | |
| At 1 January 2019 | | 5,816,813 | (226,252) | - | 1,271,639 | 5,118,749 | 11,980,949 | 22,985 | 12,003,934 |
| Net profit for the period | | - | - | - | - | 251,977 | 251,977 | 223 | 252,200 |
| Other comprehensive income | | - | - | - | 95,846 | - | 95,846 | (363) | 95,483 |
| Total comprehensive income for the period | | - | - | - | 95,846 | 251,977 | 347,823 | (140) | 347,683 |
| Dividends | A7, B17 | - | - | - | - | (386,407) | (386,407) | - | (386,407) |
| At 30 September 2019 | | 5,816,813 | (226,252) | - | 1,367,485 | 4,984,319 | 11,942,365 | 22,845 | 11,965,210 |
| At 1 January 2020 | | 5,816,813 | (226,252) | 26,539 | 1,172,686 | 5,171,854 | 11,961,640 | 317,584 | 12,279,224 |
| Net (loss)/profit for the period | | - | - | - | - | (2,572) | (2,572) | 6,828 | 4,256 |
| Other comprehensive income | | - | - | - | 136,316 | - | 136,316 | (1,806) | 134,510 |
| Total comprehensive income for the period | | - | - | - | 136,316 | (2,572) | 133,744 | 5,022 | 138,766 |
| Dividends | A7, B17 | - | - | - | - | (159,109) | (159,109) | - | (159,109) |
| Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company | | - | - | - | - | - | - | 137,896 | 137,896 |
| At 30 September 2020 | | 5,816,813 | (226,252) | 26,539 | 1,309,002 | 5,010,173 | 11,936,275 | 460,502 | 12,396,777 |

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Unaudited condensed consolidated statement of cash flows

| | Cumulative Quarter ended 30.09.2020 RM'000 | Cumulative Quarter ended 30.09.2019 RM'000 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before tax | 1,805 | 360,978 |
| Adjustments for:- | | |
| Depreciation of property, plant and equipment and right-of-use assets | 418,500 | 469,587 |
| Finance costs | 10,978 | 11,845 |
| Property, plant and equipment written off | 833 | 802 |
| Reversal of write-down of inventories to net realisable value | (19,581) | (41,558) |
| Expenses recognised in respect of defined benefit plan | 3,043 | 2,464 |
| Inventories written off | 86 | 125 |
| Allowance for impairment loss on trade receivables | - | 596 |
| Share of results of associates | 108,780 | 4,880 |
| Bad debts recovered | - | (17) |
| (Gain)/Loss on disposal of property, plant and equipment | (12,602) | 33 |
| Finance income | (54,614) | (76,819) |
| Fair value changes in derivatives | (2,698) | (1,178) |
| Unrealised loss/(gain) on foreign exchange | 43,768 | 731 |
| Operating profit before working capital changes | 498,298 | 732,469 |
| Change in inventories | 296,333 | 241,788 |
| Change in trade and other receivables | 149,072 | 79,960 |
| Change in trade and other payables | (124,048) | (384,616) |
| Cash generated from operations | 819,655 | 669,601 |
| Payments under defined benefit plan | (442) | (142) |
| Finance costs paid | (3,196) | (3,351) |
| Income tax paid | (12,150) | (9,795) |
| Net cash generated from operating activities | 803,867 | 656,313 |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Unaudited condensed consolidated statement of cash flows (cont'd)

| | Cumulative Quarter ended 30.09.2020 RM'000 | Cumulative Quarter ended 30.09.2019 RM'000 |
|--|---|---|
| Cash flows from investing activities | | |
| Finance income received | 54,614 | 76,819 |
| Proceeds from disposal of property, plant and equipment | 12,602 | 1 |
| Acquisition of property, plant and equipment | (729,644) | (393,540) |
| Payment for right-of-use asset | - | (7,812) |
| Prepayment for acquisition of land | (8) | - |
| Fund placement in other investment | (91,537) | (73,012) |
| Investment in associate | (13,074) | - |
| Net cash used in investing activities | <u>(767,047)</u> | <u>(397,544)</u> |
| Cash flows from financing activities | | |
| Dividend paid | (159,109) | (386,407) |
| Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company | 137,896 | - |
| Payment of lease liabilities | <u>(11,794)</u> | <u>(15,971)</u> |
| Net cash used in financing activities | <u>(33,007)</u> | <u>(402,378)</u> |
| Net increase/(decrease) in cash and cash equivalents | 3,813 | (143,609) |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | (36,433) | 7,862 |
| Cash and cash equivalents at beginning of period | <u>999,769</u> | <u>2,262,300</u> |
| Cash and cash equivalents at end of period (Note B14) | <u><u>967,149</u></u> | <u><u>2,126,553</u></u> |

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134

A1. Basis of preparation

The condensed financial statements are unaudited and have been prepared in accordance with IAS 34, MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements. They should also be read in conjunction with the financial statements of the Group for the year ended 31 December 2019 and the accompanying notes attached to the unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on 28 October 2020.

A2. Significant accounting policies

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the audited consolidated financial statements of the Group for the financial year ended 31 December 2019, except for the adoption of the following amendments to MFRSs during the financial year:

Amendments to MFRS 3, Business Combinations - Definition of a Business
Amendments to MFRS 101, Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
Amendments to MFRS 9, Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement and MFRS 7, Financial Disclosures – Interest Rate Benchmark Reform

The adoption of the above amendments had no significant impact to the financial statements of the Group.

A3. Seasonality or cyclicity of operations

The petrochemical industry and the operating margins in this industry have historically been cyclical. Changes in supply and demand, both domestically and internationally (including in Southeast Asia, China and other markets the Group sells to), and resulting utilisation rates are key factors that influence the cycle and profitability of the petrochemical industry.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A3. Seasonality or cyclical of operations (cont'd)

Supply is affected by significant capacity additions in the market, and if such additions are not matched by corresponding growth in demand, average industry utilisation rates and margins will face downward pressures. Conversely, if capacity additions are not able to keep up with increased demand, average industry utilisation rates and margins face upward pressure. As a result, the petrochemical industry is cyclical and characterised by periods of tight supply, leading to high utilisation rates and margins, followed by periods of oversupply primarily resulting from significant capacity additions, leading to reduced utilisation rates and margins. The demand and supply balance may favour one position or the other for an extended period of time and may not rebalance quickly.

As the petrochemical industry is cyclical, new investments usually occur at the same time, following periods of sustained higher profitability. Cyclical changes in supply and demand are usually closely linked to economic growth patterns.

It is not possible to predict accurately the supply and demand balances, market conditions and other factors that may affect industry capacity utilisation rates and margins in the future.

A4. Exceptional items

There was no exceptional item during the quarter under review.

A5. Material changes in estimates

The Group regularly reviews the significant assumptions used in measuring its provision for dismantling cost to ensure that the assumptions are in line with economic measurements. In Q3 2020, based on an analysis performed by the management, the Group has revised the discount rate from 2.48% to 1.57%. This change has resulted in an increase by approximately RM101,221,000 in the provision for dismantling cost.

A6. Debt and equity securities

There were no material issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the quarter under review.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A7. Dividend paid

During the 9 months financial period ended 30 September 2020, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2019, of 7.0 sen per share on 2,272,983,500 ordinary shares, amounting to a dividend of RM 159,108,845.

During the 9 months financial period ended 30 September 2019, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2018, of 17.0 sen per share on 2,272,983,500 ordinary shares, amounting to a dividend of RM 386,407,195.

A8. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

| | Olefins and derivative products RM'000 | Polyolefin products RM'000 | Total RM'000 |
|---|---|---|-------------------------|
| For the financial period ended 30 September 2020 | | | |
| Geographical markets | | | |
| Malaysia | 214,465 | 1,514,885 | 1,729,350 |
| Indonesia | 88,045 | 1,115,739 | 1,203,784 |
| China (including Hong Kong) | 161,752 | 793,995 | 955,747 |
| Southeast Asia | 202,684 | 459,975 | 662,659 |
| Northeast Asia | 139,184 | 113,603 | 252,787 |
| Indian Sub-Continent | 38,872 | 107,960 | 146,832 |
| Others | - | 27,532 | 27,532 |
| | <u>845,002</u> | <u>4,133,689</u> | <u>4,978,691</u> |
| For the financial period ended 30 September 2019 | | | |
| Geographical markets | | | |
| Malaysia | 328,834 | 1,961,419 | 2,290,253 |
| Indonesia | 114,874 | 1,631,867 | 1,746,741 |
| China (including Hong Kong) | 394,188 | 575,503 | 969,691 |
| Southeast Asia | 225,295 | 565,491 | 790,786 |
| Northeast Asia | 239,321 | 143,805 | 383,126 |
| Indian Sub-Continent | 78,194 | 152,660 | 230,854 |
| Others | - | 52,695 | 52,695 |
| | <u>1,380,706</u> | <u>5,083,440</u> | <u>6,464,146</u> |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A9. Operating segments

For management purposes, the Group is organised into business units based on its products and has 2 reportable segments, as follows:

- (i) Olefins and derivative products - Manufacture and sale of olefins and derivative products
- (ii) Polyolefin products - Manufacture and sale of polyolefin products

The following table provides an analysis of the Group's revenue and results by business segment:

| | Olefins and derivative products RM'000 | Polyolefin products RM'000 | Eliminations and unallocated results RM'000 | Total RM'000 |
|---|---|---|--|-------------------------|
| For the financial period ended 30 September 2020 | | | | |
| Revenue | | | | |
| External customers | 845,002 | 4,133,689 | - | 4,978,691 |
| Inter-segment | 2,260,837 | - | (2,260,837) | - |
| Total revenue | <u>3,105,839</u> | <u>4,133,689</u> | <u>(2,260,837)</u> | <u>4,978,691</u> |
| Expenses | | | | |
| Depreciation of property, plant and equipment and right-of-use assets | 264,000 | 153,177 | 1,323 | 418,500 |
| Property, plant and equipment written off | 513 | 320 | - | 833 |
| Reversal of write-down of inventories to net realisable value | (1,753) | (17,828) | - | (19,581) |
| Segment results | <u>(118,633)</u> | <u>190,879</u> | <u>(70,441)</u> | <u>1,805</u> |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A9. Operating segments (cont'd)

| | Olefins and derivative products RM'000 | Polyolefin products RM'000 | Eliminations and unallocated results RM'000 | Total RM'000 |
|---|---|---|--|-------------------------|
| For the financial period ended 30 September 2019 | | | | |
| Revenue | | | | |
| External customers | 1,380,706 | 5,083,440 | - | 6,464,146 |
| Inter-segment | 3,144,817 | - | (3,144,817) | - |
| Total revenue | 4,525,523 | 5,083,440 | (3,144,817) | 6,464,146 |
| Expenses | | | | |
| Depreciation of property, plant and equipment and right-of-use | 305,696 | 158,386 | 5,505 | 469,587 |
| Property, plant and equipment written off | 68 | 734 | - | 802 |
| Reversal of write-down of inventories to net realisable value | (31,811) | (9,747) | - | (41,558) |
| Segment results | 36,481 | 269,723 | 54,774 | 360,978 |

Adjustments and eliminations

Finance income are allocated to individual segments other than finance income derived from the Company's proceeds from its initial public offering amounting to approximately RM38.6 million for the financial period ended 30 September 2020 which are managed on a group basis.

Foreign exchange gain/loss are allocated to individual segments other than foreign exchange gain arising from the conversion of the unutilised proceeds of the Company's initial public offering to USD amounting to approximately RM24.2 million for the financial period ended 30 September 2020 which are managed on a group basis.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A9. Operating segments (cont'd)

Reconciliation of profit

| | Cumulative Quarter ended 30.09.2020 RM'000 | Cumulative Quarter ended 30.09.2019 RM'000 |
|--|---|---|
| Segment (loss)/profit of: | | |
| - Olefins and derivative products | (118,633) | 36,481 |
| - Polyolefin products | 190,879 | 269,723 |
| Total segment profit | <u>72,246</u> | <u>306,204</u> |
| Inter-segment sales (elimination) | (673) | (299) |
| Share of results of associates | (108,780) | (4,880) |
| Finance income derived from IPO proceeds | 38,555 | 61,169 |
| Foreign exchange gain arise as a result of converting a portion of IPO proceed to USD | 24,162 | 15,649 |
| Other unallocated cost | (23,705) | (16,865) |
| Eliminations and unallocated results | (70,441) | 54,774 |
| (Loss)/Profit before tax | <u><u>1,805</u></u> | <u><u>360,978</u></u> |

A10. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the period under review. As at 30 September 2020, all property, plant and equipment were stated at cost less accumulated depreciation.

A11. Material subsequent event

There were no material events subsequent to the end of the current period.

A12. Contingencies

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2019.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A13. Changes in composition of the Group

Lotte Chemical USA Corporation ("LC USA") has filed a Notice of Arbitration on the dispute with Eagle US 2 LLC ("Eagle US") relating to the purchase price formula for transferring its equity interest in LACC LLC ("LACC") to Eagle US. The arbitration hearing is scheduled to begin on 21 June 2021, subject to possible schedule changes including resulting from COVID-19 pandemic.

There were no other material changes in the composition of the Group during the period.

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

| | As at 30.09.2020 RM'000 | As at 31.12.2019 RM'000 |
|---------------------------------|--|--|
| Contracted but not provided for | <u>385,178</u> | <u>586,029</u> |
| Approved but not contracted for | <u>357,160</u> | <u>418,807</u> |

A15. Fair value information

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximations of fair values.

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair values:

- (i) Trade and other receivables
- (ii) Trade and other payables

The carrying amounts of these financial assets and liabilities are reasonable approximations of fair values due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

Derivatives

Fair values of forward currency contracts are calculated by reference to forward rates quoted at the reporting date for contracts with similar maturity profiles.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A15. Fair value information (cont'd)

Financial guarantees

The Company provides a financial guarantee to a bank for credit facilities granted to an associate. The fair value of the guarantee is not expected to be material due to the following reasons:

- The likelihood is remote that the guaranteed party will default within the guaranteed period; and
- The estimated loss exposure to the Company arising from the outstanding credit facility that is not recovered if the guaranteed party were to default is not expected to be significant as the guaranteed party has net assets in excess of the outstanding amount of credit facilities.

Fair value hierarchy

The following table is the fair value measurement hierarchy of the Group's assets and liabilities.

| | Quoted prices in active markets Total RM'000 | Significant observable inputs (Level 2) RM'000 | Significant unobservable inputs (Level 3) RM'000 |
|--|--|--|--|
| At 30 September 2020 | | | |
| Financial assets | | | |
| Fund placements with licensed financial institutions | 1,380,984 | - | - |

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**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A15. Fair value information (cont'd)

Fair value hierarchy (cont'd)

| | Total RM'000 | Quoted prices in active markets (Level 1) RM'000 | Significant observable inputs (Level 2) RM'000 | Significant unobservable inputs (Level 3) RM'000 |
|---|-----------------|--|--|--|
| At 31 December 2019 | | | | |
| Financial assets | | | | |
| Fund placements with licensed financial institutions | 1,325,440 | - | 1,325,440 | - |
| Financial liabilities | | | | |
| Derivatives | | | | |
| - Forward currency contracts | (2,714) | - | (2,714) | - |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A16. Related parties

For the purposes of these interim financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The significant related party transactions of the Group are as follows:

| | Cumulative Quarter ended 30.09.2020 RM'000 | Cumulative Quarter ended 30.09.2019 RM'000 |
|--|---|---|
| Ultimate holding company | | |
| Sales of goods | 36,603 | 57,683 |
| Catalyst trial fee received/receivable | 6,016 | 4,664 |
| Management and consulting fees incurred | - | 527 |
| Reimbursement of payroll for secondment of expatriates | 8,351 | 11,046 |
| Purchase of materials | 905 | 6,096 |
| Commission expense | 1,358 | 1,163 |
| Royalty expense | 366 | 27,363 |
| Commission income | 28 | 141 |
| Capital expenditure incurred | 28,203 | 5,551 |
| IT support services fee paid/payable | 469 | 573 |
| Other administrative expenses | - | 27 |
| | <u>36,603</u> | <u>111,307</u> |
| Related companies | | |
| Sales of goods | 52,994 | 78,194 |
| Capital expenditure incurred | 82,502 | 172,285 |
| IT support services fee paid/payable | 2,434 | 2,026 |
| Commission expense | 4,513 | 2,971 |
| Warehouse and logistics services incurred | 17,806 | 15,179 |
| Advertising expenses | 18 | - |
| Other administrative expenses | 45 | 248 |
| | <u>160,208</u> | <u>376,803</u> |
| Associate company | | |
| Sales of goods | 82,622 | 156,150 |
| Sales of utilities | 7,897 | 10,498 |
| Income from shared services | 186 | 204 |
| Financial guarantee income | 45 | 50 |
| Lease rental income | 2,115 | 1,974 |
| | <u>92,865</u> | <u>269,876</u> |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes

B1. Review of group performance

(a) Performance of the current quarter against the corresponding quarter

| | Individual quarter ended 30 September | | | | | |
|--------------------------------|---------------------------------------|-----------------|--|--|-------------------------------|-------------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | Group RM'000 | Group RM'000 | Olefins and derivative products RM'000 | Olefins and derivative products RM'000 | Polyolefin products RM'000 | Polyolefin products RM'000 |
| Revenue | 1,940,593 | 2,166,989 | 328,263 | 457,824 | 1,612,330 | 1,709,165 |
| Profit/(Loss) before tax | 98,365 | 133,655 | (17,729) | 27,619 | 216,003 | 55,302 |
| EBITDA* | <u>279,481</u> | <u>244,367</u> | <u>71,338</u> | <u>131,544</u> | <u>268,551</u> | <u>106,541</u> |

* EBITDA refers to earnings before interest, taxation, depreciation and amortisation and is computed based on profit from operations plus depreciation of property, plant and equipment and right-of-use assets and amortisation of prepaid lease payments.

Business sentiment has improved gradually in Q3 2020 as countries in the region resume business whilst continuing to battle the pandemic spread. Despite an increase in sales volume by 4%, the Group's revenue decreased by 10.4% (or RM 226.4 million) from RM 2,167.0 million to RM 1,940.6 million due to lower average product selling price.

The average plant utilisation rate was 90% in Q3 2020 compared to 91% in Q3 2019.

The Group's profit from operations has improved by 59.6% from RM 86.6 million to RM 138.2 million. The increase is mainly due to increased in gross profit margin from 6.2% in Q3 2019 to 11.3% in Q3 2020 as polymer margin spread has improved resulting from lower feedstock costs, higher other income arising from gain on disposal of spent catalyst and lower distribution expenses due to decrease in royalty expenses offsetted by higher foreign exchange losses.

The Group's profit before tax was lower as a result of higher share of associate losses due to lower product margin and higher operating cost and direct costs resulting from Hurricane Laura of RM 15.9 million.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

(a) Performance of the current quarter against the corresponding quarter (cont'd)

As a result of the above, profit after tax decreased from RM 91.4 million to RM 77.9 million.

Olefins and derivative products

The segment recorded a decrease in revenue from RM 457.8 million in Q3 2019 to RM 328.3 million in Q3 2020. This was due to the decrease in average product selling price in Q3 2020 as compared to the corresponding quarter but partially offsetted by higher sales volume.

Profit decreased from RM 27.6 million to loss before tax of RM 17.7 million mainly due to margin squeeze resulting from lower average product selling price.

Polyolefin products

The segment recorded a decrease in revenue from RM 1,709.2 million in Q3 2019 to RM 1,612.3 million in Q3 2020. This was due to the decrease in average product selling price in Q3 2020 as compared to the corresponding quarter but partially offsetted by higher sales volume.

Profit before tax increased from RM 55.3 million to RM 216.0 million mainly due to improved margin spread from lower feedstock cost.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

(b) Performance of the current year against the corresponding year

| | Cumulative quarter ended 30 September | | | | | |
|--------------------------|---------------------------------------|----------------|------------------------|----------------|---------------------|----------------|
| | 2020 | 2019 | 2020 | | 2020 | 2019 |
| | Group | | Olefins and derivative | | Polyolefin products | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 4,978,691 | 6,464,146 | 845,002 | 1,380,706 | 4,133,689 | 5,083,440 |
| (Loss)/Profit before tax | 1,805 | 360,978 | (118,633) | 36,481 | 190,879 | 269,723 |
| EBITDA* | <u>485,449</u> | <u>770,471</u> | <u>144,788</u> | <u>340,757</u> | <u>344,710</u> | <u>428,128</u> |

* EBITDA refers to earnings before interest, taxation, depreciation and amortisation and is computed based on profit from operations plus depreciation of property, plant and equipment and right-of-use assets and amortisation of prepaid lease payments.

Group revenue decreased by 23% (or RM 1,485.4 million) from RM 6,464.1 million to RM 4,978.7 million due to decrease in average product selling price and sales volume. The COVID-19 pandemic have affected regional economy resulting in poor business sentiment and weakened demand. Regional businesses display sign of recovery with recent improvement seen in average product selling price and sales volume. Apart from the virus outbreak, reduction in production quantity resulting from the major statutory plant turnaround conducted in 1H 2020 has also caused the decrease in sales volume.

Overall plant utilisation decreased from 89% to 81% due to the major statutory plant turnaround.

As a result of the lower margin and sales volume, profit before tax has decreased from RM 361.0 million in 2019 to RM 1.8 million in 2020.

Other factors contributing to loss before tax includes decrease in other income due to one-off insurance claim in 2019, withholding tax from disposal of Lotte Chemical Titan Nusantara's shares by Chemical Brothers Limited, decrease in finance income and increase in share of losses from associates.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

(b) Performance of the current year against the corresponding year (cont'd)

Other major factors offsetting the loss before tax includes lower distribution expenses arising from decrease in royalty expense, lower administrative expenses and higher foreign exchange gain.

As a result of the above, profit after tax decreased from RM 252.2 million to RM 4.3 million.

Olefins and derivative products

The segment recorded a decrease in revenue from RM 1,380.7 million to RM 845.0 million. This was primarily due to the decrease in average product selling price and sales volume in 2020 as compared to the corresponding period.

Profit before tax decreased from RM 36.5 million to loss before tax of RM 118.6 million mainly due to margin squeeze.

Polyolefin products

The segment recorded a decrease in revenue from RM 5,083.4 million to RM 4,133.7 million. This was primarily due to the decrease in average product selling price and sales volume in 2020 as compared to the corresponding period.

Profit before tax decreased from RM 269.7 million to RM 190.9 million mainly due to margin squeeze.

B2. Variation of results against the preceding quarter

| | Individual Quarter ended 30 September 2020 RM'000 | Individual Quarter ended 30 June 2020 RM'000 |
|-------------------|--|---|
| Revenue | 1,940,593 | 1,576,264 |
| Profit before tax | 98,365 | 109,235 |
| EBITDA | <u>279,481</u> | <u>261,827</u> |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B2. Variation of results against the preceding quarter (cont'd)

Following the gradual easing of restriction to spur economic activity, the Group's revenue increased by RM 364.3 million or 23.1% from RM 1,576.3 million to RM 1,940.6 million due to increase in average product selling price and sales volume.

The plant utilisation rate was 90% in Q3 2020 as compared to 86% in the preceding quarter. This is attributable to the normalisation of plant operation after the completion of major statutory turnaround in April 2020.

The Group's profit from operations has increased from RM 119.3 million to RM 138.2 million mainly due to improved polymer margin spread resulting from higher product selling price but offsetted by higher foreign exchange losses.

The Group's profit before tax was lower due to share of higher associate losses.

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2020 are expected to be primarily influenced by the following factors:

- (a) The demand and supply balance of petrochemical products in the market;
- (b) Our ability to maximise production outputs and operational efficiency;
- (c) Petrochemical product demand moves in tandem with overall global GDP growth, driven by consumption and population growth; and
- (d) Feedstock prices which is correlated to crude oil prices.

The International Monetary Fund in its latest report has noted a less severe economic contraction for 2020 than it initially expected. This is following the better-than-expected 2nd quarter economic recession in major developed and emerging economies, led by strong recovery in the Chinese economy. The softened impact was also supported by the massive fiscal countermeasures and accommodative monetary policies implemented by all major economies in the onset of the COVID-19 pandemic. Nevertheless, the recovery outlook remains fragile with high degree of uncertainties for now, as it will be dependent on the pandemic recovery trajectory.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects (cont'd)

On another front, global crude oil price has been volatile throughout 2020 with the two-pronged events of major OPEC+ producers' price war as well as the COVID-19 pandemic which had diminished demand for global crude consumption. On average, benchmark Brent crude price saw steep decline from above USD 60 per barrel in early 2020 to below USD 20 per barrel in April 2020. The price has since recovered to about USD 40 per barrel in September 2020 subsequent to the continuation of OPEC+ output cut agreement and supported by demand pickup from the reopening of economies worldwide. Such volatility has resulted in enormous price fluctuation for our naphtha feedstock costs that correlate with the global crude oil price movement.

Amidst these external challenges, the Company will continue to monitor closely on the pandemic development as the petrochemical industry correlates with and is heavily dependent on the regional and global economic growth and aggregate consumption pattern. Notwithstanding the external circumstances, the Company will continue to maintain its strong financial resilience and optimize its operations to ride through the highly volatile business environment.

B4. Profit forecast or profit guarantee

Not applicable as there was no profit forecast or profit guarantee issued.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B5. Profit before tax

Profit before tax is arrived at after charging/(crediting):

| | Individual quarter | | Cumulative quarter | |
|---|--------------------|----------|--------------------|----------|
| | ended 30 September | | ended 30 September | |
| | 2020 | 2019 | 2020 | 2019 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Depreciation of property, plant and equipment and right-of-use assets | 141,293 | 157,784 | 418,500 | 469,587 |
| Loss/(Gain) on foreign exchange: | | | | |
| - Realised | 15,108 | (13,249) | (57,424) | (7,499) |
| - Unrealised | 29,495 | 1,618 | 43,768 | 731 |
| Inventories written off | 52 | 116 | 86 | 125 |
| Property, plant and equipment written off | 3 | 90 | 833 | 802 |
| (Gain)/Loss on disposal of property, plant and equipment | (9,181) | 33 | (12,602) | 33 |
| Allowance for impairment loss on trade receivables | - | - | - | 596 |
| Write down /(Reversal of write-down) of inventories to net realisable value | 1,696 | (3,875) | (19,581) | (41,558) |
| Bad debts recovered | - | - | - | (17) |
| Fair value changes in derivatives | 107 | (898) | (2,698) | (1,178) |

B6. Finance costs

| | Individual quarter | | Cumulative quarter | |
|------------------------------------|--------------------|--------------|--------------------|---------------|
| | ended 30 September | | ended 30 September | |
| | 2020 | 2019 | 2020 | 2019 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Unwinding of lease liabilities | 755 | 789 | 2,369 | 2,529 |
| Bank charges | 706 | 646 | 2,371 | 2,301 |
| Letter of credit charges | 310 | 294 | 812 | 855 |
| Unwinding of discount on provision | 1,708 | 1,972 | 5,413 | 5,965 |
| Other finance costs | - | 66 | 13 | 195 |
| | <u>3,479</u> | <u>3,767</u> | <u>10,978</u> | <u>11,845</u> |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B7. Income tax

| | Individual quarter ended 30 September | | Cumulative quarter ended 30 September | |
|--|--|----------------|--|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Current tax | | | | |
| Current year | 13,355 | 11,474 | 18,440 | 32,189 |
| (Over)/Underprovision in prior year | (1,174) | 10 | (1,174) | (262) |
| | <u>12,181</u> | <u>11,484</u> | <u>17,266</u> | <u>31,927</u> |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | 4,381 | (4,938) | (23,652) | 41,095 |
| Underprovision in prior year | 3,935 | 35,756 | 3,935 | 35,756 |
| | <u>8,316</u> | <u>30,818</u> | <u>(19,717)</u> | <u>76,851</u> |
| Total income tax recognised in profit or loss | <u>20,497</u> | <u>42,302</u> | <u>(2,451)</u> | <u>108,778</u> |

The Group effective tax rate for the 9 months ended 30 September 2020 is higher than the statutory tax rate of 24%. This is primarily due to the fact that profit before tax recorded by the Group during the current period being offsetted by the share of associate net losses and the tax exempt income from a subsidiary that was granted Principal Hub Incentive.

B8. Sales of unquoted investments/properties

There were no material disposals of unquoted investments or properties by the Group for the period under review.

B9. Quoted securities

There were no material dealings in quoted securities during the period under review.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals

Based on the IPO price of RM 6.50 per share, gross proceeds of RM 3,770 million was raised from the Public Issue on 11 July 2017 in the Main Market of Bursa Malaysia Securities Berhad. RM 226.3 million of the proceeds were utilised for purchase of treasury shares. The status of utilisation of the remaining IPO proceeds are as follow:

| Details of use of proceeds | Intended timeframe for utilisation | Proposed utilisation RM'000 | Actual utilisation as at 30 September 2020 RM'000 | Percentage utilised % |
|---|------------------------------------|-----------------------------|---|-----------------------|
| Funding of following projects: | | | | |
| (i) LINE Project (formerly known as Integrated Petrochemical Facility) (Note 1) | By 2022 | 2,634,213 | 434,081 | 16% |
| (ii) TE3 Project | Fully utilised | 220,000 | 220,000 | 100% |
| (iii) PP3 Project (Note 2) | Fully utilised | 606,805 | 606,805 | 100% |
| Listing expenses (Note 3) | Fully utilised | 82,730 | 82,730 | 100% |
| | | 3,543,748 | 1,343,616 | 38% |

Note 1: The funding for LINE Project (formerly known as Integrated Petrochemical Facility) has been revised from RM 2,588,044,000 to RM 2,634,213,000 due to the excess fund from PP3 project and listing expenses.

Note 2: The PP3 project has been revised from RM 620,000,000 to RM 606,805,000. The excess fund of RM 13,195,000 from PP3 project would be invested in the LINE Project (formerly known as Integrated Petrochemical Facility).

Note 3: The listing expenses has been revised from RM 115,704,000 to RM 82,730,000. The excess fund of RM 32,974,000 from listing expenses would be invested in the LINE Project (formerly known as Integrated Petrochemical Facility).

The utilisation of the proceeds as disclosed above should be read in conjunction with the prospectus of the Company dated 16 September 2017 ("Prospectus"). In accordance to the Prospectus, the balance of the unutilised funds are kept as deposits, short-term money-market instruments or money-market unit trust funds in Malaysia. As at 30 September 2020, RM 29.5 million of the unutilised funds are temporarily reserved in Indonesia for subsequent payment to suppliers of LINE Project (formerly known as Integrated Petrochemical Facility).

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals (con'd)

The Company has placed the unutilised IPO proceeds with licensed bank and financial institution in Malaysia and has met the Shariah compliance ratio requirement.

The status and progress of each of the projects as at the reporting date are as follows:

- (i) LINE Project (formerly known as Integrated Petrochemical Facility)
The overall project configuration has been finalized and announced, and work for land preparation in the project site is currently underway.

Nonetheless, in light of the significant impact from COVID-19 pandemic on the global economy and intense volatility in global crude oil prices, the Group is undertaking a strategic review on the project timing and its progress.

The Group shall provide further update when the market environment and outlook stabilize in the coming quarters.

- (ii) TE3 Project
The project has started commercial operation since 16th December 2017.
- (iii) PP3 Project
The project has started commercial operation since 1st September 2018.

Please refer to Section 4.7.1 of the Prospectus for further details of the projects.

B11. Derivative financial instruments

The Group's derivative financial instruments are as disclosed in Note A15.

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B12. Fair value changes of financial liabilities

Other than derivatives which are measured at fair value and are classified as liabilities only when they are at a loss position as at the end of the reporting period, the Group does not remeasure its financial liabilities at fair value after initial recognition.

B13. Other investments

| | As at 30 September 2020 RM'000 | As at 31 December 2019 RM'000 |
|--|---|--|
| <u>Fund placements with licensed financial institutions</u> | | |
| Unutilised proceeds from initial public offering | 955,143 | 947,422 |
| Proceeds from internally generated funds | <u>425,841</u> | <u>378,018</u> |
| | <u>1,380,984</u> | <u>1,325,440</u> |
| <u>Short term deposits with licensed financial institutions with maturity more than 3 months</u> | | |
| Unutilised proceeds from initial public offering | 1,507,115 | 1,393,573 |
| Proceeds from internally generated funds | <u>119,409</u> | <u>196,958</u> |
| | <u>1,626,524</u> | <u>1,590,531</u> |
| Total other investments | <u>3,007,508</u> | <u>2,915,971</u> |

B14. Cash and bank balances

| | As at 30 September 2020 RM'000 | As at 31 December 2019 RM'000 |
|--|---|--|
| <u>Unutilised proceeds from initial public offering</u> | | |
| Cash at banks | 4,057 | 8,365 |
| Short term deposits with licensed financial institutions | <u>25,466</u> | <u>210,496</u> |
| | 29,523 | 218,861 |
| <u>Others</u> | | |
| Cash at banks and on hand | 897,906 | 772,177 |
| Short term deposits with licensed financial institutions | <u>39,720</u> | <u>8,731</u> |
| Cash and cash equivalents | <u>967,149</u> | <u>999,769</u> |

**Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)**

**Unaudited condensed consolidated interim financial statements
For the quarter and year-to-date ended 30 September 2020**

Part B - Other explanatory notes (cont'd)

B15. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 30 September 2020.

B16. Material litigation

There were no material litigation taken or threatened against the Company and its subsidiaries as at reporting date.

B17. Dividends

Other than disclosed in Note A7, no dividend has been paid or declared by the Company and its subsidiaries for the period ended 30 September 2019 and 30 September 2020.

B18. Earnings per share ("EPS")

Basic and diluted EPS are calculated by dividing net profit/(loss) for the period attributable to the owner of the Company by the weighted average number of ordinary shares outstanding during the period. The Company did not issue any instruments that will give effect to dilutive potential ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

| | Individual quarter ended 30 September | | Cumulative quarter ended 30 September | |
|---|--|------------------|--|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net profit/(loss) attributable to the owner of the Company (RM'000) | <u>78,767</u> | <u>91,298</u> | <u>(2,572)</u> | <u>251,977</u> |
| Weighted average number of ordinary shares at the end of the period ('000) | <u>2,272,984</u> | <u>2,272,984</u> | <u>2,272,984</u> | <u>2,272,984</u> |
| Basic and diluted earning/(loss) per share (sen) | <u>3.47</u> | <u>4.02</u> | <u>(0.11)</u> | <u>11.09</u> |

B19. Audit report of preceding annual financial statements

The auditors have expressed an unqualified opinion on the audited consolidated financial statements of the Group and the Company for the financial year ended 31 December 2019.