

LOTTE CHEMICAL TITAN HOLDING BERHAD
199101012045 (222357-P)

**Unaudited condensed consolidated
interim financial statements**

For the quarter and financial year ended 31 December 2020

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

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

**Unaudited condensed consolidated interim financial statements
For the quarter and financial year ended 31 December 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 financial year ended 31 December 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 31.12.2020 RM'000	Individual Quarter ended 31.12.2019 RM'000	Changes RM'000	%	Financial Year ended 31.12.2020 RM'000	Financial Year ended 31.12.2019 RM'000	Changes RM'000	%
Revenue	A8	1,922,658	1,973,885	(51,227)	-3%	6,901,349	8,438,031	(1,536,682)	-18%
Cost of goods sold		(1,613,903)	(1,931,252)	317,349	-16%	(6,401,914)	(7,969,125)	1,567,211	-20%
Gross profit		308,755	42,633	266,122	624%	499,435	468,906	30,529	7%
Other income		6,265	7,826	(1,561)	-20%	34,366	70,449	(36,083)	-51%
Distribution expenses		(47,575)	(31,265)	(16,310)	52%	(112,560)	(129,565)	17,005	-13%
Administrative expenses		(24,773)	(19,690)	(5,083)	26%	(98,475)	(104,928)	6,453	-6%
Foreign exchange differences		(25,548)	(32,134)	6,586	-20%	(11,892)	(25,366)	13,474	-53%
Fair value changes on derivatives		(2)	(3,097)	3,095	-100%	2,696	(1,919)	4,615	-240%
Other expenses		(12,037)	(5,247)	(6,790)	129%	(41,536)	(17,667)	(23,869)	135%
Profit/(Loss) from operations		205,085	(40,974)	246,059	-601%	272,034	259,910	12,124	5%
Finance income		10,959	25,282	(14,323)	-57%	65,573	102,101	(36,528)	-36%
Finance costs	B6	(3,382)	(5,086)	1,704	-34%	(14,360)	(16,931)	2,571	-15%
Net finance income		7,577	20,196	(12,619)	-62%	51,213	85,170	(33,957)	-40%
Share of results of associates		(10,474)	163,142	(173,616)	-106%	(119,254)	158,262	(277,516)	-175%
Profit before tax	B5	202,188	142,364	59,824	42%	203,993	503,342	(299,349)	-59%
Income tax	B7	(52,431)	47,988	(100,419)	-209%	(49,980)	(60,790)	10,810	-18%
Net profit for the period		149,757	190,352	(40,595)	-21%	154,013	442,552	(288,539)	-65%

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

	Individual Quarter ended Note 31.12.2020 RM'000	Individual Quarter ended 31.12.2019 RM'000	Financial Year ended 31.12.2020 RM'000	Financial Year ended 31.12.2019 RM'000
Other comprehensive (loss)/ income, net of tax				
Item that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	2,881	(220)	2,881	(220)
Item that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	<u>(305,708)</u>	<u>(197,402)</u>	<u>(171,198)</u>	<u>(101,919)</u>
	<u>(302,827)</u>	<u>(197,622)</u>	<u>(168,317)</u>	<u>(102,139)</u>
Total comprehensive (loss)/ income for the period	<u><u>(153,070)</u></u>	<u><u>(7,270)</u></u>	<u><u>(14,304)</u></u>	<u><u>340,413</u></u>
Net profit/(loss) for the period attributable to:				
Owner of the Company	151,163	187,755	148,591	439,732
Non-controlling interests	<u>(1,406)</u>	<u>2,597</u>	<u>5,422</u>	<u>2,820</u>
	<u><u>149,757</u></u>	<u><u>190,352</u></u>	<u><u>154,013</u></u>	<u><u>442,552</u></u>
Total comprehensive (loss)/ income for the period attributable to:				
Owner of the Company	(136,927)	(3,397)	(3,183)	344,426
Non-controlling interests	<u>(16,143)</u>	<u>(3,873)</u>	<u>(11,121)</u>	<u>(4,013)</u>
	<u><u>(153,070)</u></u>	<u><u>(7,270)</u></u>	<u><u>(14,304)</u></u>	<u><u>340,413</u></u>
Basic and diluted earnings per ordinary share (sen)	B18 6.65	8.26	6.54	19.35

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.

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Unaudited condensed consolidated statement of financial position

	Note	As at 31.12.2020 RM'000	As at 31.12.2019 RM'000
Assets			
Non-current assets			
Property, plant and equipment		5,067,755	4,909,584
Right-of-use assets		499,378	555,618
Prepayment for acquisition of land		19,248	19,574
Investments in associates		2,092,828	2,232,689
		<u>7,679,209</u>	<u>7,717,465</u>
Current assets			
Inventories		1,294,003	1,324,854
Trade and other receivables		733,903	857,356
Tax recoverable		8,271	17,075
Prepayments		34,831	26,159
Other investments	B13	2,889,690	2,915,971
Cash and bank balances	B14	1,268,313	999,769
		<u>6,229,011</u>	<u>6,141,184</u>
Total assets		<u>13,908,220</u>	<u>13,858,649</u>
Equity and liabilities			
Capital and reserves			
Share capital		5,816,813	5,816,813
Other reserves		1,044,570	1,199,225
Retained earnings		5,164,217	5,171,854
Treasury shares, at cost		<u>(226,252)</u>	<u>(226,252)</u>
Total equity attributable to owners of the Company		11,799,348	11,961,640
Non-controlling interests		468,793	317,584
		<u>12,268,141</u>	<u>12,279,224</u>

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

	Note	As at 31.12.2020 RM'000	As at 31.12.2019 RM'000
Non-current liabilities			
Provision		332,400	323,650
Deferred tax liabilities		431,139	416,040
Defined benefit obligation		19,307	21,439
Lease liabilities		37,774	47,488
		<u>820,620</u>	<u>808,617</u>
Current liabilities			
Trade and other payables		805,901	752,527
Provision for taxation		1,303	3,175
Other financial liabilities		152	72
Lease liabilities		12,103	12,320
Derivative financial instruments		-	2,714
		<u>819,459</u>	<u>770,808</u>
Total liabilities		<u>1,640,079</u>	<u>1,579,425</u>
Total equity and liabilities		<u><u>13,908,220</u></u>	<u><u>13,858,649</u></u>
Net assets per share attributable to ordinary equity holders of the parent (RM)		<u>5.19</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.

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Unaudited condensed consolidated statement of changes in equity

Note	<----- Attributable to owners of the Company ----->							
	Share capital RM'000	Treasury Shares RM'000	Equity transaction reserves RM'000	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
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 year	-	-	-	-	439,732	439,732	2,820	442,552
Other comprehensive loss	-	-	-	(95,086)	(220)	(95,306)	(6,833)	(102,139)
Total comprehensive income for the year	-	-	-	(95,086)	439,512	344,426	(4,013)	340,413
Gain on partial disposal of a subsidiary company	-	-	26,539	(3,867)	-	22,672	231,076	253,748
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	-	-	-	-	-	-	67,536	67,536
Dividends	-	-	-	-	(386,407)	(386,407)	-	(386,407)
At 31 December 2019	5,816,813	(226,252)	26,539	1,172,686	5,171,854	11,961,640	317,584	12,279,224
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 profit for the year	-	-	-	-	148,591	148,591	5,422	154,013
Other comprehensive loss	-	-	-	(154,655)	2,881	(151,774)	(16,543)	(168,317)
Total comprehensive loss for the year	-	-	-	(154,655)	151,472	(3,183)	(11,121)	(14,304)
Proceeds from issuance of ordinary share by a subsidiary to Lotte Chemical Corporation, the ultimate holding company	-	-	-	-	-	-	162,330	162,330
Dividends	-	-	-	-	(159,109)	(159,109)	-	(159,109)
At 31 December 2020	5,816,813	(226,252)	26,539	1,018,031	5,164,217	11,799,348	468,793	12,268,141

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.

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Unaudited condensed consolidated interim financial statements
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Unaudited condensed consolidated statement of cash flows

	Financial Year ended 31.12.2020 RM'000	Financial Year ended 31.12.2019 RM'000
Cash flows from operating activities		
Profit before tax	203,993	503,342
Adjustments for:-		
Depreciation of property, plant and equipment and right-of-use assets	558,236	624,518
Finance costs	14,360	16,931
Property, plant and equipment written off	2,679	1,006
Reversal of write-down of inventories to net realisable value	(23,056)	(26,874)
Expenses recognised in respect of defined benefit plan	3,300	3,567
Inventories written off	86	277
Allowance for impairment loss on trade receivables	-	596
Share of results of associates	119,254	(158,262)
Gain on disposal of property, plant and equipment	(6,376)	(1,795)
Finance income	(65,573)	(102,101)
Fair value changes in derivatives	(2,696)	1,919
Unrealised loss on foreign exchange	34,932	32,414
Operating profit before working capital changes	839,139	895,538
Change in inventories	31,317	165,266
Change in trade and other receivables	117,058	148,030
Change in trade and other payables	110,323	(112,973)
Cash generated from operations	1,097,837	1,095,861
Payments under defined benefit plan	(746)	(142)
Finance costs paid	(4,147)	(4,377)
Income tax paid	(16,140)	(18,628)
Net cash generated from operating activities	1,076,804	1,072,714

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

	Financial Year ended 31.12.2020 RM'000	Financial Year ended 31.12.2019 RM'000
Cash flows from investing activities		
Finance income received	65,573	102,101
Proceeds from disposal of property, plant and equipment	26,583	1,906
Acquisition of property, plant and equipment	(825,652)	(529,748)
Payment for right-of-use asset	-	(6,941)
Prepayment for acquisition of land	(8)	-
Fund withdrawal from/(placement in) other investment	26,281	(1,359,564)
Net proceeds from partial disposal of a subsidiary	-	253,747
Investment in associate	(13,074)	-
Net cash used in investing activities	<u>(720,297)</u>	<u>(1,538,499)</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	162,330	67,536
Interest paid on short-term borrowings	-	(1,460)
Net proceeds from draw-down of short-term borrowings	-	675,000
Repayments of short-term borrowings	-	(675,000)
Payment of lease liabilities	(15,335)	(24,700)
Net cash used in financing activities	<u>(12,114)</u>	<u>(345,031)</u>
Net increase/(decrease) in cash and cash equivalents	344,393	(810,816)
Effect of exchange rate changes on the balance of cash held in foreign currencies	(75,849)	(45,121)
Cash and cash equivalents at beginning of year	<u>999,769</u>	<u>1,855,706</u>
Cash and cash equivalents at end of year (Note B14)	<u><u>1,268,313</u></u>	<u><u>999,769</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.

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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 27 January 2021.

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 Instruments: 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.

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

A3. Seasonality or cyclical nature 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 year 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 Q4 2020, based on an analysis performed by the management, the Group has revised the discount rate from 2.48% to 1.81%. This change has resulted in an increase by approximately RM7,485,000 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 year under review.

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

A7. Dividend paid

During the financial year ended 31 December 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 financial year ended 31 December 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 year ended 31 December 2020			
Geographical markets			
Malaysia	318,355	2,169,633	2,487,988
Indonesia	134,794	1,571,342	1,706,136
China (including Hong Kong)	229,578	1,003,781	1,233,359
Southeast Asia	247,811	624,337	872,148
Northeast Asia	196,824	154,759	351,583
Indian Sub-Continent	50,221	164,959	215,180
Others	-	34,955	34,955
	<u>1,177,583</u>	<u>5,723,766</u>	<u>6,901,349</u>
Total revenue from contracts with customers			
For the financial year ended 31 December 2019			
Geographical markets			
Malaysia	431,237	2,527,213	2,958,450
Indonesia	163,608	2,093,367	2,256,975
China (including Hong Kong)	485,485	786,674	1,272,159
Southeast Asia	339,248	757,206	1,096,454
Northeast Asia	309,715	193,404	503,119
Indian Sub-Continent	97,724	185,653	283,377
Others	2,618	64,879	67,497
	<u>1,829,635</u>	<u>6,608,396</u>	<u>8,438,031</u>
Total revenue from contracts with customers			

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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 year ended 31 December 2020				
Revenue				
External customers	1,177,583	5,723,766	-	6,901,349
Inter-segment	3,030,580	-	(3,030,580)	-
Total revenue	4,208,163	5,723,766	(3,030,580)	6,901,349
Expenses				
Depreciation of property, plant and equipment and right-of-use assets	353,552	203,413	1,271	558,236
Property, plant and equipment written off	1,804	875	-	2,679
Reversal of write-down of inventories to net realisable value	(5,134)	(17,922)	-	(23,056)
Segment results	(136,132)	467,552	(127,427)	203,993

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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 year ended 31 December 2019				
Revenue				
External customers	1,829,635	6,608,396	-	8,438,031
Inter-segment	3,187,917	-	(3,187,917)	-
Total revenue	5,017,552	6,608,396	(3,187,917)	8,438,031
Expenses				
Depreciation of property, plant and equipment and right-of-use	412,153	211,637	728	624,518
Property, plant and equipment written off	172	834	-	1,006
(Reversal of write-down)/Write-down of inventories to net realisable value	(29,684)	2,810	-	(26,874)
Segment results	41,931	262,389	199,022	503,342

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 RM45.9 million for the financial year ended 31 December 2020 which are managed on a group basis.

Foreign exchange gain/loss are allocated to individual segments other than foreign exchange loss arising from the conversion of the unutilised proceeds of the Company's initial public offering to USD amounting to approximately RM21.9 million for the financial year ended 31 December 2020 which are managed on a group basis.

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

A9. Operating segments (cont'd)

Reconciliation of profit

	Financial Year ended 31.12.2020 RM'000	Financial Year ended 31.12.2019 RM'000
Segment (loss)/profit of:		
- Olefins and derivative products	(136,132)	41,931
- Polyolefin products	467,552	262,389
Total segment profit	<u>331,420</u>	<u>304,320</u>
Inter-segment sales (elimination)	(673)	575
Share of results of associates	(119,254)	158,262
Finance income derived from IPO proceeds	45,908	79,740
Foreign exchange loss arise as a result of converting a portion of IPO proceed to USD	(21,899)	(18,827)
Other unallocated cost	(31,509)	(20,728)
Eliminations and unallocated results	<u>(127,427)</u>	<u>199,022</u>
Profit before tax	<u><u>203,993</u></u>	<u><u>503,342</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 31 December 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.

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

A13. Changes in composition of the Group

- (a) 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.
- (b) In 2020, the following subsidiaries of the Company have been placed under Members’ Voluntary Winding-Up (“winding-up”) in accordance with the laws of BVI Business Companies Act, 2004 in British Virgin Islands, Section 137 to 140 of the Insolvency Act 2009 in Mauritius or Section 439(1)(b) of the Companies Act, 2016 in Malaysia.

No.	Company	Date of commencement of liquidation/winding-up
1	South Wealth Finance Limited	30 June 2020
2	Chemical Brothers Limited	17 December 2020
3	Lotte Chemical Titan International Limited	18 December 2020

The liquidation and winding-up of the subsidiaries is part of LCT’s streamlining exercise to reduce the number of dormant subsidiaries in the Group.

The winding-up of the subsidiaries will not have any operational or material effect on the earnings, net assets or gearing of the LCT Group for the financial year ending 31 December 2020 and 31 December 2021 respectively.

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

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 31.12.2020 RM’000	As at 31.12.2019 RM’000
Contracted but not provided for	<u>342,826</u>	<u>586,029</u>
Approved but not contracted for	<u>359,028</u>	<u>418,807</u>

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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.

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.

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

Fair value hierarchy

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

	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 2020				
Financial assets				
Fund placements with licensed financial institutions	1,416,558	-	1,416,558	-
	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)	-

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.

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

A16. Related parties (cont'd)

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

	Financial Year ended 31.12.2020 RM'000	Financial Year ended 31.12.2019 RM'000
Ultimate holding company		
Sales of goods	55,347	78,274
Catalyst trial fee received/receivable	6,016	10,082
Management and consulting fees incurred	383	527
Reimbursement of payroll for secondment of expatriates	10,985	13,173
Purchase of materials	914	6,184
Commission expense	1,736	1,726
Royalty expense	27,525	36,035
Commission income	42	170
Capital expenditure incurred	28,762	6,510
IT support services fee paid/payable	635	785
Other administrative expenses	-	27
Expenses paid on behalf	-	453
Related companies		
Sales of goods	72,766	90,757
Capital expenditure incurred	123,637	303,561
IT support services fee paid/payable	3,225	2,684
Commission expense	5,295	4,363
Warehouse and logistics services incurred	23,447	20,213
Advertising expenses	18	178
Other administrative expenses	62	93
Associate company		
Sales of goods	141,636	213,538
Sales of utilities	11,450	14,472
Income from shared services	212	262
Financial guarantee income	87	106
Interest income	83	11
Lease rental income	2,782	2,661
Other income	729	-

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Part B - Other explanatory notes

B1. Review of group performance

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

	Individual quarter ended 31 December					
	2020	2019	2020		2020	2019
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	1,922,658	1,973,885	332,581	448,929	1,590,077	1,524,956
Profit/(Loss) before tax	202,188	142,364	(17,499)	5,450	276,673	(7,334)
EBITDA*	<u>344,821</u>	<u>113,957</u>	<u>72,029</u>	<u>111,335</u>	<u>327,415</u>	<u>46,074</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.

Despite an increase in average product selling price, the Group's revenue decreased by 2.6% (or RM 51.2 million) from RM 1,973.9 million to RM 1,922.7 million mainly due to lower sales volume resulting from lower production volume.

The average plant utilisation rate was marginally lower at 85% in Q4 2020 as compared to 86% in Q4 2019.

The Group's profit before tax has improved by 42.0% from RM 142.4 million to RM 202.2 million. This is mainly due to higher gross profit margin of 16.1% in Q4 2020 as compared to 2.2% in Q4 2019 as margin spread improved resulting from lower feedstock costs.

The improvement in Group's profit before tax was offset by lower finance income, higher distribution expenses due to royalty payable to Lotte Chemical Corporation, losses from the surrender of leased land and share of losses from associates. The higher profit from an associate in 2019 is mainly derived from a one-off gain on disposal of equity interest in a joint venture operation.

As a result of the above, profit after tax decreased from RM 190.4 million to RM 149.8 million.

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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)

Olefins and derivative products

The segment recorded a decrease in revenue from RM 448.9 million in Q4 2019 to RM 332.6 million in Q4 2020. This was due to the decrease in average product selling price and sales volume in Q4 2020 as compared to the corresponding quarter.

Profit decreased from RM 5.5 million to loss before tax of RM 17.5 million mainly due to margin squeeze resulting from lower average product selling price.

Polyolefin products

The segment recorded a marginal increase in revenue from RM 1,525.0 million in Q4 2019 to RM 1,590.1 million in Q4 2020. This was due to the increase in average product selling price in Q4 2020 as compared to the corresponding quarter but partially offset by lower sales volume.

Profitability improved from loss before tax of RM 7.3 million to profit before tax of RM 276.7 million mainly due to improved margin spread from lower feedstock cost.

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Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

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

	Financial year ended 31 December					
	2020	2019	2020	2019	2020	2019
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	6,901,349	8,438,031	1,177,583	1,829,635	5,723,766	6,608,396
Profit/(Loss) before tax	203,993	503,342	(136,132)	41,931	467,552	262,389
EBITDA*	<u>830,270</u>	<u>884,428</u>	<u>216,817</u>	<u>452,092</u>	<u>672,125</u>	<u>474,202</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.

The looming COVID-19 has affected global economy resulting in poor business sentiment and weakened demand especially during the beginning of pandemic outbreak in early 2020. As a result, Group revenue decreased by 18.2% (or RM 1,536.7 million) from RM 8,438.0 million to RM 6,901.3 million due to decrease in average product selling price and sales volume. Apart from the pandemic outbreak, reduction in production quantity resulting from the major statutory plant turnaround conducted in 1H 2020 has also lead to the decrease in sales volume.

Overall plant utilisation decreased from 88% to 82% due to the major statutory plant turnaround.

Profit from operations increased from RM 259.9 million to RM 272.0 million in 2020 mainly due to the improved margin spread resulting from lower feedstock costs, lower distribution expenses on royalty payable to Lotte Chemical Corporation and lower foreign exchange loss.

The increase in profit from operations was offset by withholding tax paid for disposal of Lotte Chemical Titan Nusantara's shares by Chemical Brothers Limited and one-off insurance claim from furnace in 2019.

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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)

Profit before tax decreased from RM 503.3 million to RM 204.0 million in 2020 mainly due to higher losses from associates. Higher losses from associates is mainly due to lower profit margin in 2020 and the one-off gain on disposal of equity interest in joint venture operation in 2019.

As a result of the above, profit after tax decreased from RM 442.6 million to RM 154.0 million.

Olefins and derivative products

The segment recorded a decrease in revenue from RM 1,829.6 million to RM 1,177.6 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 41.9 million to loss before tax of RM 136.1 million mainly due to margin squeeze.

Polyolefin products

The segment recorded a decrease in revenue from RM 6,608.4 million to RM 5,723.8 million. This was primarily due to the decrease in average product selling price and sales volume in 2020 as compared to the corresponding period.

Nevertheless, profit before tax improved from RM 262.4 million to RM 467.5 million mainly due to better margin spread.

B2. Variation of results against the preceding quarter

	Individual Quarter ended 31 December 2020 RM'000	Individual Quarter ended 30 September 2020 RM'000
Revenue	1,922,658	1,940,593
Profit before tax	202,188	98,365
EBITDA	<u>344,821</u>	<u>279,481</u>

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Part B - Other explanatory notes (cont'd)

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

The Group's revenue decreased slightly by RM 17.9 million or 0.9% from RM 1,922.7 million to RM 1,940.6 million mainly due to the decrease in sales volume resulting from lower production volume but was offset by higher average product selling price.

The plant utilisation rate was 85% in Q4 2020 as compared to 90% in the preceding quarter is mainly due to plant maintenance in Q4 2020.

The Group's profit before tax has doubled from RM 98.4 million to RM 202.2 million mainly due to improved margin spread resulting from higher average product selling price, lower share of associates losses and foreign exchange loss but offset by the royalty payable to Lotte Chemical Corporation.

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2021 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 World Bank in its latest economic outlook report has noted that following the unprecedented health and economic impact caused by the COVID-19 pandemic, the global economy appears to be emerging from one of its deepest recessions and beginning of a subdued recovery moving into 2021. The collapse in global economic activity caused by the pandemic is estimated to have been slightly less severe than previously projected, mainly due to shallower contraction in advanced economies and a robust and stronger recovery in China. Nevertheless, the near-term outlook for 2021 remains highly uncertain with post-pandemic recovery predicated on proper pandemic management and effective rolling out of vaccinations to limit community spread of COVID-19 in many countries, as well as continued monetary and fiscal policy accommodation.

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Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects (cont'd)

The highly volatile global crude oil market amid the COVID-19 pandemic and unresolved geopolitical tensions in the Middle East, had led to enormous price fluctuation for our naphtha feedstock costs which correlate with the global crude oil price movement. On average, benchmark Brent crude price fluctuated between USD 20 to USD 60 per barrel, prior to receiving support level following the announcement on rolling out of effective vaccinations for COVID-19 by end-2020. Moving forward, key risk is likely to remain amid aggravation of the pandemic, with crude oil demand particularly susceptible to lockdown measures and reduced mobility.

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 challenging business environment.

B4. Profit forecast or profit guarantee

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

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Part B - Other explanatory notes (cont'd)

B5. Profit before tax

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

	Individual quarter ended 31 December		Financial year ended 31 December	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Depreciation of property, plant and equipment and right-of-use assets	139,736	154,931	558,236	624,518
Loss/(Gain) on foreign exchange:				
- Realised	34,384	451	(23,040)	(7,048)
- Unrealised	(8,836)	31,683	34,932	32,414
Inventories written off	-	152	86	277
Property, plant and equipment written off	1,846	204	2,679	1,006
Loss/(Gain) on disposal of property, plant and equipment	6,226	(1,828)	(6,376)	(1,795)
Allowance for impairment loss on trade receivables	-	-	-	596
(Reversal of write-down)/Write down of inventories to net realisable value	(3,475)	14,684	(23,056)	(26,874)
Bad debts recovered	-	-	-	(17)
Fair value changes in derivatives	2	3,097	(2,696)	1,919

B6. Finance costs

	Individual quarter ended 31 December		Financial year ended 31 December	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Interest expenses on short term borrowing	-	1,460	-	1,460
	-	1,460	-	1,460
Unwinding of lease liabilities	748	717	3,117	3,246
Bank charges	656	642	3,027	2,943
Letter of credit charges	295	318	1,107	1,173
Unwinding of discount on provision	1,683	1,883	7,096	7,848
Other finance costs	-	66	13	261
	3,382	5,086	14,360	16,931

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Part B - Other explanatory notes (cont'd)

B7. Income tax

	Individual quarter		Financial year	
	ended 31 December		ended 31 December	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Current tax				
Current year	6,339	5,155	24,779	37,344
Under/(Over)provision in prior year	65	-	(1,109)	(262)
	<u>6,404</u>	<u>5,155</u>	<u>23,670</u>	<u>37,082</u>
Deferred tax				
Origination and reversal of temporary differences	48,053	(20,495)	24,401	20,600
(Over)/Underprovision in prior year	(2,026)	(32,648)	1,909	3,108
	<u>46,027</u>	<u>(53,143)</u>	<u>26,310</u>	<u>23,708</u>
Total income tax recognised in profit or loss	<u>52,431</u>	<u>(47,988)</u>	<u>49,980</u>	<u>60,790</u>

By excluding the share of results of associates, the Group effective tax rate for the year ended 31 December 2020 is 15.5%, which is lower than the statutory tax rate of 24%. This is primarily due to 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 year under review.

B9. Quoted securities

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

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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 31 December 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	459,621	17%
(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	1,369,156	39%

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 June 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 31 December 2020, RM 29.7 million of the unutilised funds are temporarily reserved in Indonesia for subsequent payment to suppliers of LINE Project (formerly known as Integrated Petrochemical Facility).

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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)
In view of the aggravation of the global COVID-19 pandemic and volatilities in the global economy, there is uncertainty in the outlook for the petrochemical industry. The Company is monitoring the situation closely and will determine in due course the most suitable time for the commencement of LINE Project construction.
- (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.

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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 31 December 2020 RM'000	As at 31 December 2019 RM'000
<u>Fund placements with licensed financial institutions</u>		
Unutilised proceeds from initial public offering	959,814	947,422
Proceeds from internally generated funds	456,744	378,018
	<u>1,416,558</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	1,357,426	1,393,573
Proceeds from internally generated funds	115,706	196,958
	<u>1,473,132</u>	<u>1,590,531</u>
Total other investments	<u>2,889,690</u>	<u>2,915,971</u>

B14. Cash and bank balances

	As at 31 December 2020 RM'000	As at 31 December 2019 RM'000
<u>Unutilised proceeds from initial public offering</u>		
Cash at banks	5,189	8,365
Short term deposits with licensed financial institutions	105,152	210,496
	<u>110,341</u>	<u>218,861</u>
<u>Others</u>		
Cash at banks and on hand	1,097,393	772,177
Short term deposits with licensed financial institutions	60,579	8,731
Cash and cash equivalents	<u>1,268,313</u>	<u>999,769</u>

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Part B - Other explanatory notes (cont'd)

B15. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the year ended 31 December 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, declaration of dividend for the financial year ended 31 December 2020 will be decided at a later date.

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 31 December		Financial year ended 31 December	
	2020	2019	2020	2019
Net profit attributable to the owner of the Company (RM'000)	<u>151,163</u>	<u>187,755</u>	<u>148,591</u>	<u>439,732</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 per share (sen)	<u>6.65</u>	<u>8.26</u>	<u>6.54</u>	<u>19.35</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.