



CHEMICAL COMPANY OF MALAYSIA BERHAD (5136-T)
(Incorporated in Malaysia)
For the Period Ended 30 June 2010

NOTES TO THE INTERIM FINANCIAL REPORT

A1 Basis of preparation

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

The interim financial report has been prepared in accordance with the same accounting policies in the consolidated financial statement as at and for the year ended 31 December 2009, except as disclosed below.

The Consolidated financial statements of the Group as at and for the year ended 31 December 2009 are available upon request from the Company's registered office.

The following FRSs that are relevant to the Group and effective for the financial period beginning on 1 January 2010 are as follows:

FRS/Interpretations
FRS 7: Financial Instrument: Disclosure
FRS 8: Operating Segments
FRS 101: Presentation of Financial Statements (revised)
FRS 123: Borrowing Costs
FRS 139: Financial Instrument: Recognition and Measurement
Amendment to FRS 1 and FRS 127: First-time Adoption of Financial Reporting Standards and Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendment to FRS 2: Share-based Payment - Vesting Conditions and Cancellations
Amendment to FRS 132: Financial Instruments: Presentation
Amendment to FRS 139, FRS 7 and IC Int. 9: Financial Instruments: Recognition and Measurement, Financial Instruments: Disclosure, and Reassessment of Embedded Derivatives
Amendment to FRSs: Improvement to FRSs (2009)
IC Int. 9: Reassessment of Embedded Derivatives
IC Int. 10: Interim Financial Reporting and Impairment
IC Int. 11: FRS 2 - Group and Treasury Share Transactions

The adoption of the above did not have any significant impact on the interim financial report upon their initial application, other than as discussed below:

a) FRS 101, Presentation of Financial Statements (revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity, if any, will be presented as a single line labelled as total comprehensive income. In addition, the consolidated balance sheet was renamed as the consolidated statement of financial position in the interim financial report. This standard did not have any impact on the financial position and results of the Group.

b) FRS 139: Financial Instrument: Recognition and Measurement, and Amendments to FRS 139: Financial Instruments: Recognition and Measurement

The new Standard on FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. There were no significant changes to the interim financial report other than the designation of the investment as an available-for-sale financial asset. The application of the above new policies has the following effects:

	Fair value reserve RM'000	Retained earnings RM'000
At 1 January 2010, as previously stated	-	284,389
Adjustments arising from adoption of FRS 139:		
- Fair value of equity securities classified as available-for-sale	25,348	-
- Impairment of trade and other receivables, net of tax	-	(287)
At 1 January 2010, as restated	<u>25,348</u>	<u>284,102</u>

c) Amendment to FRS 8: Operating Segment

FRS 8 requires identification and reporting of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group presents its segment information based on its business segments divisionally, which is also the basis of presenting its monthly internal management reports.

d) Amendment to FRSs 'improvement to FRSs(2009)'- FRS 117 - Leases

FRS 117 clarifies on the classification of lease of land and buildings. The resulting effect of this Standard taking effect was the reclassification of prepaid leases on land back into property, plant and equipment, rather than being separately under prepaid lease payments on the consolidated statement of financial position, as disclosed below.

Impact of the above amendments to the closing balances in the statement of financial position as at 31 December 2009 will be as follows:

	Property, plant and equipment RM'000	Prepaid lease payments RM'000
At 31 Decemehr 2009, as previously stated	451,062	122,961
Effect of improvement to FRS 117	122,961	(122,961)
At 31 December 2009, as restated	574,023	-

The following FRSs were issued but not yet effective and have not been applied by the Company:

FRS 3 (revised): Business Combination	01-Jul-10
FRS 127 (revised): Consolidated and Separate Financial Statements	01-Jul-10
Amendment to FRS 5: Non Current Assets held for Sale and Discontinued Operations	01-Jul-10

The Group will adopt these relevant Standards beginning on 1 January 2011. Adoption of these new Standards in the next financial year will results in changes to some existing accounting policies that could affect the results and the measurement of assets and liabilities.

A2 Disclosure of audit report qualification

The auditor's report on the financial statements of the Group and the Company for the year ended 31 December 2009 was not subject to any qualification.

A3 Explanatory comments about the seasonality or cyclicity of operations

The Group's operations are not subject to any material seasonal or cyclical factor other than market fluctuations in selling prices and / or costs of raw materials arising from demand / supply disequilibriums.

A4 Unusual Items due to their Nature, Size or Incidence

Nil

A5 Changes in prior estimates of amounts which materially affect the current interim period

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

A6 Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

There was no repurchase of shares during the quarter. The number of Treasury Shares held as at 30 June 2010 is 2,998,000. During the quarter, there is no movement of Share Capital and Share Premium of the Company.

A7 Dividends paid

No dividend was paid in the current quarter under review.

A8 Segment reporting

	Segment Revenue (RM'000)		Segment Profit/(Loss) before tax (RM'000)	
	2010	2009	2010	2009
<i>For the 6 months ended 30 June</i>				
Fertilizers	427,388	436,199	(4,658)	1,507
Chemicals	230,466	211,389	8,866	(5,514)
Pharmaceuticals	121,450	118,282	14,242	18,884
Others *	13,346	18,314	10,896	8,682
	792,650	784,184	29,346	23,559
Inter-segment revenue (<i>is eliminated</i>)	(989)	(18,175)	(12,582)	(16,215)
Segment result	791,661	766,009	16,764	7,344
Unallocated expenses	-	-	-	-
	791,661	766,009	16,764	7,344

* Administrative and non-core activities (including intra-Group dividends).

Turnover for Fertilizers division for the period ended 30 June 2010 was 2% lower than the corresponding period last year. Segment profit before tax contributed a loss of RM 4.6 million compared to a profit of RM 1.5 million reported in the same period last year. Severe price competition from lesser quality NPK compounds continued to adversely affect the sales margin performance of the division.

Revenue for the Chemicals division for the period ended 30 June 2010 increased by 9% against the corresponding period last year while segment profit before tax contributed a profit of RM 8.8 million compared to a loss of RM 5.5 million in the same period last year. Turnover increased due to better metals pricing coupled with the improvement on the overall performance of Chemicals division. Meanwhile, the higher profit achieved in the quarter under review was mainly contributed by lower overhead costs, lower provision for doubtful debts and higher share of associated company results.

The Pharmaceuticals division recorded a higher turnover of 2.7% for the period under review compared to the same period last year. Profit before tax for the division was 24.5% lower as compared to the same period last year. The decrease was due to unavailability of controlled drugs due to quota limitation in raw material imposed by the authority and higher finance cost as a result of the effect from FRS139 implementation.

A9 Property, plant and equipment

The valuations of land and buildings have been brought forward, without amendment from the previous annual financial statements.

A10 Post balance sheet events

Other than disclosed under B11, there are no material events after the period end that have not been reflected in the interim financial report for the financial period ended 30 June 2010.

A11 Effect of changes in the composition of the Group

There were no major changes in the composition of the Group for the current quarter.

A12 Changes in contingent liabilities or contingent assets since the last annual balance sheet date

There were no changes in contingent liabilities or assets as at end of the current interim financial period.

A13 Capital Commitments

Commitments for the purchase of property, plant and equipment as at 30 June 2010

	At 30 June 2010	At 30 June 2009
	RM'000	RM'000
Approved and contracted for	45,658	58,942
Approved but not contracted for	26,629	35,027
	<u>72,287</u>	<u>93,969</u>

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

B1 Review of Performance

Consolidated Group revenue for the second quarter ended 30 June 2010 increased by RM 67,000 as compared to the corresponding quarter last year as chemicals and pharmaceuticals reported higher sales. Consolidated Group profit before tax for the second quarter ended 30 June 2010 was higher by RM14 million compared to the same period last year. The improvement in profit before tax was primarily due to better metal pricing, lower overhead costs, lower provision for doubtful debts and higher share of associated company results of Chemicals division.

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

Consolidated Group revenue increased by 14.7% from the previous quarter and Consolidated Group profit before tax improved by 347.7% from profit before tax of RM 3.06 million to a profit before tax of RM 13.7 million.

B3 Prospects for the Remaining Period to the End of the Financial Year

Barring any significant slowdown in the domestic and global economies, the Group expects to achieve a favourable performance for 2010.

B4 Variance of Actual Profit from Forecast Profit

The Group neither made any profit forecast nor issued any profit guarantee.

B5 Taxation

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

	Current Quarter 30	Current Period 30
	June 2010	June 2010
	RM'000	RM'000
Taxation		
In respect of profit for the year	6,975	10,049
Transfer to/(from) deferred tax	633	(809)
	<u>7,608</u>	<u>9,240</u>

B6 Sale of Unquoted Investments and/or Properties

There was no sale of unquoted investments and/or properties for the quarter under review and financial period to date.

B7 Quoted Securities

There was no purchase or disposal of quoted securities for the quarter under review and financial period to date.

B8 Status of corporate proposals that have been announced by the Company but not completed as at the date of this announcement

There is no corporate proposals that have been announced by the Company but not completed as at the date of the quarter under review.

B9 Group Borrowings and Debt Securities

The Group borrowings as at 30 June 2010 were as follows:

	At 30 June 2010 RM'000	At 30 June 2009 RM'000
Short term borrowings		
Unsecured	360,496	616,748
Long term borrowings		
Unsecured	474,325	186,917

B10 Off Balance Sheet Financial Instruments

The Group did not have any financial instrument with off balance sheet risks as at 30 June 2010, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

B11 Changes in material litigation since the last annual balance sheet date

Save for the following, the Group is not engaged in any material litigation as at 26 August 2010, the latest practical date which is not earlier than 7 days from the date of this quarterly report:

- (i) Kuala Lumpur High Court (Commercial Division)
Originating Summons No: D24NCC-245-2010
AKN Technology Berhad v Chemical Company Of Malaysia Berhad

AKN Technology Berhad ("the Plaintiff") had on 23 July 2010 served on Chemical Company Of Malaysia Berhad ("the Defendant") the aforesaid originating summons in relation to the matter of the Shares Sales Agreement dated 23 April 2008 between Paramount Discovery Sdn Bhd and the Defendant; the Supplemental Shares Sale Agreement dated 3 July 2008 between Paramount Discovery Sdn Bhd and the Defendant; the Conditional Profit Guarantee Agreement dated 23 April 2008 executed by the Plaintiff in favour of the Defendant ("the CPGA"); and the Supplemental Conditional Profit Guarantee Agreement dated 3 July 2008 executed by the Plaintiff in favour of the Defendant ("the Supplemental CPGA").

The Plaintiff seeks an order that the Defendant had breached the CPGA and the Supplemental CPGA. The Plaintiff also seeks an order that in the event that the Court is of the view that the conduct of the Defendant amounts to a fundamental breach of the terms of the CPGA, the said breach discharges the Plaintiff of all its obligations under the CPGA and the Supplemental CPGA. In the alternative, the Plaintiff seeks an order that the Defendant pays the Plaintiff all losses and damages suffered by the Plaintiff as a result of the Defendant's breach that is to be assessed by the Court in the event that the Court is of the view that the said breach is not a fundamental breach.

During the case management on 4 August 2010, the Court had, inter alia, fixed the matter for hearing on 6 October 2010.

B12 Earnings per share

	Current Quarter 30 June 2010	Current Period 30 June 2010
a) Basic Earnings Per Share:-		
Profit after tax and minority shareholders' interests (RM'000)	1,996	2,842
Issued ordinary shares at beginning of the quarter/year ('000)	402,946	402,946
Effects of shares issued ('000)	24	24
Weighted average number of ordinary shares ('000) at ending of the quarter/year	402,970	402,970
Basic earnings per share (sen)	0.50	0.71
b) Diluted Earnings Per Share:-		
Profit after tax and minority shareholders' interests (RM'000)	1,996	2,842
After tax effect of notional interest savings (RM'000)	-	-
Adjusted profit after tax and minority shareholders' interests	1,996	2,842
Weighted average number of ordinary shares ('000) at ending of the quarter/year	402,970	402,970
Effect of warrants (B) ('000)	57,107	57,107
Weighted average number of ordinary shares - diluted ('000) at ending of the quarter/year	460,077	460,077
Diluted earnings per share (sen)	0.43	0.62

B13 Dividend

No dividend is proposed for the current quarter under review.

B14 Economic Profit ("EP") Statement

<i>In thousands of RM</i>	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30 June		30 June	
	2010	2009	2010	2009
<u>Net operating profit after tax ("NOPAT") computation:</u>				
Earnings before interest and tax ("EBIT")	22.0	9.0	31.0	22.5
Adjusted tax	(5.5)	(2.3)	(7.7)	(5.6)
NOPAT	16.5	6.7	23.3	16.9
<u>Economic charge computation:</u>				
Average invested capital	1,565.8	1,624.7	1,565.8	1,624.7
Weighted average cost of capital ("WACC") (%)	5.21%	5.82%	5.21%	5.82%
Economic charge	20.4	23.6	40.8	47.3
Economic profit / (loss)	(3.9)	(16.9)	(17.5)	(30.4)

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

The group recorded economic loss of RM17.5 million for the period under review.

B15 Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 26 August 2010.

By Order of the Board

NOOR AZWAH SAMSUDIN (LS0006071)

Company Secretary

26 August 2010