CCM DUOPHARMA BIOTECH BERHAD (524271-W)

(Incorporated in Malaysia)

Quarterly Report On Results For The Period Ended 30 June 2018

NOTES TO INTERIM FINANCIAL REPORT

A1 Accounting Policies and Method of Computation

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

The following MFRSs and Amendments to MFRSs applicable to the Group have been adopted with effect from 1 January 2018 :

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

• MFRS 9, Financial Instruments (2014)
• MFRS 15, Revenue from Contracts with Customers
• Clarifications to MFRS 15, Revenue from Contracts with Customers
• IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
• Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
• Amendments to MFRS 140, Investment Property – Transfers of Investment Property

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group:

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

• MFRS 16, Leases
• IC Interpretation 23, Uncertainty over Income Tax Treatments
• Amendments to MFRS 3, Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)
• Amendments to MFRS 9, Financial Instruments – Prepayment Features with Negative Compensation
• Amendments to MFRS 112, Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
• Amendments to MFRS 123, Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

• MFRS 17, Insurance Contracts

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

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

The initial application of the above pronouncements did not have any material impact to the consolidated financial statements of the Group except as mentioned below.

(i) MFRS 9 Financial Instruments

The Group adopted MFRS 9, Financial Instruments on 1 January 2018. MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and on hedge accounting. MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

The three principal classifications categories for financial assets are: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

There was no material impact on the accounting for the Group's financial assets upon inital application of the new classification requirements.

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (ECL) model. Under MFRS 9, loss allowances will be measured on either 12 month ECLs or Lifetime ECLs. As allowed by the transitional provision of MFRS 9, the Group elected not to restate the comparatives. Adjustments arising from the initial application of the new impairment model has been recognised in the opening balance of the retained earnings and the carrying amount of the financial assets as at 1 January 2018 as disclosed below:

	Impact of adoption of MFRS 9 to opening balance at 1 January 2018 In RM'000
Decrease in retained earnings	148
Decrease in trade and other receivables	194
Decrease in deferred tax liabilities	46

(ii) MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, Construction Contracts, MFRS 118, Revenue, IC Interpretation 13, Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfers of Assets from Customers and IC Interpretation 131, Revenue - Barter Transactions Involving Advertising Services. MFRS 15 provides a single model for accounting for revenue arising fromthe contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risks and rewards

Impact on the Group Consolidated Financial Statement upon application of MFRS 15 has been incorporated in current financial statement.

A2 Audit Report

The audited report of the Company's preceding annual financial statements was not qualified.

A3 Seasonal or Cyclical Factors

The business operations of the Group during financial quarter under review were not materially affected by any seasonal or cyclical factors.

A4 Exceptional/Extraordinary Items

There were no exceptional/extraordinary items for the financial period under review.

A5 Changes in Estimates

There was no change in estimates that have a material effect in the current quarter results.

However, during previous financial year, the Group had conducted the following operational review and incorporated results thereof accordingly:-

a) Machinery useful life in Oral Solid Dosage (OSD) plant (K1) in Klang.

- As part of our manufacturing strategy, the Group has commenced construction of a new state of the art OSD plant (to be named K3) to replace the aging K1 facility. Construction of K3 is expected to take around 3 years to complete. Certain machinery has been identified to be transfered to K3, upon its completion with newly enhanced GMP features. In view of the above firm plan, the remaining unutilized machinery in K1 will have a finite useful life of approximately 3 years, and hence necessitates the need to accelerate depreciating current net book value with effect from 01/07/2017.

- The effect of accelerated depreciation, recognized in cost of sales, in current and future financial years is as follows:-

	FY 2017	FY 2018	FY2019
Increase in depreciation	3,192	2,776	2,531

A6 Debts and Equity Securities

During the current financial quarter, 371,943,071 new ordinary shares in CCMD ("CCMD Shares") ("Bonus Shares") were issued in relation to the bonus issue exercise undertaken by CCMD. The said Bonus Shares were listed and quoted on the Main Market of Bursa Malaysia Securities Bhd on 20 June 2018.

A7 Dividend Paid

No dividend was paid during the current quarter. (2017:RM11.16 million)

A8 Segment Information

	Quarter Ended		**Year To Date**	
	6/30/2018		**6/30/2018**	
	RM ' 000		**RM ' 000**	
Sales by operating sector :-	Sales	Gross Profit	Sales	Gross Profit
Local	115,593	48,990	238,111	98,243
Export	8,398	3,284	19,139	6,672
	123,991	52,274	257,250	104,915

A9 Post Balance Sheet Events

Subsequent to balance sheet date, the Company has issued and allotted 10,978,985 new CCMD Shares pursuant to Dividend Reinvestment Plan (DRP). The said CCMD Shares were listed and quoted on the Main Market of Bursa Malaysia Securities Bhd on 18 July 2018.

A10 Changes in the Composition of the Group

The Internal Restructuring for the Group was completed on 24 May 2018 which entails the transfer of following:

- Entire equity interest in CCM Biopharma Sdn Bhd (CCMBSB) and Negeri Pharmacy Sdn Bhd (NPSB) from CCM Pharmaceuticals Sdn Bhd (CCMP) to CCMD; and
- Entire equity interest in Upha Pharmaceuticals Manufacturing (M) Sdn Bhd (UPMSB) from Duopharma (M) Sdn Bhd (DMSB) to CCMD.

After the completion of the exercise on 25 May 2018, CCMBSB, NPSB, and UPMSB are now direct wholly-owned subsidiaries of CCMD.

Details of the Internal Restructuring are set out in paragraph B7 (Status of Corporate Proposals) below.

ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES LISTING REQUIREMENTS

B1 Review of Performance

	Year To Date (30/6/18)	Year To Date (30/6/17)	Variance	
	RM'000	RM'000	RM'000	%
Revenue	265,000	244,796	20,204	8.25
Less : Trade expense	(7,750)	(4,441)	(3,309)	74.51
Net Revenue	257,250	240,355	16,895	7.03
Profit before tax (PBT)	26,170	24,764	1,406	5.68
Profit after tax (PAT)	20,986	19,205	1,781	9.27

The Group recorded a net revenue and PBT of RM257.25 million and RM26.17 million respectively for current period ended 30 June 2018 as compared to RM240.36 million and RM24.76 million for the corresponding period last year. The Group's revenue and PBT thereof have improved as compared to last year corresponding period mainly due to higher demand from private and public health sector.

B2 Comparison with the Preceding Quarter's Results

	Qtr 2 2018 (30/6/18)	Qtr 1 2018 (31/3/18)	Variance	
	RM'000	RM'000	RM'000	%
Revenue	127,814	137,185	(9,371)	(6.83)
Less : Trade expense	(3,823)	(3,926)	103	(2.62)
Net Revenue	123,991	133,259	(9,268)	(6.95)
Profit before tax (PBT)	12,915	13,255	(340)	(2.57)
Profit after tax (PAT)	10,339	10,647	(308)	(2.89)

The Group recorded a net revenue and PBT of RM123.99 million and RM12.92 million respectively for current quarter ended 30 June 2018 as compared to RM133.26 million and RM13.26 million for the preceding financial quarter. The decrease in revenue and PBT there of was mainly due to lower demand from public health sector.

B3 Prospects for the Remainder of Current Financial Year

Malaysia's GDP is expected to grow at 5% 2018, led by domestic demand (MIER). In tandem with the growth, CCMD is expected to see healthy demand from all business segments, boosted further by introduction of new products into the market. In addition to GDP growth, Government has announced on 27 October 2017 in 2018 National Budget the allocation of RM 4.1 billion on the supply of drugs and consumables to all government hospital and facilities. These give a positive outlook for the pharmaceutical industry in 2018 which CCMD is expected to tap into these opportunities by enhancing our participation in public sector business.

The Group will also continue its foray into the specialty products as one of its strategies moving forward to create a pool of niche products. Recent strengthening of United State Dollar (USD) globally poses challenges to CCMD as it affects our production and other operation costs. It will put pressure on manufacturing margin and hence our profit thereof.

Barring any unexpected circumstances, CCMD Group is expected to achieve satisfactory results in FY 2018.

B4 Profit Forecast

No commentary is made on any variance between actual profit from forecast profit as it does not apply to the Group.

B5 Taxation

Details of taxation are as follows :-	Current Year Quarter 30/6/18 RM'000	Current Year To Date 30/6/18 RM'000
Based on results for the quarter/year	(1,529)	(4,985)
Transfer to deferred tax	(1,047)	(199)
	(2,576)	(5,184)

The Group's effective tax rate is lower than the statutory tax rate mainly due to tax incentive claimed during the financial quarter.

B6 Unquoted Investments and Properties

There was no disposal of unquoted investment and/or properties during the current financial quarter.

B7 Status of corporate proposals.

As at 30 June 2018, the status of the utilisation of proceeds pursuant to the rights issue exercise of the Company which was completed on 22 July 2015 are as follows:

Details of utilisation	Proceeds utilisation RM'000	Actual utilisation RM'000	Balance unutilised RM'000
Repayment of bank borrowing	140,000	133,695	6,305
Expansion of factory	106,963	102,049	4,914
Estimated expenses	4,100	4,100	-
Total	251,063	239,844	11,219

b) The status of the corporate proposals undertaken by CCMD during the current financial quarter are as follows:

i. Bonus issue of up to 371,945,333 new Bonus Shares on the basis of four (4) Bonus Share for every three (3) existing CCMD Shares held which was completed on 20 June 2018.

ii. Dividend Reinvestment Plan ("DRP") which will provide shareholders of CCMD with the option to elect to reinvest their cash dividends in new CCMD Shares, whereby the first DRP was completed on 18 July 2018.

iii. Internal Restructuring involving the transfer of the following:

- Entire equity interest in CCMBSB and NPSB from CCMP to CCMD;
- Entire equity interest in UPMSB from DMSB to CCMD; and
- Partial settlement of intercompany loan owing by UPMSB to CCMD by way of capitalising such amount as an increase in the paid up capital of UPMSB.

After the completion of the Internal Restructuring on 25 May 2018, CCMBSB, NPSB, and UPMSB are now direct wholly-owned subsidiaries of CCMD.

c) On 13 April 2018, the Company has entered into a conditional share sale agreement with Chemicals Company of Malaysia Berhad (CCMB) for the acquisition of 806,450 PanGen Shares representing approximately 8.39% equity interest in PanGen for a total purchase consideration of RM59.16 million (equivalent to KRW16.35 billion) to be satisfied entirely in cash. The acquisition was completed on 28 June 2018.

For further details of the proposals, please refer to the separate announcements made by the Company.

d) During the current financial quarter up to the date of this announcement, the following CCMD Shares were issued:

i. Bonus issue was completed following the listing of and quotation for 371,943,071 new Bonus Shares on the Main Market of Bursa Malaysia Securities Berhad with effect from 9.00 a.m on 20 June 2018

ii.The Company had issued and allotted 10,978,985 new shares pursuant to the Dividend Reinvestment Plan. The aforesaid new CCMD Shares were listed and quoted on the Main Market of Bursa Malaysia Securities Berhad with effect from 18 July 2018.

With the listing of the new CCMD Shares, the enlarged issued share capital of the Company is RM347,188,652 comprising 661,881,056 CCMD Shares

B8 Borrowings and Debt Securities

Details of Group's borrowings are as follows :-

	As at 30 June 2018 RM'000	As at 31 Dec 2017 RM'000
Current - unsecured	86,033	36,291
Non-current - unsecured	116,151	91,148
Total	202,184	127,439

B9 Material litigation

There was no material litigation up to 27 August 2018 .

B10 Dividend

For the current financial period ended 30 June 2018, the Board of Directors is recommending an interim dividend of 1.5 sen per share based on paid up capital of 661,881,056 shares amounting to approximately RM 9.93million {2017 : 2.5 sen per share based on paid up capital of 278,959,000 shares amounting to RM 6.97million}.

B11 Earnings per Share

	Current year quarter 30/6/18	Current year to date 30/6/18
a) Basic EPS		
Net profit (RM'000)	10,339	20,986
Weighted average number of ordinary shares in issue ('000)		
- Balance b/f	278,959	278,959
-Weighted average number of shares arising from Bonus Issue exercised during the period	1,019	1,019
	279,978	279,978

Basic EPS (sen)	3.69	7.50

b) Dilutive EPS

Adjusted weighted average number of ordinary shares in issue ('000)		
-In issue during the period	279,978	279,978
-Dilutive impact of unexercised share options	-	-
	279,978	279,978
Dilutive EPS (sen)	3.69	7.50

B12 Profit Before Tax

	Current year quarter 30/6/18 RM '000	Current year to date 30/6/18 RM '000
Operating profit is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	6,049	11,531
Finance costs	1,614	3,072
stock write off and/or impairment of inventories	6,862	9,268
Net foreign exchange loss	1,865	2,524
Interest income	257	702

Other than the above, there were no impairment of assets and gain or loss on derivatives for the current quarter and current period ended 30 June 2018

B14 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 27 August 2018

By Order of the Board

Ibrahim Hussin Salleh
Secretary
Kuala Lumpur
27 August 2018