



CCM DUOPHARMA BIOTECH BERHAD (524271-W)

(Incorporated in Malaysia)

Quarterly Report On Results For The Period Ended 30 June 2016

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 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 2015.

The following MFRs and Amendments to MFRs applicable to the Group have been adopted with effect from 1 January 2016 :

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5, Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 7, Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 10, Consolidated Financial Statements, MFRS 12, Disclosure of Interests in Other Entities and MFRS 128, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 101, Presentation of Financial Statements – Disclosure Initiative
- Amendments to MFRS 116, Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116, Property, Plant and Equipment and MFRS 141, Agriculture – Agriculture: Bearer Plants
- Amendments to MFRS 127, Separate Financial Statements – Equity Method in Separate Financial Statements
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)

The adoption of the above MFRS and Amendments to MFRSs did not have any material impact on these condensed consolidated interim financial statements.

The following revised MFRSs and Amendments to MFRSs applicable to the Group have been issued by the MASB and are not yet effective for adoption by the Group.

The adoption of the above MFRS and Amendments to MFRSs did not have any material impact on these condensed consolidated interim financial statements.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- MFRS 14, Regulatory Deferral Accounts
- Amendments to MFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 119, Employee Benefits (Annual Improvements 2012-2014 Cycle)

The following revised MFRSs and Amendments to MFRSs have been issued by the MASB and are not yet effective for adoption by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 107, Statement of Cash Flows – Disclosure Initiative
- Amendments to MFRS 112, Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

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

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

- MFRS 16, Leases

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 Group is currently assessing the financial impact that may arise from the adoption of the above amendments..

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) Useful life of existing Oral Solid Dosage (OSD) plant (K1) in Klang.

- As part of our manufacturing strategy, the Group has decided to build a new state of the art OSD plant (to be named as K3) to replace K1. Construction of K3 is expected to commence by end of 2016 and it will take around 3 years to complete. Upon completion of K3 with newly enhanced GMP features, the operation of K1 will be relocated to K3. In view of above firm plan, K1 will have a finite useful life of approximately 5 years, and hence necessitate the need to accelerate depreciating current net book value with effect from 01/01/2015.

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

	FY 2016	FY 2017	FY 2018	FY2019
Increase in depreciation expense (RM '000)	1,609	1,609	1,609	1,609

b) Provision for slow moving stock from 12 months to 6 month

- The review was necessary in view of implementation of new stability guideline which imposes stringent requirement for extrapolation of proposed shelf life based on stability data. Besides, revised requirement on storage condition will result in newly registered products and also existing registered products to carry shelf life of less than 3 years.

- The effect of revised provision of slow moving stock recognized in cost of sales in financial year 2015 was estimated at RM4.9 mil.

A6 Debts and Equity Securities

There were no issuance and/or repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the period under review save for repayment of term loan of RM10 million matured on 30 June 2016.

A7 Dividend Paid

The Group paid a final tax exempted dividend 11% (5.5 sen) per share amounting to RM 15.34 million in respect of financial year ended 31 December 2015 during the current quarter. (2015 : RM20.23 million)

A8 Segment Information

	Quarter Ended		Year To Date	
	6/30/2016		6/30/2016	
	RM ' 000		RM ' 000	
Sales by operating sector :-	Sales	Gross Profit	Sales	Gross Profit
Local	69,105	32,798	138,998	65,501
Export	10,030	3,054	19,607	6,608
	79,135	35,852	158,605	72,109

A9 Post Balance Sheet Events

There are no material events after the period end up to 15 Aug 2016 (latest practicable date which is not earlier than 7 days from the date of issuance of this quarterly report) that have not been reflected in the financial statements for the financial period ended 30 June 2016.

A10 Changes in the Composition of the Group

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

ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES LISTING REQUIREMENTS

B1 Review of Performance

	Year To Date (30/6/16) RM'000	Year To Date (30/6/15) RM'000	Variance	
			RM'000	%
Revenue	158,605	101,907	56,698	55.64
Profit before tax (PBT)	17,664	20,605	(2,941)	(14.27)
Profit after tax (PAT)	11,769	14,817	(3,048)	(20.57)

The Group recorded a revenue and PBT of RM158.61 million and RM17.66 million respectively for current period ended 30 June 2016 as compared to RM101.91 million and RM20.61 million for the corresponding period last year. The increase in revenue was mainly due to six months contribution from newly acquired subsidiary companies for period ended 30/6/2016 as compared to only one month contribution for corresponding period last year. However, PBT had decreased due to changes in product mix and increase in production cost primarily driven by foreign exchange, resulting in lower gross margin.

B2 Comparison with the Preceding Quarter's Results

	Qtr 2 2016 (30/6/16) RM'000	Qtr 1 2016 (31/3/16) RM'000	Variance	
			RM'000	%
Revenue	79,135	79,470	(335)	(0.42)
Profit before tax (PBT)	7,723	9,941	(2,218)	(22.31)
Profit after tax (PAT)	3,941	7,828	(3,887)	(49.66)

The Group's revenue has reduced marginally from RM79.47mil in preceding financial quarter to RM79.14 mil recorded during current financial quarter. However, PBT has dropped from RM9.94 mil to RM7.72 mil during the same period mainly due to increase in sales & distribution expenses and also administration expenses.

B3 Prospects for the Remainder of Current Financial Year

Demand in Pharmaceutical industry is expected to remain stable for current financial year, despite business momentum facing increasing challenges arising from weakened Malaysia Ringgit which affects our production and operational costs. Persistent foreign exchange volatility and uncertainties in the economy may further put pressure on manufacturing margins.

In view of current challenging environment and barring further unforeseen development, the Group is cautiously optimistic to achieve a satisfactory performance for the financial year 2016.

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 30/6/16 RM'000	Current Year To Date 30/6/16 RM'000
Based on results for the quarter/year	(2,248)	(4,334)
Transfer to deferred tax	(1,534)	(1,561)
	<u>(3,782)</u>	<u>(5,895)</u>

The Group's effective tax rate is higher than the statutory tax rate mainly due to losses incurred in certain subsidiaries during the period.

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.

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	2,189	104,774
Estimated expenses	4,100	4,100	-
Total	251,063	139,984	111,079

B8 Borrowings and Debt Securities

Details of Group's borrowings are as follows :-

	As at 30 June 2016 RM'000	As at 31 Dec 2015 RM'000
Current - unsecured	11,570	18,947
Non-current - unsecured	101,798	103,809
Total	<u>113,368</u>	<u>122,756</u>

B9 Material litigation

There was no material litigation up to 22 Aug 2016.

B10 Dividend

For the current financial period ended 30 June 2016, the Board of Directors is recommending an interim single tier dividend of 5% (2.5 sen) per share based on enlarged paid up capital of 278,959,000 shares at par value of RM 0.50 each amounting to approximately **RM 6.97million** (2015 : 8% (4 sen) based on initial paid up capital of 139,479,500 shares at par value of RM 0.50 each amounting to RM 11.16 million). The entitlement date in respect of the interim single tier dividend is on 21 Oct 2016 and the payment date is on 11 Nov 2016.

B11 Earnings per Share

	Current year quarter 30/6/16	Current year to date 30/6/16
a) Basic EPS		
Net profit (RM'000)	<u>3,941</u>	<u>11,769</u>
Weighted average number of ordinary shares in issue ('000)		
- Balance b/f	278,959	278,959
-Weighted average number of shares arising from options exercised during the period	-	-
	<u>278,959</u>	<u>278,959</u>
Basic EPS (sen)	<u>1.41</u>	<u>4.22</u>
b) Dilutive EPS		
Adjusted weighted average number of ordinary shares in issue ('000)		
-In issue during the period	278,959	278,959
-Dilutive impact of unexercised share options	-	-
	<u>278,959</u>	<u>278,959</u>
Dilutive EPS (sen)	<u>1.41</u>	<u>4.22</u>

B12 Disclosure of Realised and Unrealised

	Current year to date 31/6/2016 RM '000	As At 12/31/2015 RM '000
Total retained profits:		
- Realised	208,021	211,481
- Unrealised	574	688
	208,595	212,169
Less: Consolidation adjustments	(95,412)	(95,412)
Total retained profit	113,183	116,757

B13 Profit Before Tax

	Current year quarter 30/6/16 RM '000	Current year to date 30/6/16 RM '000
Operating profit is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	5,609	11,119
Finance costs	1,366	2,838
Stock write off and/or impairment of inventories	614	1,739
Net foreign exchange loss	<u>1,038</u>	<u>1,336</u>

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 2016.

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 22 Aug 2016.

By Order of the Board

Noor Azwah binti Samsudin
Secretary
Kuala Lumpur
22 Aug 2016