



CCM DUOPHARMA BIOTECH BERHAD (524271-W)

(Incorporated in Malaysia)

Quarterly Report On Results For The Period Ended 31 Dec 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 2017 :

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

- Amendments to MFRS 12, Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- 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
- 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 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4, Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, Investment Property – Transfers of Investment Property

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 year under review save for repayment of term loan of RM10 million matured on 30 June 2016.

A7 Dividend Paid

The Group paid an interim Tax Exempt dividend of 5% (2.5 sen) per share (2015: 8% (4 sen)) amounting to RM 6.97 million (2015: RM 11.16 million) in respect of financial year ended 31 December 2016 during the current quarter.

A8 Segment Information

	Quarter Ended		Year To Date	
	31/12/2016		31/12/2016	
	RM ' 000		RM ' 000	
Sales by operating sector :-	Sales	Gross Profit	Sales	Gross Profit
Local	66,743	34,834	276,277	133,998
Export	7,290	1,235	36,663	10,134
	74,033	36,069	312,940	144,132

A9 Post Balance Sheet Events

There are no material events after the period end up to 17 Feb 2017 (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 31 Dec 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 (31/12/16) RM'000	Year To Date (31/12/15) RM'000	Variance	
			RM'000	%
Revenue	312,940	269,794	43,146	15.99
Profit before tax (PBT)	31,479	47,829	(16,350)	(34.18)
Profit after tax (PAT)	27,517	36,391	(8,874)	(24.39)

The Group recorded a revenue and PBT of RM312.94 million and RM31.48 million respectively for current period ended 31 Dec 2016 as compared to RM269.79 million and RM47.83 million for the corresponding period last year. The increase in revenue was mainly due to twelve months contribution from newly acquired subsidiary companies for year ended 31/12/2016 as compared to only seven months 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 4 2016 (31/12/16) RM'000	Qtr 3 2016 (30/9/16) RM'000	Variance	
			RM'000	%
Revenue	74,033	80,302	(6,269)	(7.81)
Profit before tax (PBT)	6,299	7,516	(1,217)	(16.19)
Profit after tax (PAT)	9,522	6,226	3,296	52.94

The Group recorded a revenue and PBT of RM74.03 million and RM6.30 million respectively for current quarter ended 31 Dec 2016 as compared to RM80.30 million and RM7.52 million for the preceding financial quarter. The reduction in sales and PBT thereof was due to lower sales to private and also export market. RM1.2 million of assets no longer in use was written off during the period due to conversion of a facility.

B3 Prospects for the Next 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 2017.

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 31/12/16 RM'000	Current Year To Date 31/12/16 RM'000
Based on results for the quarter/year	3,064	(4,197)
Transfer to deferred tax	159	235
	<u>3,223</u>	<u>(3,962)</u>

The Group's effective tax rate is lower than the statutory tax rate mainly due to the tax incentive claimed during the financial year ended 31 December 2016.

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	8,327	98,636
Estimated expenses	4,100	4,100	-
Total	251,063	146,122	104,941

B8 Borrowings and Debt Securities

Details of Group's borrowings are as follows :-

	As at 31 Dec 2016 RM'000	As at 31 Dec 2015 RM'000
Current - unsecured	21,498	18,947
Non-current - unsecured	91,798	103,809
Total	113,296	122,756

B9 Material litigation

There was no material litigation up to 24 Feb 2017.

B10 Dividend

- a) For the current financial year ended 31 December 2016, the Board of Directors recommends a final single tier dividend of 8% (4 sen) per share (2015: a final tax exempt dividend of 11% (5.5 sen) per share). The final dividend is subject to shareholders' approval at the forthcoming Annual General Meeting (AGM) of the Company. The book closure and the payment date in respect of the final dividend will be on 30 May 2017 and 23 June 2017 respectively
- b) The total dividend for the current financial year is 13% (6.5 sen) per share consists of a final dividend as stated in (a) above and an interim tax exempt dividend of 5% (2.5sen) amounting to approximately RM6.97 million as compared to 2015 dividend as follows:-
 - i) Interim tax exempt dividend of 8% (4 sen) per share amounting to approximately RM5.55 million in respect of financial year ended 31 December 2015 was paid on 6 November 2015
 - ii) A final tax exempt dividend of 11% (5.5 sen) per share amounting to approximately RM15.34 million in respect of financial year ended 31 December 2015 was paid on 28 June 2016.

B11 Earnings per Share

	Current year quarter 31/12/16	Current year to date 31/12/16
a) Basic EPS		
Net profit (RM'000)	9,522	27,517
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	-	-
	278,959	278,959
Basic EPS (sen)	3.41	9.86
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	-	-
	278,959	278,959
Dilutive EPS (sen)	3.41	9.86

B12 Disclosure of Realised and Unrealised

	Current year to date 31-12-16 RM '000	As At 31-12-15 RM '000
Total retained profits:		
- Realised	215,439	211,481
- Unrealised	1,930	688
	217,369	212,169
Less: Consolidation adjustments	(95,412)	(95,412)
Total retained profit	121,957	116,757

B13 Profit Before Tax

	Current year quarter 31/12/16 RM '000	Current year to date 31/12/16 RM '000
Operating profit is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	5,574	22,199
Finance costs	1,441	5,550
stock write off and/or impairment of inventories	2,527	4,640
Loss on write off of property, plant and equipment	1,190	1,190
Net foreign exchange loss	61	1,517

Other than the above, there were no impairment of assets and gain or loss on derivatives for the current quarter and current period ended 31 Dec 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 24 Feb 2017.

By Order of the Board

Noor Azwah binti Samsudin
Secretary
Kuala Lumpur
24 Feb 2017