Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the quarter ended 30 September 2016	Current Period		Cumulative Period	
(All figures are stated in RM'000)	2016	2015	2016	2015
Revenue	**515,215**	524,413	**1,606,206**	1,509,162
Cost of sales	**(420,896)**	(442,184)	**(1,343,088)**	(1,250,488)
Gross profit	**94,319**	82,229	**263,118**	258,674
Operating expenses	**(65,782)**	(51,205)	**(171,712)**	(155,169)
Finance costs	**(8,729)**	(5,930)	**(24,120)**	(15,251)
Interest income	**115**	243	**662**	751
Profit before zakat and taxation	**19,923**	25,337	**67,948**	89,005
Zakat	**(50)**	(700)	**(250)**	(700)
Taxation	**(7,225)**	(4,662)	**(20,939)**	(19,762)
Profit for the period	**12,648**	19,975	**46,759**	68,543
Profit for the period attributable to:				
Owners of the parent	**13,061**	19,971	**46,435**	67,982
Non-controlling interests	**(413)**	4	**324**	561
Profit for the period	**12,648**	19,975	**46,759**	68,543
Earnings per share - sen				
- Basic	**5.04**	7.71	**17.93**	26.26
- Diluted	**5.03**	7.71	**17.88**	26.26

The Unaudited Condensed Consolidated Income Statement should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the quarter ended 30 September 2016	**Current Period**		**Cumulative Period**	
(All figures are stated in RM'000)	**2016**	**2015**	**2016**	**2015**
Profit for the period	**12,648**	19,975	**46,759**	68,543
Other comprehensive income/(loss), net of tax				
Items that may be subsequently reclassified to profit or loss				
Foreign currency translation difference for foreign operations	**4,380**	7,295	**1,736**	9,886
Recognition of actuarial losses	**-**	**-**	**(4)**	**-**
	4,380	7,295	**1,732**	9,886
Total comprehensive income for the period	**17,028**	27,270	**48,491**	78,429
Attributable to:				
Owners of the parent	**16,254**	24,953	**48,097**	74,791
Non-controlling interests	**774**	2,317	**394**	3,638
Total comprehensive income for the period	**17,028**	27,270	**48,491**	78,429

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2016	As at 31 December 2015
(All figures are stated in RM'000)		
ASSETS		
Non-current assets		
Property, plant and equipment	**412,591**	406,184
Prepaid lease payments	**2,561**	2,628
Intangible assets	**310,982**	284,108
Receivables	**30,471**	9,587
Deferred tax assets	**26,575**	24,261
	783,180	726,768
Current assets		
Inventories	**515,695**	539,896
Receivables	**311,104**	195,255
Tax recoverable	**14,281**	11,186
Deposits, cash and bank balances	**34,309**	22,518
	875,389	768,855
TOTAL ASSETS	**1,658,569**	1,495,623
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	**129,688**	129,441
Reserves	**401,815**	399,968
Shareholders' equity	**531,503**	529,409
Non-controlling interests	**27,643**	30,585
Total equity	**559,146**	559,994
Non-current liabilities		
Loans and borrowings	**367**	558
Deferred tax liabilities	**41,933**	33,419
Provision for defined benefit plan	**8,190**	7,501
	50,490	41,478
Current liabilities		
Payables	**366,610**	488,504
Amount due to immediate holding company	**111**	186
Current tax liabilities	**3,916**	5,652
Deferred income	**637**	196
Loans and borrowings	**677,659**	399,613
	1,048,933	894,151
Total liabilities	**1,099,423**	935,629
TOTAL EQUITY AND LIABILITIES	**1,658,569**	1,495,623

The Unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							
For the quarter ended 30 September 2016	**Share Capital**	*** Share Premium**	*** Exchange Reserve**	*** Share Reserve**	**Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
(All figures are stated in RM'000)								
At 1 January 2016	**129,441**	**11,751**	**7,842**	**-**	**380,375**	**529,409**	**30,585**	**559,994**
Total comprehensive income for the period	**-**	**-**	**1,662**	**-**	**46,435**	**48,097**	**394**	**48,491**
Transactions with owners								
Accretion of interest in a subsidiary	**-**	**-**	**-**	**-**	**(8,549)**	**(8,549)**	**(3,425)**	**(11,974)**
Acquisition of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**89**	**89**
Issuance of new shares								
- Share Option Plan	**100**	**1,014**	**-**	**(106)**	**-**	**1,008**	**-**	**1,008**
- Long Term Incentive Plan	**147**	**1,501**	**-**	**-**	**-**	**1,648**	**-**	**1,648**
Shares options granted under Share Option Plan	**-**	**-**	**-**	**644**	**-**	**644**	**-**	**644**
Shares granted under Long Term Incentive Plan	**-**	**-**	**-**	**1,030**	**-**	**1,030**	**-**	**1,030**
Dividends	**-**	**-**	**-**	**-**	**(41,784)**	**(41,784)**	**-**	**(41,784)**
	247	**2,515**	**-**	**1,568**	**(50,333)**	**(46,003)**	**(3,336)**	**(49,339)**
At 30 September 2016	**129,688**	**14,266**	**9,504**	**1,568**	**376,477**	**531,503**	**27,643**	**559,146**
At 1 January 2015	129,441	11,751	(1,730)	-	387,050	526,512	25,523	552,035
Total comprehensive income for the period	-	-	6,809	-	67,982	74,791	3,638	78,429
Transactions with owners								
Dividends	-	-	-	-	(67,310)	(67,310)	-	(67,310)
At 30 September 2015	129,441	11,751	5,079	-	387,722	533,993	29,161	563,154

* Denotes non distributable reserves

The Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the quarter ended 30 September 2016

(All figures are stated in RM'000)	**2016**	**2015**
Operating Activities		
Cash receipts from customers	**1,513,628**	1,391,220
Cash payments to suppliers and employees	**(1,607,784)**	(1,533,518)
Net cash used in operations	**(94,156)**	(142,298)
Interest paid	**(23,121)**	(15,277)
Tax paid	**(21,481)**	(23,765)
Zakat paid	**(250)**	-
Interest received	**597**	656
Net cash used in operating activities	**(138,411)**	(180,684)
Investing Activities		
Acquisition of subsidiaries	**(14,773)**	-
Advance to a corporate shareholder of a subsidiary	**(17,960)**	-
Purchase of property, plant and equipment	**(21,613)**	(43,220)
Purchase of intangible assets	**(29,632)**	(21,635)
Proceeds from disposal of property, plant and equipment	**72**	168
Net cash used in investing activities	**(83,906)**	(64,687)
Financing Activities		
Issuance of shares	**1,008**	-
Dividend paid	**(41,784)**	(67,310)
Net drawdown of borrowings	**274,776**	298,075
Net cash generated from financing activities	**234,000**	230,765
Net increase/(decrease) in cash and cash equivalents	**11,683**	(14,606)
Effects of exchange rate changes	**108**	1,052
Cash and cash equivalent at beginning of period	**22,518**	31,982
Cash and cash equivalent at end of period	**34,309**	18,428
Analysis of cash and cash equivalents		
Deposits, cash and bank balances	**34,309**	18,428

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Part A - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard 134 ("MFRS 134")

A1. Basis of Preparation

These unaudited condensed consolidated interim financial statements for the period ended 30 September 2016 have been prepared in accordance with MFRS 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015. The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transaction that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2015.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2015, except for the adoption of the following new accounting policies and improvements and amendments to published standards that are effective for the Group's financial year beginning on or after 1 January 2016.

A2.1 New accounting policies

On 13 May 2016, the Board announced that pursuant to Paragraph 6.43(1) of the Main Market Listing Requirements of Bursa Malaysia, the effective date for the Share Option Plan and Long Term Incentive Plan under the Share Issuance Scheme has been fixed on 13 May 2016. Accordingly, the Group has adopted the following new accounting policies:

(a) Share Option Plan

The Group operates an equity-settled, share-based compensation plan under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the options granted in exchange for the services of the employees are recognised as employee benefit expense with a corresponding increase to share option reserve within equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to hold shares for a specific period of time).

Non-market vesting conditions and service conditions are included in assumptions about the number of options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to share option reserve in equity.

In circumstances where employees provide services in advance of the grant date, the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. When options are not exercised and lapsed, the share option reserve is transferred to retained earnings.

In its separate financial statements of the Company, the grant by the Company of options over its equity instruments to the employees of subsidiary in the Group is treated as a capital contribution to the subsidiary. The fair value of options granted to employees of the subsidiary in exchange for the services of the employees to the subsidiary are recognised as investment in subsidiary, with a corresponding credit to equity of the Company.

(b) Deferred shares - Long Term Incentive Plan

The fair value of deferred shares granted to employees for nil consideration under the long-term incentive scheme is recognised as an expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognised in equity in the share reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share reserve.

Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective from the date of the forfeiture.

A2. Significant Accounting Policies (Continued)

A2.2 Adoption of Improvements and Amendments to MFRSs

On 1 January 2016, the Group adopted the following improvements and amendments to MFRSs:-

Annual Improvements 2012- 2014 Cycle	Amendments to MFRS 7 'Financial Instruments', MFRS 119 'Employee Benefits' and MFRS 134 'Interim Financial Reporting'
Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets'	Clarification of Acceptable Methods of Depreciation and Amortisation

The adoption of the above improvements and amendments to published standards did not have any significant impact on the financial statements of the Group.

A2.3 MFRSs and Amendments to MFRSs issued but not yet effective

At the date of authorisation of these interim financial statements, the following MFRSs and amendments to MFRSs were issued but not yet effective and have not been applied by the Group:

a) Financial year beginning on/after 1 January 2017

i) Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities, both changes arising from cash flows and non-cash changes.

Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

One way to fulfil the disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

If an entity provides the disclosure required in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

ii) Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences. The amendments shall be applied retrospectively.

b) Financial year beginning on/after 1 January 2018

i) MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

A2. Significant Accounting Policies (Continued)

A2.3 MFRSs and Amendments to MFRSs issued but not yet effective (continued)

At the date of authorisation of these interim financial statements, the following MFRSs and amendments to MFRSs were issued but not yet effective and have not been applied by the Group: (continued)

b) Financial year beginning on/after 1 January 2018 (continued)

ii) MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 'Financial Instruments: Recognition and Measurement'.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ('OCI'). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

iii) Amendments to MFRS 2 Share-based Payment (effective from 1 January 2018) deals with classification and measurement of share-based payment transactions. The Amendments provides specific guidance on how to account for the following situations:

(a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
(b) share-based payment transactions with a net settlement feature for withholding tax obligations; and
(c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

c) Financial year beginning on/after 1 January 2019

MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations. Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Group is assessing the impact of the above standards and amendments to published standards on the financial statements of the Group in the year of initial adoption.

A3. Audit report in respect of the 2015 financial statements

The audit report on the Group's financial statements for the financial year ended 31 December 2015 was not qualified.

A4. Seasonal or cyclical factors

The Group's operations are not subject to any significant seasonal or cyclical factors.

A5. Unusual items due to their nature, size or incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the period under review.

A6. Change in Estimates

During the current period, in view of the ongoing negotiations to finalise the terms and conditions for the extension of the concession, the Group has revised the remaining estimated useful life of the expenses incurred for the rights to supply under the Concession Agreement from 4 years to 14 years. The revision has been accounted for as a change in accounting estimate and as a result, the amortisation charge for the current period as disclosed in Note A16 was reduced by RM21.5 million.

Other than the above and as disclosed in the audited financial statements for the financial year ended 31 December 2015, there were no other material changes in estimates of amounts reported in the current financial period or previous financial year.

A7. Debt and equity securities

The Group did not undertake any issuance and/or repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares in the current financial period other than the issuance of the following new ordinary shares of RM0.50 each pursuant to the Company's Share Option Plan and Long Term Incentive Plan.

	Exercise price per share RM	Number of shares issued	Cash proceeds RM'000
Share Option Plan	5.04	200,000	1,008
Long Term Incentive Plan	Not applicable	294,400	-

The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

A8. Dividends

On 25 March 2016, the Company paid a fourth interim dividend of 7.0 sen (2014: 12.0 sen) per share in respect of the financial year ended 31 December 2015 amounting to RM18.1 million (2014: RM31.1 million).

On 28 June 2016, the Company paid a first interim dividend of 4.0 sen (2015: 7.0 sen) per share in respect of the financial year ending 31 December 2016 amounting to RM10.4 million (2015: RM18.1 million).

On 20 September 2016, the Company paid a second interim dividend of 5.0 sen (2015: 7.0 sen) per share in respect of the financial year ending 31 December 2016 amounting to RM13.0 million (2015: RM18.1 million).

For the third quarter, the Directors have declared a third interim dividend of 4.0 sen (2015: 9.0 sen) per share in respect of the financial year ending 31 December 2016. The dividend will be paid on 15 December 2016 to shareholders registered in the Register of Members at the close of business on 7 December 2016.

A9. Operating segments

Operating segments information for the period is as follows:

RM'000	Logistics and Distribution	Manufacturing	Eliminations	Total
2016				
Revenue				
External revenue	1,582,082	24,124	-	1,606,206
Inter-segment revenue	5,064	271,962	(277,026)	-
Total revenue	1,587,146	296,086	(277,026)	1,606,206
Results				
Segment results	21,903	70,503	(1,000)	91,406
Finance costs	(23,877)	(1,077)	834	(24,120)
Interest income	980	516	(834)	662
(Loss)/profit before zakat and taxation	(994)	69,942	(1,000)	67,948
Zakat				(250)
Taxation				(20,939)
Profit for the period				46,759

A9. Operating segments (cont'd)

Operating segments information for the period is as follows: (cont'd)

RM'000	Logistics and Distribution	Manufacturing	Eliminations	Total
2015				
Revenue				
External revenue	1,495,599	13,563	-	1,509,162
Inter-segment revenue	5,864	262,804	(268,668)	-
Total revenue	1,501,463	276,367	(268,668)	1,509,162
Results				
Segment results	22,087	86,233	(4,815)	103,505
Finance costs	(15,130)	(2,224)	2,103	(15,251)
Interest income	2,831	23	(2,103)	751
Profit before zakat and taxation	9,788	84,032	(4,815)	89,005
Zakat				(700)
Taxation				(19,762)
Profit for the period				68,543

A10. Carrying Amount of Revalued Assets

There has been no revaluation of property, plant and equipment during the current financial period.

A11. Subsequent Event

There was no subsequent event as at 21 November 2016 that will materially affect the financial statements of the financial period under review.

A12. Changes in the Composition of the Group

There were no changes in the composition of the Group for the current financial period ended 30 September 2016 other than the acquisition of 10% equity interest in PT Errita Pharma and 70% equity interest in Bio-Collagen Technologies Sdn Bhd during the period.

A13. Contingent Liabilities

Further to the claims made by E*HealthLine.com Inc. ("EHL") against Modern Industrial Investment Holding Group Company Ltd ("Modern") and Pharmaniaga Berhad ("Pharmaniaga") relating to a non-binding Memorandum of Collaboration which has lapsed, a Final Award was subsequently issued on 2 November 2016. In the Final Award, the Tribunal dismissed all of EHL's claims against Modern and Pharmaniaga. The case is now closed.

Other than the above, there is no other contingent liability has arisen since the financial period end.

A14. Commitments

The Group has the following commitments as at 30 September 2016:

	Authorised and contracted for RM'000	Authorised but not contracted for RM'000	Total RM'000
Property, plant and equipment	39,805	1,801	41,606
Intangible assets	793	-	793
Acquisition of a subsidiary	700	-	700

A15. Financial Risk Management

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the audited financial statements as at and for year ended 31 December 2015.

A16. Intangible Assets

RM'000	Goodwill	Software	Capitalised development costs of work-in-progress	Pharmacy manufacturing licence and trade name	Rights to supply	Total
Cost						
At 1 January 2016	145,671	3,965	6,101	21,428	177,157	354,322
Additions	-	-	1,275	-	30,389	31,664
Acquisition of a subsidiary	3,292	-	-	137	-	3,429
Foreign exchange adjustments	1,118	88	-	414	-	1,620
At 30 September 2016	150,081	4,053	7,376	21,979	207,546	391,035
Accumulated amortisation						
At 1 January 2016	-	3,183	-	4,023	50,355	57,561
Amortisation charged	-	419	-	1,608	7,608	9,635
Foreign exchange adjustments	-	92	-	112	-	204
At 30 September 2016	-	3,694	-	5,743	57,963	67,400
Accumulated impairment						
At 1 January/30 September 2016	12,653	-	-	-	-	12,653
Net carrying value						
At 30 September 2016	137,428	359	7,376	16,236	149,583	310,982
At 31 December 2015	133,018	782	6,101	17,405	126,802	284,108

On 23 May 2016, the Group completed the acquisition of Bio-Collagen Technologies Sdn Bhd ("Bio-Collagen"). As of the date of this report, management has yet to finalise the purchase price allocation ("PPA") for the business combination, as required by MFRS 3 "Business Combination". The excess of cost of business over the Group's interest in the fair value of identifiable net assets acquired arising from the business combination has been derived only on a provisional basis.

Based on the preliminary assessment, the goodwill on acquisition is estimated at RM3.3 million. Management has 12 months from the date of completion of the acquisition to complete the PPA and the initial accounting for the transaction. The results of the PPA exercise will determine the final value of goodwill arising from the acquisition of Bio-Collagen. Upon finalisation of the PPA, the Group will recognise any adjustments to the provisional values of the excess of the cost of business over the Group's interest in the fair value of identifiable net assets acquired from the business combination.

B17. Performance Review

<u>Quarter 3 2016 vs Quarter 3 2015</u>

For the quarter under review, the Group registered a lower revenue of RM515.2 million compared with RM524.4 million in the previous year’s corresponding quarter. This was attributable to reduced demand from Government hospitals under the concession business. As a result of this, the Group has posted a lower profit before tax (PBT) of RM19.9 million compared with RM25.3 million in the same quarter last year.

During the current period, in view of the ongoing negotiations to finalise the terms and conditions for the extension of the concession, the Group has revised the remaining estimated useful life of the expenses incurred for the rights to supply under the Concession Agreement from 4 years to 14 years as described in Note A6 above.

<u>Year-to-date 30 September 2016 vs Year-to-date 30 September 2015</u>

For nine months ended 30 September 2016, the Group recorded a higher revenue of RM1.6 billion compared with RM1.5 billion in the same period last year. This was mainly attributable to improved contributions from the Group’s Indonesian operations.

However, the Group registered a lower PBT of RM67.9 million compared with RM89.0 million in the corresponding period last year. This was primarily due to higher expenses such as finance, selling and distribution costs.

The **Logistics and Distribution Division** recorded a loss before taxation of RM1.0 million compared with a PBT of RM9.8 million in the same period last year. This was due to higher finance and operating costs.

The **Manufacturing Division** registered a PBT of RM68.9 million compared with RM79.2 million in the previous year’s corresponding period. This was mainly as a result of lower offtake for in-house products under the concession business.

B18. Material Changes in Quarterly Results Compared to The Results of the Immediate Preceding Quarter

The Group reported a reduced revenue of RM515.2 million for the quarter under review, compared with RM531.8 million in the preceding quarter. This was primarily attributable to lower demand from Government hospitals and reduced contribution from the Group's Indonesian operations.

The Group posted a lower PBT of RM19.9 million for quarter under review, a decline from RM21.5 million in the preceding quarter. This was mainly due to the lower revenue as described above.

B19. Prospects

Despite challenging conditions, the Group maintain its focus on strengthening its prospects, particularly as the healthcare industry continues to grow.

To this end, the measures announced by the Government in the National Budget 2017 for healthcare programmes are indeed laudable, with an allocation of RM25 billion. This includes building and upgrading new hospitals and clinics across the nation. As such, there are clearly opportunities that Pharmaniaga will be able to tap into.

The Group remains committed to reinforcing its leadership position in Malaysia's pharmaceutical sector by leveraging on this growth potential, coupled with its ongoing drive to tighten operational efficiencies.

B20. Notes on variance in actual profit and shortfall in profit guarantee

The disclosure requirements for explanatory notes for the variance of actual profit after tax and non-controlling interest and shortfall in profit guarantee are not applicable.

B21. Income Tax

	Current Period		**Cumulative Period**	
RM'000	**2016**	2015	**2016**	2015
Taxation based on profit for the period:				
- Current	**2,519**	4,412	**17,330**	23,577
- Deferred	**6,988**	2,753	**5,620**	1,194
	9,507	7,165	**22,950**	24,771
(Over)/under provision in prior years:				
- Current	**(2,282)**	(2,503)	**(3,055)**	(2,569)
- Deferred	**-**	-	**1,044**	(2,440)
	(2,282)	(2,503)	**(2,011)**	(5,009)
	7,225	4,662	**20,939**	19,762

The Group's effective tax rate is higher than the statutory tax rate of 24% principally due to losses of certain subsidiaries.

B22. Corporate Proposal

The disclosure requirements for corporate proposal is not applicable.

B23. Borrowings and Debt Securities - Unsecured

	30 September 2016 RM'000	31 December 2015 RM'000
Current:		
Bankers' acceptances	**214,742**	73,662
Revolving credits	**345,000**	245,000
Short term foreign time loan	**114,948**	80,384
Bank overdraft	**2,461**	-
Hire purchase	**508**	567
	677,659	399,613
Non-current:		
Hire purchase	**367**	558

Short term foreign time loan of RM114.9 million (2015: RM80.4 million) is denominated in Indonesian Rupiah (IDR) and is equivalent to IDR362,612 million (2015: IDR258,469 million).

Included in bankers' acceptances is RM10.1 million (2015: RM4.2 million) Indonesian Rupiah (IDR) denominated which is equivalent to IDR31,735 million (2015: IDR13,673 million).

B24. Realised and Unrealised Profits of the Group

The retained profits as at 30 September 2016 is analysed as follows:

	30 September 2016 RM'000	31 December 2015 RM'000
Total retained profits of the Group and its subsidiaries:		
- realised profits	**424,196**	411,380
- unrealised losses	**(21,419)**	(14,549)
	402,777	396,831
Less: Consolidation adjustments	**(26,300)**	(16,456)
Total Group retained profits as per consolidated accounts	**376,477**	380,375

B25. Additional Disclosures

The Group's profit before taxation is stated after charging/(crediting) the following:

	Current Period		Cumulative Period	
	2016 RM'000	2015 RM'000	**2016 RM'000**	2015 RM'000
Net depreciation and amortisation	**(1,972)**	14,771	**33,314**	40,230
Net provision for/(reversal of) and write off of receivables	**315**	(389)	**1,160**	166
Provision for and write off of inventories	**1,903**	900	**3,225**	2,825
Net foreign exchange (gain)/losses	**(171)**	1,579	**(486)**	3,067

Other than the items mentioned above which have been included in the consolidated income statement and consolidated statement of comprehensive income, there were no impairment of assets, gain or loss on derivatives, gain or loss on disposal of subsidiaries and exceptional items included in the results for the period ended 30 September 2016.

B26. Economic Profit Statement

	Cumulative Period	
	2016 RM'000	**2015 RM'000**
Economic profit	**(21,833)**	8,108

B27. Profit Forecast

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

B28. Earnings Per Share ("EPS")

(a) Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the profit attributable to ordinary equity holders of the Company for the current period by the average number of ordinary shares in issue during the current period.

	Current Period		Cumulative Period	
	2016	2015	**2016**	2015
Profit attributable to shareholders of the Company (RM'000)	**13,061**	19,971	**46,435**	67,982
Weighted average number of ordinary shares in issue ('000)	**259,016**	258,883	**259,016**	258,883
Basic earnings per share (sen)	**5.04**	7.71	**17.93**	26.26

B28. Earnings Per Share (continued)

(b) Diluted earnings per share

For the diluted earnings per share calculation, the average number of ordinary shares in issue is adjusted to assume the full conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares for the Group are Share Option Plan ("Option Plan") and Long Term Incentive Plan ("LTIP").

For the shares granted under the Option Plan, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding shares under Option Plan. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the shares under Option Plan. The difference is added to the denominator as an issue of ordinary shares for no consideration. This calculation serves to determine the 'bonus' element in the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to profit for the financial period for the shares granted under Option Plan calculation.

For the shares granted under the LTIP, the outstanding number of shares granted to eligible employees is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to profit for the financial period for the shares granted under LTIP calculation.

	Current Period		**Cumulative Period**	
	2016	2015	**2016**	2015
Profit attributable to shareholders of the Company (RM'000)	**13,061**	19,971	**46,435**	67,982
Weighted average number of ordinary shares in issue ('000)	**259,016**	258,883	**259,016**	258,883
Assumed shares issued from the exercise of Share Option Plan ('000)	**119**	-	**119**	-
Assumed shares issued under Long Term Incentive Plan ('000)	**582**	-	**582**	-
Weighted average number of ordinary shares in issue ('000)	**259,717**	258,883	**259,717**	258,883
Diluted earnings per share (sen)	**5.03**	7.71	**17.88**	26.26

B29. Authorised for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 21 November 2016.

By Order of the Board

Kuala Lumpur
21 November 2016

TASNEEM MOHD DAHALAN (LS0006966)