



CCM DUOPHARMA BIOTECH BERHAD (524271-W)

(Incorporated in Malaysia)

Quarterly Report On Results For The Year Ended 31 December 2015

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 2014.

The following MFRs and Amendments to MFRs applicable to the Group have been adopted with effect from 1 January 2015 :

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 3, Business Combination (Annual Improvement 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 138, Intangible Asset (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 140, Investment Property (Annual Improvements 2011-2013 Cycle)

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.

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

- Amendments to MFRS 7, Financial Instruments : Disclosure (Annual Improvements to MFRs 2012-2014 Cycle)
- Amendments to MFRS 10 and MFRS 128, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to MFRS 10, MFRS 12, MFRS 128, Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11, Accounting for Acquisition of Interests in Joint Operations
- MFRS 14, Regulatory Deferral Accounts
- Amendments to MFRS 101, Disclosure Initiative
- Amendments to MFRS 116 and MFRS 138, Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 119, Defined Benefits Plans : Employee Contributions (Annual Improvements to MFRs 2012-2014 Cycle)
- Amendments to MFRS 127, Equity Method in Seperate Financial Statements
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements to MFRs 2012-2014 Cycle)

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

MFRS 15, Revenue from Contracts with Customers

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

MFRS 9, Financial Instruments (IFRS 9 issued by IASB in July 2014)

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material impacts to the financial statements of the Group except as mentioned below:

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.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15.

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

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 year 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 year under review.

A5 Changes in Estimates

During the current 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 in first half 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:-

	FY2015	FY 2016	FY 2017	FY 2018	FY2019
Increase in depreciation expense (RM '000)	1,609	1,609	1,609	1,609	1,609

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

- 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 results in newly register 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 current financial year is estimated at RM4.9 mil.

A6 Debts and Equity Securities

During the financial year, the Company has re-issued / issued the following shares.

a) Re-issued its entire 658,000 treasury shares by resale in the open market for a total consideration of approximately RM 2,172,000. The average resale price of treasury shares was RM3.30 per shares.

Details of the resale of treasury shares were as follows:

	Average selling price	Highest selling price	Lowest selling price	Number of treasury shares	Total consideration received
	RM	RM	RM	Resold	RM
2015					
February	3.3	3.37	3.09	658,000	2,172,000

b) Issued 139,479,500 new ordinary shares of RM0.50 each pursuant to a Right issue exercise on the basis of one (1) Rights Share for every one (1) existing ordinary share of RM0.50 each held at RM1.80 each. The Rights issue was completed on 22 July 2015 following the listing of and quotation for 139,479,500 Rights Shares on the Main Market of Bursa Malaysia Securities Berhad.

A7 Dividend Paid

The Group paid an interim Tax Exempt dividend of 8% (4 sen) per share {2014: 8% (4 sen)} amounting to RM 11.16 million (2014: RM 5.55 million) in respect of financial year ended 31 December 2015 during the current quarter.

A8 Segment Information

	Quarter Ended		Year To Date	
	31/12/2015		31/12/2015	
	RM ' 000		RM ' 000	
Sales by operating sector :-	Sales	Gross Profit	Sales	Gross Profit
Local	81,611	41,258	247,378	124,125
Export	7,790	1,174	23,302	6,697
	89,401	42,432	270,680	130,822

A9 Post Balance Sheet Events

There are no material events after the period end up to 16 Feb 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 31 Dec 2015.

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 (31/12/15) RM'000	Year To Date (31/12/14) RM'000	Variance	
			RM'000	%
Revenue	270,680	176,961	93,719	52.96
Profit before tax (PBT)	49,755	46,509	3,246	6.98
Profit after tax (PAT)	38,775	35,271	3,504	9.93

The Group recorded a revenue of RM270.68 million for current year ended 31 Dec 2015 as compared to RM176.96 million for the corresponding period last year. The increase was mainly due to revenue contribution from newly acquired subsidiary companies with effect from 01/06/2015 and also due to increased demand from Government Hospitals via tender business. However, PBT for financial year ended 31 Dec 2015 was impacted by corporate exercise costs of RM3.49 million, bridging loan and term loan interest of RM2.92 million and also costs associated to unionised staff upon signing of Collective Agreement amounting to RM1.49 million although impact of these costs were softened by changes in estimates as disclosed in Note A5 above.

B2 Comparison with the Preceding Quarter's Results

	Qtr 4 2015 (31/12/15) RM'000	Qtr 3 2015 (30/9/15) RM'000	Variance	
			RM'000	%
Revenue	89,401	79,372	10,029	12.64
Profit before tax (PBT)	17,529	11,631	5,898	50.71
Profit after tax (PAT)	15,335	8,633	6,702	77.63

The Group recorded a revenue of RM89.4 million for current quarter ended 31 Dec 2015 as compared to RM79.37 million for preceding financial quarter. The increase was mainly due to increased demand from government business. Increase in demand and also contribution from other income during the quarter have contributed to increase in current quarter PBT to RM17.53 million as compared to RM11.63 million in the preceding quarter

B3 Prospects for the Next Financial Year

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

In view of the 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 31/12/15 RM'000	Current Year To Date 31/12/15 RM'000
Based on results for the quarter/year	(2,839)	(11,685)
Transfer to deferred tax	645	705
	<u>(2,194)</u>	<u>(10,980)</u>

The Group's effective tax rate is lower than the statutory tax rate due utilisation of unabsorbed losses by acquired companies.

B6 Unquoted Investments and Properties

There is 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	140,000	133,695	6,305
Expansion of factory	106,963	1,296	105,667
Estimated expenses	4,100	4,100	-
Total	251,063	139,091	111,972

B8 Borrowings and Debt Securities

Details of Group's borrowings are as follows :-

	As at 31 Dec 2015 RM'000	As at 31 Dec 2014 RM'000
Current - unsecured	10,958	-
Non-current - unsecured	111,798	-
Total	<u>122,756</u>	-

B9 Material litigation

There was no material litigation up to 23 February 2016.

B10 Dividend

- a) For the current financial year ended 31 December 2015, the Board of Directors recommends a final tax exempt dividend of 11% (5.5 sen) per share (2014: a final tax exempt dividend of 29% (14.5 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 8 June 2016 and 28 June 2016 respectively
- b) The total dividend for the current financial year is 19% (9.5 sen) per share consists of a final dividend as stated in (a) above and an interim tax exempt dividend of 8% (4sen) amounting to approximately RM11.16 million as compared to 2014 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 2014 was paid on 7 November 2014
 - ii) A final tax exempt dividend of 29% (14.5 sen) per share amounting to approximately RM20.23 million in respect of financial year ended 31 December 2014 was paid on 25 June 2015.

B11 Earnings per Share

	Current year quarter 31/12/15	Current year to date 31/12/15
a) Basic EPS		
Net profit (RM'000)	<u>15,335</u>	<u>38,775</u>
Weighted average number of ordinary shares in issue ('000)		
- Balance b/f	139,479	139,479
-Weighted average number of shares arising from options exercised during the period	165	554
-Weighted average number of shares arising from Right Issues exercise during the period	27,132	62,288
	<u>166,776</u>	<u>202,321</u>
Basic EPS (sen)	<u>9.19</u>	<u>19.17</u>
b) Dilutive EPS		
Adjusted weighted average number of ordinary shares in issue ('000)		
-In issue during the period	166,776	202,321
-Dilutive impact of unexercised share options	-	-
	<u>166,776</u>	<u>202,321</u>
Dilutive EPS (sen)	<u>9.19</u>	<u>19.17</u>

B12 Disclosure of Realised and Unrealised

	Current year to date 31-Dec-15 RM '000	Preceding year corresponding period 31-Dec-14 RM '000
Total retained profits:		
- Realised	211,660	146,019
- Unrealised	688	450
	212,348	146,469
Less: Consolidation adjustments	(95,412)	(34,724)
Total retained profit	116,936	111,745

B13 Profit Before Tax

	Current year quarter 31/12/15 RM '000	Current year to date 31/12/15 RM '000
Operating profit is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	5,560	17,338
Interest expense	1,615	3,731
stock write off and/or impairment of inventories	847	867
Net foreign exchange loss	<u>457</u>	<u>1,183</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 31 Dec 2015

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 23 February 2016

By Order of the Board

Noor Azwah binti Samsudin
Secretary
Kuala Lumpur
23-Feb-16