



CCM DUOPHARMA BIOTECH BERHAD (524271-W)

(Incorporated in Malaysia)

**Quarterly Report On Results For The Period Ended 30 Sept 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 Separate 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 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

During the current financial quarter, the Group conducted operational review of the following:-

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 quarter/period to date and future financial years is as follows:-

	YTD Sept 2015	FY2015	FY 2016	FY 2017	FY 2018	FY2019
Increase in depreciation expense (RM '000)	1,207	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 guidelines from National Pharmaceuticals Control Bureau which imposes stringent requirements for extrapolations of proposed shelf life based on stability data. Revised requirement on storage conditions will result in newly registered products and also existing registered products to carry shelf life of less than 3 years.

- The revision has reduced the provision of slow moving stock recognized in cost of sales in current quarter estimated at RM4.9 mil.

A6 Debts and Equity Securities

There are no issuance, cancellations, repurchases, resale and repayments of debts and equity securities for the financial period under review.

A7 Dividend Paid

No dividend was paid during the current quarter. (2014 : nil)

A8 Segment Information

	Quarter Ended		Year To Date	
	30/9/2015		30/9/2015	
	RM ' 000		RM ' 000	
Sales by operating sector :-	Sales	Gross Profit	Sales	Gross Profit
Local	71,812	39,663	165,767	84,292
Export	7,560	2,470	15,512	5,523
	79,372	42,133	181,279	89,815

A9 Post Balance Sheet Events

During the current quarter, the Company had issued 139,479,500 ordinary share of RM0.50 each pursuant to a Right Issue exercise, details of which are disclosed in paragraph B7 (Status of Corporate Proposals) below. The new ordinary shares were listed on the Main Market of Bursa Malaysia on 22 July 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 (30/9/15) RM'000	Year To Date (30/9/14) RM'000	Variance	
			RM'000	%
Revenue	181,279	125,937	55,342	43.94
Profit before tax (PBT)	32,226	32,589	(363)	(1.11)
Profit after tax (PAT)	23,440	24,575	(1,135)	(4.62)

The Group recorded a revenue of RM181.28 million for current period ended 30 Sept 2015 as compared to RM125.94 million for 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 increase demand from Government Hospitals via tender business. However, there was marginal reduction in PBT as the results for financial period ended 30/09/2015 was impacted by corporate exercise costs of RM3.75 million, bridging loan and term loan interest of RM1.95 million and also costs associated to unionised staff upon signing of Collective Agreement amounting to RM1.49 million although impact of these costs was softened by changes in estimates as disclosed in Note A5 above.

B2 Comparison with the Preceding Quarter's Results

	Qtr 3 2015 (30/9/15) RM'000	Qtr 2 2015 (30/6/15) RM'000	Variance	
			RM'000	%
Revenue	79,372	56,308	23,064	40.96
Profit before tax (PBT)	11,621	8,407	3,214	38.23
Profit after tax (PAT)	8,623	5,848	2,775	47.45

The Group recorded a revenue of RM79.37 million for current quarter ended 30 Sept 2015 as compared to RM56.31 million for preceding financial quarter. The increase was mainly due to revenue contribution of RM37.01 million from newly acquired subsidiary companies during the quarter. Excluding the newly acquired subsidiary companies' contribution, current quarter revenue has decreased by 5.5% as compared to preceding quarter mainly due to reduced demand from export market, PBT has increased to RM11.62 million for current quarter as compared to RM8.41 million for preceding financial quarter due to impact from changes in estimates as disclosed in Note A5 above.

B3 Prospects for the Remainder of Current Financial Year

Demand in Pharmaceutical industry was relatively stable up to current quarter and expected to remain the same for remainder of the current financial year, despite increasing challenges arising from the weakening of Malaysia Ringgit which affects our production and operational costs. Persistent foreign exchange volatility and uncertainties facing the economy may further affect consumers confidence.

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 2015.

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 30/9/15 RM'000	Current Year To Date 30/9/15 RM'000
Based on results for the quarter/year	(2,355)	(8,846)
Transfer to deferred tax	(643)	60
	<u>(2,998)</u>	<u>(8,786)</u>

The Group's effective tax rate is higher than the statutory tax rate mainly due to certain expenses were disallowed for tax purpose during the current period ended 30 Sept 2015

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 Company through its adviser, RHB Investment Bank Berhad had announced that the Company is proposing to undertake the following :-

- (i) CCM Duopharma had on 27 November 2014 entered into the following agreements:
- (a) A conditional share sale agreement for the acquisition of the entire equity interest in CCM Pharmaceuticals Sdn Bhd ("CCM Pharmaceuticals") and Innovax Sdn Bhd ("Innovax") from Chemical Company of Malaysia Berhad ("CCMB") for an aggregate purchase consideration of RM17,600,000 together with the settlement of advances due from Innovax, and CCM Pharmaceuticals and its subsidiaries to CCMB and its subsidiaries ("CCMB Group") amounting to RM10,655,000 based on 30 September 2014 to be settled via cash ("CCMD SSA");
 - (b) A conditional share sale agreement for the acquisition of the entire equity interest in CCM International (Philippines), Inc ("CCM Philippines") from CCM Investments Ltd, a wholly-owned subsidiary of CCMB ("CCM Investments") for a purchase consideration of RM1,000 to be settled via cash ("Philippines Company SSA"); and
 - (c) A conditional share sale agreement for the acquisition of the entire equity interest in CCM Pharmaceuticals (S) Pte Ltd ("CCM Singapore") from CCM International Sdn Bhd, a wholly-owned subsidiary of CCMB ("CCM International") for a purchase consideration of RM2,417,000 together with the settlement of advances due from CCM Singapore to the CCMB Group amounting to RM27,000 based on 30 September 2014 to be settled via cash ("Singapore Company SSA"); and
- (ii) Duopharma (M) Sdn Bhd ("DMSB"), a wholly-owned subsidiary of CCM Duopharma had on 27 November 2014 entered into a conditional share sale agreement for the proposed acquisition of the entire equity interest in CCM Pharma Sdn Bhd ("CCM Pharma") and Upha Pharmaceutical Manufacturing (M) Sdn Bhd ("Upha Pharmaceutical") from CCMB for an aggregate purchase consideration of RM113,307,000 together with the settlement of advances due from CCM Pharma and Upha Pharmaceutical to the CCMB Group amounting to RM101,116,000 based on 30 September 2014 to be settled via cash ("DMSB SSA"),
- (hereinafter the CCMD SSA, the Philippines Company SSA, the Singapore Company SSA and the DMSB SSA are collectively referred to as the "SSAs", the shares that are the subject matter of the SSAs are collectively referred to as the "Sale Shares"; and the aforesaid proposed acquisition of CCM Pharmaceuticals, Innovax, CCM Philippines, CCM Singapore, CCM Pharma and Upha Pharmaceutical are collectively referred to as the "Acquisition").
- The total purchase consideration of the Sale Shares would amount to RM133,325,000 ("Purchase Consideration") and the aforesaid settlement of advances would amount to RM111,798,000;
- (iii) CCM Duopharma proposes to undertake a renounceable rights issue of up to 139,479,500 new ordinary shares of RM0.50 each in CCM Duopharma ("Rights Share(s)") on the basis of one (1) Rights Share for every one (1) existing ordinary share of RM0.50 each held in CCM Duopharma ("CCMDuopharma Share(s)" or "Share(s)") on an entitlement date to be determined and announced later ("Entitlement Date") ("Proposed Rights Issue"); and
 - (iv) CCM Duopharma proposes to increase the authorised share capital of the Company from RM100,000,000 comprising 200,000,000 CCM Duopharma Shares to RM250,000,000 comprising 500,000,000 CCM Duopharma Shares and to amend the Memorandum of Association of the Company to accommodate the increase in the authorised share capital ("Proposed Increase in Authorised Share Capital").

(The Acquisition, Rights Issue and Increase in Authorised Share Capital are hereinafter collectively referred to as the "Proposals").

During the current financial quarter up to the date of this announcement, RHB Investment Bank Berhad had also announced the following:

- (i) As at the close of acceptance, excess application and payment for the Rights Issue at 5.00 p.m. on 7 July 2015, the total acceptances and excess applications for the Rights Issue were 148,906,727 Rights Shares, which represents an over-subscription of 6.76% over the total number of 139,479,500 Rights Shares available for subscription under the Rights Issue

- (ii) The Rights Issue has been 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.

The status of the utilisation of proceeds 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	182	106,781
Estimated expenses	4,100	4,100	-
Total	251,063	137,977	113,086

B8 Borrowings and Debt Securities

Details of Group's borrowings are as follows :-

	As at 30 Sept 2015 RM'000	As at 30 Sept 2014 RM'000
Current - unsecured	11,760	-
Non-current - unsecured	111,798	-
Total	123,558	-

B9 Material litigation

There was no material litigation up to 18 November 2015 .

B10 Dividend

The Directors do not recommend any interim dividend for the current quarter ended 30 September 2015. (2014: Nil)

B11 Earnings per Share

	Current year quarter 30/9/15	Current year to date 30/9/15
a) Basic EPS		
Net profit (RM'000)	<u>8,623</u>	<u>23,440</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	388
-Weighted average number of shares arising from Right Issues exercise during the period	27,132	27,132
	<u>166,776</u>	<u>166,999</u>
Basic EPS (sen)	<u>5.17</u>	<u>14.04</u>
b) Dilutive EPS		
Adjusted weighted average number of ordinary shares in issue ('000)		
-In issue during the period	166,776	166,999
-Dilutive impact of unexercised share options	-	-
	<u>166,776</u>	<u>166,999</u>
Dilutive EPS (sen)	<u>5.17</u>	<u>14.04</u>

B12 Disclosure of Realised and Unrealised

	Current year to date 30-Sep-15 RM '000	Preceding year corresponding period 30-Sep-14 RM '000
Total retained profits:		
- Realised	209,224	138,980
- Unrealised	688	2,346
	209,912	141,326
Less: Consolidation adjustments	(95,412)	
Total retained profit	114,500	141,326

B13 Profit Before Tax

	Current year quarter 30/9/15 RM '000	Current year to date 30/9/15 RM '000
Operating profit is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	10,675	15,928
Interest expense	1,948	2,301
stock write off and/or impairment of inventories	(4,920)	(3,996)
Net foreign exchange loss	<u>640</u>	<u>937</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 Sept 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 24 November 2015

By Order of the Board

Noor Azwah binti Samsudin
Secretary
Kuala Lumpur
24 November 2015