Pharmaniaga Berhad (467709-M)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the quarter ended 30 June 2015	**Current Period**		**Cumulative Period**	
(All figures are stated in RM'000)	**2015**	**2014**	**2015**	**2014**
Revenue	**512,845**	525,072	**984,749**	993,744
Cost of sales	**(426,967)**	(445,124)	**(808,304)**	(831,984)
Gross profit	**85,878**	79,948	**176,445**	161,760
Operating expenses	**(55,702)**	(52,136)	**(103,964)**	(92,478)
Finance costs	**(5,373)**	(3,524)	**(9,321)**	(7,058)
Interest income	**253**	334	**508**	557
Profit before taxation	**25,056**	24,622	**63,668**	62,781
Taxation	**(8,414)**	(8,665)	**(15,100)**	(20,178)
Profit for the period	**16,642**	15,957	**48,568**	42,603
Profit for the period attributable to:				
Owners of the parent	**16,217**	15,975	**48,011**	42,192
Non-controlling interests	**425**	(18)	**557**	411
Profit for the period	**16,642**	15,957	**48,568**	42,603
Earnings per share - sen				
Basic and diluted	**6.26**	6.17	**18.55**	16.30

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 June 2015	**Current Period**		**Cumulative Period**	
(All figures are stated in RM'000)	**2015**	**2014**	**2015**	**2014**
Profit for the period	**16,642**	15,957	**48,568**	42,603
Other comprehensive income, net of tax				
Items that may be subsequently reclassified to profit or loss				
Foreign currency translation difference for foreign operations	**1,092**	(3,336)	**2,591**	(377)
	1,092	(3,336)	**2,591**	(377)
Total comprehensive income for the period	**17,734**	12,621	**51,159**	42,226
Attributable to:				
Owners of the parent	**17,013**	13,874	**49,838**	41,913
Non-controlling interests	**721**	(1,253)	**1,321**	313
Total comprehensive income for the period	**17,734**	12,621	**51,159**	42,226

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 June 2015	As at 31 December 2014
(All figures are stated in RM'000)		
ASSETS		
Non-current assets		
Property, plant and equipment	**365,091**	369,800
Prepaid lease payments	**2,536**	2,547
Intangible assets	**242,559**	232,982
Receivables	**12,055**	12,055
Deferred tax assets	**23,104**	21,070
	645,345	638,454
Current assets		
Inventories	**516,968**	427,035
Receivables	**244,790**	142,916
Tax recoverable	**4,631**	2,333
Deposits, cash and bank balances	**15,665**	31,982
	782,054	604,266
TOTAL ASSETS	**1,427,399**	1,242,720
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	**129,441**	129,441
Reserves	**397,721**	397,071
Shareholders' equity	**527,162**	526,512
Non-controlling interests	**26,844**	25,523
Total equity	**554,006**	552,035
Non-current liabilities		
Loans and borrowings	**846**	1,060
Deferred tax liabilities	**26,750**	28,290
Provision for defined benefit plan	**6,656**	6,213
	34,252	35,563
Current liabilities		
Payables	**396,087**	448,554
Amount due to immediate holding company	**159**	227
Current tax liabilities	**14,161**	6,109
Deferred income	**10**	152
Loans and borrowings	**428,724**	200,080
	839,141	655,122
Total liabilities	**873,393**	690,685
TOTAL EQUITY AND LIABILITIES	**1,427,399**	1,242,720

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 June 2015	**Share Capital**	*** Share Premium**	*** Exchange Reserve**	**Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
(All figures are stated in RM'000)							
At 1 January 2015	**129,441**	**11,751**	**(1,730)**	**387,050**	**526,512**	**25,523**	**552,035**
Total comprehensive income for the period	**-**	**-**	**1,827**	**48,011**	**49,838**	**1,321**	**51,159**
Transactions with owners							
Dividends	-	-	-	**(49,188)**	**(49,188)**	**-**	**(49,188)**
At 30 June 2015	**129,441**	**11,751**	**97**	**385,873**	**527,162**	**26,844**	**554,006**
At 1 January 2014	129,441	11,751	(4,131)	350,571	487,632	15,631	503,263
Total comprehensive income for the period	-	-	(279)	42,192	41,913	313	42,226
Transactions with owners							
Dividends	-	-	-	(26,406)	(26,406)	-	(26,406)
Acquisition of a subsidiary	-	-	-	-	-	4,949	4,949
Issue of shares by a subsidiary	-	-	-	-	-	186	186
At 30 June 2014	129,441	11,751	(4,410)	366,357	503,139	21,079	524,218

* 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 June 2015

(All figures are stated in RM'000)	2015	2014
Operating Activities		
Cash receipts from customers	**881,132**	939,736
Cash payments to suppliers and employees	**(1,036,586)**	(944,468)
Net cash used in operations	**(155,454)**	(4,732)
Interest paid	**(9,303)**	(6,812)
Tax paid	**(13,343)**	(4,705)
Interest received	**434**	545
Net cash used in operating activities	**(177,666)**	(15,704)
Investing Activities		
Acquisition of a subsidiary	**-**	(67,997)
Issue of shares by a subsidiary	**-**	186
Purchase of property, plant and equipment	**(10,414)**	(11,260)
Purchase of intangible assets	**(7,834)**	(3,407)
Proceeds from disposal of property, plant and equipment	**53**	40
Net cash used in investing activities	**(18,195)**	(82,438)
Financing Activities		
Dividend paid	**(49,188)**	(26,406)
Net drawdown of borrowings	**227,956**	116,745
Net cash generated from financing activities	**178,768**	90,339
Net decrease in cash and cash equivalents	**(17,093)**	(7,803)
Effects of exchange rate changes	**776**	(4,457)
Cash and cash equivalent at beginning of period	**31,982**	32,900
Cash and cash equivalent at end of period	**15,665**	20,640
Analysis of cash and cash equivalents		
Deposits, cash and bank balances	**15,665**	20,640

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 June 2015 have been prepared in accordance with MFRS134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014. 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 2014.

A2. Significant Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2014 and there is no new Malaysian Financial Reporting Standards (MFRSs)/IC Interpretations and amendments to MFRSs/IC Interpretations which are applicable for the Group's financial period beginning 1 January 2015.

A2.1 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 2016

i) Amendments to MFRS 116 ‘Property, plant and equipment’ and MFRS 138 ‘Intangible assets’ (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation and amortisation of an item of property, plant and equipment and intangible are not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

ii) Amendments to MFRS 10 and MFRS 128 regarding sale or contribution of assets between an investor and its associate or joint venture (effective from 1 January 2016) resolve a current inconsistency between MFRS 10 and MFRS 128. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a ‘business’. Full gain or loss shall be recognised by the investor where the non-monetary assets constitute a ‘business’. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors’ interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture. They are not intended to address accounting for the sale or contribution of assets by an investor in a joint operation.

b) Financial year beginning on/after 1 January 2017

MFRS 15 ‘Revenue from contracts with customers’ (effective from 1 January 2017) 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)

A2.1 MFRSs and Amendments to MFRSs issued but not yet effective (continued)

c) Financial year beginning on/after 1 January 2018

MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.

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 a 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.

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any material effect to the financial statements of the Group upon their initial application.

A3. Audit report in respect of the 2014 financial statements

The audit report on the Group's financial statements for the financial year ended 31 December 2014 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

There were no material changes in estimates of amounts reported in the current financial period or the previous financial year.

A7. Debt 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 in the current financial period.

A8. Dividends

On 26 March 2015, the Company paid a fourth interim dividend of 12.0 sen (2013: 6.20 sen) per share in respect of the financial year ended 31 December 2014 amounting to RM31.1 million (2013: RM16.0 million).

On 25 June 2015, the Company paid a first interim dividend of 7.0 sen (2014: 4.00 sen) per share in respect of the financial year ended 31 December 2015 amounting to RM18.1 million (2014: RM10.4 million).

For the second quarter, the Directors have declared a second interim dividend of 7.0 sen (2014: 4.0 sen) per share in respect of the financial year ending 31 December 2015. The dividend will be paid on 15 September 2015 to shareholders registered in the Register of Members at the close of business on 3 September 2015.

A9. Operating segments

Operating segment information for the period is as follows:

RM'000	Logistics and Distribution	Manufacturing	Eliminations	Total
2015				
Revenue				
External revenue	974,726	10,023	-	984,749
Inter-segment revenue	4,240	183,907	(188,147)	-
Total revenue	978,966	193,930	(188,147)	984,749
Results				
Segment results	17,803	65,499	(10,821)	72,481
Finance costs	(9,186)	(535)	400	(9,321)
Interest income	894	14	(400)	508
Profit before taxation	9,511	64,978	(10,821)	63,668
Taxation				(15,100)
Profit for the period				48,568
2014				
Revenue				
External revenue	988,498	5,246	-	993,744
Inter-segment revenue	1,876	181,233	(183,109)	-
Total revenue	990,374	186,479	(183,109)	993,744
Results				
Segment results	21,934	54,883	(7,535)	69,282
Finance costs	(6,999)	(863)	804	(7,058)
Interest income	1,352	9	(804)	557
Profit before taxation	16,287	54,029	(7,535)	62,781
Taxation				(20,178)
Profit for the period				42,603

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 17 August 2015 that will materially affect the financial statements of the financial period under review.

A12. Changes in the Composition of the Group

There was no change in the composition of the Group for the current financial period ended 30 June 2015.

A13. Contingent Liabilities

No contingent liability has arisen since the financial period end.

A14. Commitments

The Group has the following commitments as at 30 June 2015:

	Authorised and contracted for RM'000	Authorised but not contracted for RM'000	Total RM'000
Property, plant and equipment	37,865	14,110	51,975
Intangible assets	3,008	-	3,008

A15. Financial Risk Management

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for year ended 31 December 2014.

A16. Intangible Assets

RM'000	Goodwill	Software	Capitalised development cost of work-in-progress	Pharmacy manufacturing licence and trade name	Rights to supply	Total
Cost						
At 1 January 2015	139,327	3,538	1,042	19,430	110,391	273,728
Additions	-	-	1,463	-	18,928	20,391
Foreign exchange adjustments	186	15	-	70	-	271
At 30 June 2015	139,513	3,553	2,505	19,500	129,319	294,390
Accumulated amortisation						
At 1 January 2015	-	2,310	-	1,827	23,956	28,093
Amortisation charged	-	260	-	996	9,812	11,068
Foreign exchange adjustments	-	11	-	6	-	17
At 30 June 2015	-	2,581	-	2,829	33,768	39,178
Accumulated impairment						
At 1 January/30 June 2015	12,653	-	-	-	-	12,653
Net carrying value						
At 30 June 2015	126,860	972	2,505	16,671	95,551	242,559
At 31 December 2014	126,674	1,228	1,042	17,603	86,435	232,982

During the quarter, the Group has completed the purchase price allocation for the acquisition of PT Errita Pharma as required by MFRS 3 "Business Combination". Based on the final assessment, there is no adjustment to the provisional goodwill of RM48.8 million.

B17. Performance Review

Quarter 2 2015 vs Quarter 2 2014

For the quarter under review, the Group registered a profit before tax (PBT) of RM25.1 million, compared with RM24.6 million in the previous year's corresponding quarter. This was primarily attributable to higher profit margins from the Manufacturing Division, although increased expenses on corporate responsibility programmes and promotional activities had an impact on the Group's bottom line. Meanwhile, revenue for the period dropped to RM512.8 million from RM525.1 million previously, mainly due to lower sales in the concession segment.

Period ended 30 June 2015 vs Period ended 30 June 2014

For the first half of the financial year, the Group recorded an improved PBT of RM63.7 million, compared with RM62.8 million in the previous year's corresponding period. This was largely due to favourable profit margins from the Manufacturing Division, driven by reduced manufacturing costs as a result of continuous efficiency improvement initiatives. This includes batch consolidation, enhanced procurement exercises and increased production yields. However, this was moderated by higher amortization of the Pharmacy Information System. There was also a higher allocation of profit towards a talent development programme and ongoing pre-clinical studies for the Group's biotechnology herbal project, Kacip Fatimah. Revenue also saw a slight decline to RM984.7 million from RM993.7 million in last year's corresponding period due to lower demand in the concession segment.

The **Logistics and Distribution Division** registered a PBT of RM9.5 million for the cumulative period, a decline from RM16.3 million in last year's corresponding period. This was primarily attributable to lower government orders and higher expenses as described above.

The **Manufacturing Division** posted a stronger PBT of RM54.2 million for the six-month period, an increase of 16.5% from RM46.5 million in the previous year's corresponding period. This was primarily attributable to reduced manufacturing costs as described above.

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

The Group reported a higher revenue of RM512.8 million for the quarter under review, an 8.7% increase from RM471.9 million in the preceding quarter. This was driven by contributions from the concession business as well as from the Group's Indonesian operations. However, PBT declined to RM25.1 million from RM38.6 million in the preceding quarter. This was largely due to an unfavourable product mix coupled with higher overheads, including finance costs and increased provision for stock obsolescence for expired and short expiry products.

The **Logistics and Distribution Division** posted a loss before tax of RM1.3 million from a PBT of RM10.8 million in the preceding quarter. This was due to an unfavourable product mix and higher expenses as explained above.

The **Manufacturing Division** recorded a PBT of RM26.3 million, a 5.3% decline from RM27.8 million in the preceding quarter. This was attributable to lower off-take for in-house products during the quarter under review.

B19. Prospects

The Group remains positive over the long-term as the pharmaceutical sector continues to develop, both regionally and globally. There is a consistent demand for quality pharmaceutical products, regardless of the economic climate.

In view of this, the Manufacturing Division continues to be the growth driver and aims to enhance contributions by producing high quality products of international standards at both Malaysia and Indonesia facilities.

Building on its solid foundation, the Group is committed to capitalising on growth prospects in order to strengthen its core businesses and solidify its position as a leader in the industry. Moving forward, the Group will maintain its focus on driving operational efficiency and pursuing organic growth opportunities to deliver sustained earnings.

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	**2015**	2014	**2015**	2014
Taxation based on profit for the period:				
- Current	**8,211**	4,300	**19,165**	15,989
- Deferred	**177**	3,417	**(1,559)**	3,403
	8,388	7,717	**17,606**	19,392
Under/(over) provision in prior years:				
- Current	**26**	-	**(66)**	(162)
- Deferred	**-**	948	**(2,440)**	948
	26	948	**(2,506)**	786
	8,414	8,665	**15,100**	20,178

The Group's effective tax rate is lower than the statutory tax rate of 25% principally due to over provision of deferred tax liability in prior year.

B22. Corporate Proposal

Proposed joint venture

On 20 May 2013, the Company announced that a Joint Venture ("JV") Agreement between Modern Healthcare Solutions Company Limited and Pharmaniaga Berhad ("Parties") had been signed to form and operate a joint venture limited liability company ("JV Company") in the Kingdom of Saudi Arabia. Upon the fulfillment of conditions precedent, the JV Company will be incorporated with each Party having a 50% equity interest in share capital of the JV Company.

On 16 May 2015, the validity of the JV Agreement has lapsed and there is no intention to proceed further.

B23. Borrowings and Debt Securities - Unsecured

	30 June 2015 RM'000	31 December 2014 RM'000
Current:		
Bankers' acceptances	**157,288**	23,566
Revolving credits	**205,000**	115,000
Short term foreign time loan	**65,874**	60,968
Hire purchase	**562**	546
	428,724	200,080
Non-current:		
Hire purchase	**846**	1,060

Short term foreign time loan of RM65.9 million (2014: RM61.0 million) is denominated in Indonesian Rupiah (IDR) and is equivalent to IDR232,770 million (2014: IDR216,199 million).

Included in bankers' acceptances is RM5.2 million (2014: RM1.7 million) is denominated in Indonesian Rupiah (IDR) and is equivalent to IDR18,536 million (2014: IDR6,000 million).

B24. Realised and Unrealised Profits of the Group

The retained profits as at 30 June 2015 is analysed as follows:

	30 June 2015 RM'000	31 December 2014 RM'000
Total retained profits of the Group and its subsidiaries:		
- realised profits	**410,939**	405,063
- unrealised losses	**(8,405)**	(8,819)
	402,534	396,244
Less: Consolidation adjustments	**(16,661)**	(9,194)
Total Group retained profits as per consolidated accounts	**385,873**	387,050

B25. Additional Disclosures

	Current Period		**Cumulative Period**	
	2015 RM'000	2014 RM'000	**2015 RM'000**	2014 RM'000
Depreciation and amortisation	**13,307**	10,524	**25,459**	22,530
Provision for and write off of receivables	**251**	1,272	**555**	2,428
Provision for and write off of inventories	**2,291**	6,082	**1,925**	6,796
Foreign exchange loss/(gain)	**1,060**	(289)	**1,488**	(395)

Other than the items mentioned above which have been included in the 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 June 2015.

B26. Economic Profit Statement

	Cumulative Period	
	2015 RM'000	**2014 RM'000**
Economic profit	**8,108**	16,269

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")

	Current Period		**Cumulative Period**	
	2015	**2014**	**2015**	**2014**
Profit attributable to shareholders of the Company (RM'000)	**16,217**	15,975	**48,011**	42,192
Weighted average number of ordinary shares in issue ('000)	**258,883**	258,883	**258,883**	258,883
Basic and diluted earnings per share (sen)	**6.26**	6.17	**18.55**	16.30

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 17 August 2015.

By Order of the Board

Kuala Lumpur
17 August 2015

TASNEEM MOHD DAHALAN (LS0006966)