

# SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

## NOTES TO THE INTERIM STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2014

### A. NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARD 134 (MFRS 134): INTERIM FINANCIAL REPORTING

#### A1. Basis of reporting preparation

The unaudited interim financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards (“MFRSs”) 134: “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board (“MASB”) and Chapter 9, Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the ACE Market (“ACE LR”). The unaudited interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2013.

The following MFRSs and Amendments to MFRSs applicable to the Group have been adopted with effect from 1 January 2014.

- MFRS 10, Consolidated Financial Statements (Amendments relating to Investment Entities)
- MFRS 12, Disclosure of Interests in Other Entities (Amendments relating to Investment Entities)
- MFRS 127, Separate Financial Statements (2011) (Amendments relating to Investment Entities)
- MFRS 132, Financial Instruments: Presentation (Amendments relating to Offsetting Financial Assets and Financial Liabilities)
- MFRS 136, Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets
- MFRS 139, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting

The adoption of the above standards and amendments did not have any material impact on the financial statements of the Group.

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**A1. Basis of reporting preparation (*Cont'd*)**

The following revised MFRSs and Amendments to MFRSs applicable to the Group, have been issued by the MASB are not yet effective for adoption by the Group.

**Amendments effective for financial periods beginning on or after 1 January 2015**

- Amendment to MFRS 2, Share-based payment: Annual Improvements to MFRSs 2010-2012 Cycle
- Amendment to MFRS 3, Business Combinations: Annual Improvements to MFRSs 2010-2012 Cycle, Annual Improvements to MFRSs 2011-2013 Cycle
- Amendment to MFRS 8, Operating Segments: Annual Improvements to MFRSs 2010-2012 Cycle
- Amendment to MFRS 13, Fair Value Measurement: Annual Improvements to MFRSs 2010-2012 Cycle, Annual Improvements to MFRSs 2011-2013 Cycle
- Amendment to MFRS 116, Property, Plant and Equipment: Annual Improvements to MFRSs 2010-2012 Cycle
- Amendments to MFRS119, Employee Benefits: Defined Benefit Plans
- Amendments to MFRS 124, Related Party Disclosures: Annual Improvements to MFRSs 2010-2012 Cycle
- Amendment to MFRS 138, Intangible Assets: Annual Improvements to MFRSs 2010-2012 Cycle
- Amendment to MFRS 140, Investment Property: Annual Improvements to MFRSs 2011-2013 Cycle

**A2. Auditors' report on preceding annual financial statements**

The audited financial statements of the Company and its subsidiaries for the FYE 31 December 2013 were not subjected to any qualification.

**A3. Seasonal or cyclical factors**

The principal business operations of the Group were not significantly affected by seasonal or cyclical factors during the current quarter under review.

**A4. Items of unusual nature and amount**

There were no items affecting assets, liabilities, equity, net income or cash flows that were unusual because of their nature, size or incidence during the current quarter under review.

**A5. Material changes in estimates**

There were no material changes in estimates of amounts reported that will have a material effect in the current quarter under review.

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**A6. Issuances, cancellations, repurchase, resale and repayments of debt and equity securities**

There were no issuances, cancellations, repurchase, resale and repayments of debt and equity securities during the current quarter under review. Total number of shares repurchased and retained as treasury shares at 30 September 2014 was 120,000 at a carrying amount of RM28,422.

**A7. Dividend paid**

There was no payment of dividend in the current quarter under review.

**A8. Segmental information**

Segmental revenue on the basis of geographical market is as follows:-

<b>Geographical Market</b>	<b>Current Year-To-Date Ended 30 September 2014 RM'000</b>	<b>Corresponding Year-To-Date Ended 30 September 2013 RM'000</b>
Asia other than Malaysia	6,620	6,000
Middle East	299	523
Africa	-	48
Total export revenue	6,919	6,571
Malaysia	19,863	19,136
Total export and local revenue	26,782	25,707

Export revenue for the current year-to-date 2014 increased by 5.30% as opposed to 2013 while local market showed a 3.80% increase in revenue.

**A9. Valuation of property, plant and equipment**

Freehold land and factory buildings have been revalued at the reporting date based on a valuation performed by an independent firm of professional valuers.

**A10. Capital commitments**

The Company has committed RM1,360,000 for the upgrading of existing pilot plant to commercial capacity for production of a new product, the funding of which is sourced from private placement which has been approved by Bursa Securities on 28 October 2014.

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**A11. Material subsequent event**

The current Distribution Agreement with Zoetis is expiring on 31 December 2014. As per notice from Zoetis dated 3 October 2014 that upon expiration of the Agreement, Sunzen will no longer be the distributor for Companion Animal products in line with the change in business model of Zoetis. However, Sunzen is expected to sign up a 3-year non-exclusive Distribution Agreement with Zoetis, whereby Sunzen will remain as Zoetis's key swine portfolio partner.

**A12. Changes in the Composition of the Group**

For the current quarter under review, there were no changes in the composition of the Group.

**A13. Contingent Liabilities**

Save for the corporate guarantee granted by the Company in favour of financial institutions for Islamic banking facilities extended to a subsidiary amounting to **RM17,131,000**, neither the Company nor its subsidiaries have any contingent liabilities at the end of the reporting period, which upon becoming enforceable, may have a material effect on the financial position of the Group.

The corporate guarantee forms part of the securities for the following banking facilities made available to a subsidiary company.

<b>Islamic Banking Facility</b>	<b>Corporate Guarantee RM'000</b>	<b>Facility Limit RM'000</b>	<b>Outstanding Balance</b>
			<b>As At 30 September 2014 RM'000</b>
Bank overdraft	500	500	-
Trade line	6,000	6,000	343
Term loans	10,631	6,465	4,438
<hr/>			
<b>Total</b>	<b>17,131</b>	<b>12,965</b>	<b>4,781</b>

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**B. ADDITIONAL INFORMATION REQUIRED UNDER THE ACE LR****B1. Review of performance of the Company and its principal subsidiaries for the current quarter and financial year-to-date**

	<b>Current Quarter Ended 30 September 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 September 2013 RM'000</b>	<b>Current Year-To-Date Ended 30 September 2014 RM'000</b>	<b>Corresponding Year-To-Date Ended 30 September 2013 RM'000</b>
Revenue	8,461	8,980	26,782	25,707
Profit before taxation ("PBT")	85	1,227	783	2,794

Revenue for the current quarter slipped by 5.78% compared to the corresponding quarter of 2013. PBT reported a 93.07 % decrease for the current quarter as against 2013, mainly due to provision for impairment of inventories and higher cost of sales for the current quarter. Revenue for the current year-to-date showed an increase of 4.18% compared to 2013. PBT decreased by 71.98% year-on-year mainly attributed to provision for impairment of inventories and provision for write off of receivables as well as the increase in marketing and distribution expenses.

**B2. Review of performance of the operating segments of the Company and its principal subsidiaries for the current quarter and financial year-to-date**

<b>Revenue</b>	<b>Current Quarter Ended 30 September 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 September 2013 RM'000</b>	<b>Current Year-To-Date Ended 30 September 2014 RM'000</b>	<b>Corresponding Year-To-Date Ended 30 September 2013 RM'000</b>
Trading	4,162	4,556	13,369	12,627
Manufacturing	4,299	4,424	13,413	13,080
<b>Total</b>	<b>8,461</b>	<b>8,980</b>	<b>26,782</b>	<b>25,707</b>

Both trading and manufacturing products showed a reduction in revenue of 8.65% and 2.83% respectively, for the current quarter compared to 2013. For year-to-date, revenue of both trading and manufacturing products showed an increase of 5.88% and 2.55% respectively.

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**B3. Profit before taxation**

Profit before taxation is arrived at after crediting/(charging):-

	<b>Current Quarter Ended 30 September 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 September 2013 RM'000</b>	<b>Current Year-To-Date Ended 30 September 2014 RM'000</b>	<b>Corresponding Year-To-Date Ended 30 September 2013 RM'000</b>
Interest income	18	25	61	67
Interest expense	(72)	(83)	(222)	(245)
Depreciation and Amortisation	(187)	(186)	(494)	(549)
Provision for and write off of receivables	-	(18)	(416)	(18)
Provision for and write off of inventories	(435)	(28)	(942)	(62)
Gain/(loss) on foreign exchange:-				
- realised	48	75	106	157
- unrealised	4	52	(38)	62

**B4. Material changes in the Current Quarter's results compared to the results of the immediate Preceding Quarter**

	<b>Current Quarter Ended 30 September 2014 RM'000</b>	<b>Preceding Quarter Ended 30 June 2014 RM'000</b>	<b>Variance</b>	
			<b>RM'000</b>	<b>%</b>
Revenue	8,461	9,886	(1,425)	14.41
PBT	85	317	(232)	(73.19)

Revenue for the current quarter down by 14.41% mainly due to lower local sales volume in the current quarter after having sales promotion in May and June, which led to better sales performance in the second quarter. As a consequence of lower profit margin due to lower sales volume in the current quarter, PBT posted 73.19% lower even though a reduction in operating expenses for the current quarter.

**B5. Prospects**

The performance for financial year ending 31 December 2014 is expected to be less satisfactory as compared to 2013 mainly due to the provision for impairment of inventories and provision for write off of receivables which greatly impacted the profitability of the Group. The Group has decided to upgrade the existing pilot plant to commercial scale for the production of a new product which is expected to be launched in the coming year. The new product is expected to contribute positively to the future revenue of the Group.

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**B6. Profit forecast and profit guarantee**

No profit forecast or profit guarantee has been issued by the Group for the current quarter under review.

**B7. Taxation**

	<b>Current Quarter Ended 30 September 2014 RM'000</b>	<b>Corresponding Quarter Ended 30 September 2013 RM'000</b>	<b>Current Year-To-Date Ended 30 September 2014 RM'000</b>	<b>Corresponding Year-To-Date Ended 30 September 2013 RM'000</b>
<b><u>Income tax expense:-</u></b>				
Current financial year	32	213	205	458
Overprovision in previous financial year	-	(18)	-	(18)
	<hr/> 32	<hr/> 195	<hr/> 205	<hr/> 440
<b><u>Deferred tax expense:-</u></b>				
Current financial year	45	(10)	26	(1)
	<hr/> 45	<hr/> (10)	<hr/> 26	<hr/> (1)
Tax expense	<hr/> 77	<hr/> 185	<hr/> 231	<hr/> 439

The Company's wholly-owned subsidiary, Sunzen LifeSciences Sdn. Bhd. was awarded the BioNexus status incentive under the Promotion of Investment Act, 1986 by the Ministry of Finance, with the recommendation made by Malaysian Biotechnology Corporation Sdn. Bhd. on 23 July 2007. Accordingly, the subsidiary is granted 100% tax exemption from the statutory income derived from the production of in-feed anti bacterial products and supplements for animal health products for a period of 10 years commencing from 1 January 2010 to 31 December 2019.

**B8. Status of Corporate Proposal**

There was no other corporate proposal announced but not completed as at the date of this announcement.

**A) Utilisation of IPO Proceeds**

As at 30 September 2014, the status of utilisation of the gross proceeds of RM8 million raised from the public issue was as follows:

Purpose	Proposed utilisation RM'000	Actual utilisation RM'000	Intended timeframe for utilisation from the listing date* (Months)	Deviation		Explanation
				RM'000	%	
Research and development	4,770	4,718	36	-	-	Note <sup>(1)</sup>
Overseas expansion	1,000	1,000	48	-	-	-
Working capital	430	250	24	-	-	-
Estimated listing expenses	1,800	1,980	3	(180)	(10.00)	Note <sup>(2)</sup>
<b>Total</b>	<b>8,000</b>	<b>7,948</b>				

Notes:

(1) Sunzen Biotech had announced to Bursa Securities on 17 September 2013 to further extend the utilisation period for the balance proceeds to 8 October 2014.

(2) The excess amount of listing expenses incurred during the implementation of Sunzen Biotech's listing exercise was adjusted to the Company's working capital.

\* Sunzen Biotech was listed on 8 October 2008.

**B) Free warrants 2014/2019 with exercise right expiring on 14 April 2019**

As of the announcement date of this report, the number of warrants converted into ordinary shares at RM0.10 each and the balance were as follows:

Total Free Warrants listed	No. of Free warrants converted into Shares	Balance of Free Warrants
49,756,260	795,666	48,960,594



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**B8. Status of Corporate Proposal (Cont'd)****C) Private placement of up to 19,902,000 new ordinary shares of RM0.0 each, representing not more than 10% of the issued and paid up capital of the Company (excluding treasury shares)**

The private placement was offered at the exercise price of RM0.36 per placement share, a total number of 14,880,000 shares were subscribed with a total consideration of RM5,356,800 having been received in full. The placement shares were allotted to the placees on 12 November 2014.

**B9. Group borrowings and debt securities**

The Group's borrowings as at 30 September 2014 were as follows:

	<b>Secured RM'000</b>	<b>Unsecured RM'000</b>	<b>Total RM'000</b>
<u>Short-term borrowings:-</u>			
Bills payable	343	-	343
Hire purchases	74	-	74
Term loans	567	-	567
	<u>984</u>	<u>-</u>	<u>984</u>
	<b>Secured RM'000</b>	<b>Unsecured RM'000</b>	<b>Total RM'000</b>
<u>Long-term borrowings:-</u>			
Hire purchases	118	-	118
Term loans	3,871	-	3,871
	<u>3,989</u>	<u>-</u>	<u>3,989</u>
Total	<u>4,973</u>	<u>-</u>	<u>4,973</u>

The above borrowings are denominated in Ringgit Malaysia.

**B10. Material Litigation**

As at the date of this announcement, neither the Company nor any of its subsidiaries is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiaries and the Directors are not aware of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Company or its subsidiaries.

**B11. Dividend declared or recommended**

For the current quarter under review, no dividend payment declared by the Board.

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**B12. Earnings per share**

Basic earnings per share is calculated by dividing the Group's profit after taxation attributable to owners of the Company for the period over the weighted average number of ordinary shares in issue excluding treasury shares during the financial period as follows:

	<b>Current Quarter Ended 30 September 2014</b>	<b>Corresponding Quarter Ended 30 September 2013</b>	<b>Current Year-To -Date Ended 30 September 2014</b>	<b>Corresponding Year-To-Date Ended 30 September 2013</b>
Group's profit after taxation attributable to owners of the Company (RM'000)	8	1,042	552	2,355
Weighted average number of ordinary shares in issue excluding treasury shares	149,280,500	149,320,500	149,280,500	149,320,500
Basic earnings per share (sen)	0.01	0.70	0.37	1.58

**B13. Disclosure of Realised and Unrealised Profits or Losses**

The breakdown of the retained profits of the Group at the end of the reporting period is presented in accordance with the directive issued by Bursa Securities and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, as issued by the Malaysian Institute of Accountants.

	<b>Current Year-To-Date Ended 30 September 2014 RM'000</b>	<b>Corresponding Year-To-Date Ended 30 September 2013 RM'000</b>
<b>Total retained profits of the Group:-</b>		
- Realised	20,280	18,723
- Unrealised	(1,482)	(438)
Group's retained profits as per consolidated financial statements	18,798	18,285

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This quarterly report for the financial period ended 30 September 2014 has been seen and approved by the Board of Directors of Sunzen Biotech for release to Bursa Securities.

Date: 25 November 2014