

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)
(Incorporated in Malaysia)

NOTES TO THE INTERIM STATEMENTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016

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 2015.

The following MFRSs and Interpretation issued by the MASB are not yet effective for adoption by the Group and are not expected to have any material impacts on the financial statements of the Group.

Amendments effective for financial periods beginning on or after 1 January 2017

- Amendments to MFRS 12 Disclosure of interests in Other Entities (Annual Improvements 2014-2016 Cycle)
- Amendments to MFRS 107 Statement of Cash Flows (Disclosure Initiative)
- Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses

Amendments effective for financial periods beginning on or after 1 January 2018

- Amendments to MFRS 1 First-time Adoption of Reporting Standards (Annual Improvements 2014-2016 Cycle)
- Amendments to MFRS 2 Classification and Measurement of Share-based Payment Transactions
- MFRS 9 Financial Instruments
- MFRS 15 Revenue from Contracts with Customers
- MFRS 16 Leases
- Amendments to MFRS 128 Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)
- Amendments to MFRS 140 Transfers of Investment Property
- MFRS 10 Consolidated Financial Statements and MFRS 128 Investment in Associates and Joint Venture – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

A2. Auditors' report on preceding annual financial statements

The audited financial statements of the Company and its subsidiaries for the FYE 31 December 2015 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 since the first quarter 2016 whereby annual depreciation rate for new plant and machinery has been revised to 7% (2015: 14%).

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

There were no exercises of Warrants in the current quarter under review. The total number of ordinary shares in issue and treasury shares as at 31 December 2016 is 479,124,141 and 698,000 respectively.

A7. Dividend paid

No payment of dividend in the current quarter.

A8. Segmental information

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

Geographical Market	Current Year-To-Date Ended 31 December 2016 RM'000	Corresponding Year-To-Date Ended 31 December 2015 RM'000
Asia other than Malaysia	6,988	6,915
Total export revenue	6,988	6,915

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Malaysia	33,025	25,306
Total export and local revenue	40,013	32,222

A8. Segmental information (*Cont'd*)

For the current year-to-date, overseas revenue posted a year-on-year increase of 1.06%, while for local revenue a 30.50% increase mainly driven by sales of RBD Palm Stearin and Plant Food.

A9. Valuation of property, plant and equipment

Revaluation of the Group's freehold lands and buildings has been brought forward without any amendments from the financial statement for FYE 31 December 2015.

A10. Capital commitments

Capital commitment authorised but not provided for in the interim financial statements under review.

	31 December 2016 RM'000	31 December 2015 RM'000
Property, Plant and Equipment		
- Contracted for	4,631	-

Includes the balance sum contracted for relating to the installations of one line of Premix Plant and one line of Orgacids Plant as well as the purchase of one line of Spray cooling beading Plant for RM2.497 million inclusive of installation cost. The funding of the acquisitions is from the Rights Issue proceeds.

A11. Material subsequent event after the Reporting Period

There were no material events subsequent to the end of the current quarter that have not been reflected in the financial statements, which are likely to substantially affect the current quarter results.

A12. Changes in the Composition of the Group

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

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A13. Contingent Liabilities

Save for the following corporate guarantee, 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 Company has placed a corporate guarantee amounting to RM17,131,000 in favour of Maybank Islamic Berhad in relation to Islamic banking facilities granted to Sunzen Corporation Sdn Bhd as follows:

Islamic Banking Facility	Corporate Guarantee RM'000	Facility Limit RM'000	Balance As At 31 December 2016 RM'000
Bank overdraft	500	500	-
Trade line	6,000	6,000	2,783
Term loans	10,631	6,465	1,621
Total	17,131	12,965	4,404

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

	Current Quarter Ended 31 December 2016 RM'000	Corresponding Quarter Ended 31 December 2015 RM'000	Current Year-To-Date Ended 31 December 2016 RM'000	Corresponding Year-To-Date Ended 31 December 2015 RM'000
Revenue	14,043	8,922	40,013	32,222
Profit/(Loss) before tax	1,788	(467)	(454)	(287)

For the current quarter under review, revenue surged by 57.40 % relative to the corresponding quarter mainly driven by the sales of plant food and RBD Palm Stearin as well as project management in the current quarter. The Group saw a year-on-year increase of 24.18% in revenue mainly due to the increase of manufacturing products sales.

The Group registered a profit before tax of RM1.788 million in the current quarter mainly due to additional profits generated from the sales of plant food, recognition of realised gain on foreign exchange coupled with the write back of inventories in the current quarter under review. However, year-to-date results showed a pre-tax loss of RM0.454 million mainly attributed to lower product margin in the current year and the recognition of higher write back of inventories in the preceding year.

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

Revenue	Current Quarter Ended 31 December 2016 RM'000	Corresponding Quarter Ended 31 December 2015 RM'000	Current Year-To-Date Ended 31 December 2016 RM'000	Corresponding Year-To-Date Ended 31 December 2015 RM'000
Trading	6,381	3,809	14,281	14,147
Manufacturing	7,062	5,113	24,932	18,075
Project management	600	-	800	-

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Total	14,043	8,922	40,013	32,222
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B2. Review of performance of the operating segments of the Company and its principal subsidiaries for the current quarter and financial year-to-date (*Cont'd*)

Trading products showed a 67.52% increase in revenue for the current quarter, while for manufacturing products 38.12% higher relative to the corresponding quarter. For the current year-to-date, trading products increased marginally by 0.95% in revenue while manufacturing products achieved 37.94% higher compared to the previous year.

B3. Profit before tax

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

	Current Quarter Ended 31 December 2016 RM'000	Corresponding Quarter Ended 31 December 2015 RM'000	Current Year-To-Date Ended 31 December 2016 RM'000	Corresponding Year-To-Date Ended 31 December 2015 RM'000
Interest income	222	21	900	187
Interest expense	(49)	(55)	(199)	(233)
Depreciation	(279)	(450)	(959)	(1,051)
Inventories written off	(174)	(333)	(174)	(525)
Write back/(Write down) of inventories	552	87	(313)	544
Allowance for doubtful debts	(5)	-	(5)	-
Recovery of bad debts	-	4	-	4
Gain/(Loss) on disposal of property, plant and equipment	14	70	(383)	94
Unrealised gain on short term placement	182	-	182	-
Gain on foreign exchange:				
- realised				
- unrealised	210	76	309	227
	155	80	60	105

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

	Current Quarter Ended 31 December 2016 RM'000	Preceding Quarter Ended 30 September 2016 RM'000	Variance	
			RM'000	%
Revenue	14,043	7,903	6,140	77.69
Profit/(Loss) before tax	1,788	(727)	2,515	(345.94)

Revenue for the current quarter increased by 77.69% compared to the preceding quarter mainly attributed to the additional revenue tapped from the sales of plant food and RBD Palm Stearin as well as project management.

Profit before tax improved significantly in the current quarter compared to the preceding quarter primarily driven by the sales of plant food, other income and write back of inventories in the current quarter under review.

B5. Prospects

The Group will continue to increase the sales of livestock products for both local and overseas markets through product seminars and participation in product exhibition in overseas. The Group is moving towards diversification of its existing business activities into palm oil products in improving its revenue and profitability.

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. Income tax credit/(expense)

	Current Quarter Ended 31 December 2016 RM'000	Corresponding Quarter Ended 31 December 2015 RM'000	Current Year-To-Date Ended 31 December 2016 RM'000	Corresponding Year-To-Date Ended 31 December 2015 RM'000
<u>Income tax expense:-</u>				
Current financial year	79	(48)	91	61
(Over)/Under-provision in the previous financial year	(29)	12	(29)	12
	50	(36)	62	73
<u>Deferred tax expense:-</u>				
Current financial year	(231)	19	(231)	13
Over-provision in the previous financial year	(225)	-	(225)	-
	(456)	19	(456)	13
Tax (credit)/expense	(406)	(17)	(394)	86

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

As at announcement date of this report, there were no corporate proposals which were already announced but not completed yet.

Share Issuance Scheme ("SIS"), with effective date 15 April 2016

Pursuant to the establishment of SIS of up to 30% of the Company's issued and paid-up capital (excluding treasury shares) for the eligible Directors and employees of Sunzen and its subsidiaries (excluding dormant subsidiaries), the Company has yet to finalise the details of the eligibility and allocation criteria as well as exercise of the SIS.

B8. Status of Corporate Proposal (Cont'd)

Warrants

As at 31 December 2016, the total number of Warrants exercised for warrants 2014/2019 and warrants 2016/2021 and the total number of unexercised warrants were as follows:

Warrants	Maturity date	Exercise price (RM)	Total number of warrants listed	Total number of warrants exercised	Total number of unexercised warrants
Warrants 2014/2019	14.04.2019	0.10	65,092,198	40,221,232	24,870,966
Warrants 2016/2021	25.02.2021	0.25	179,423,296	-	179,423,296

Utilisation of Proceeds from Rights Issue of 179,423,296 ordinary shares

As at 31 December 2016, the status of utilisation of the gross proceeds of approximately RM44.855 million raised from the Rights Issue of shares at an exercise price of RM0.25 each is as follows:

Purpose	Proposed utilisation RM'000	Actual utilisation RM'000	Intended timeframe from the listing date* (Months)	Variation		Notes
				RM'000	%	
Purchase of machineries	17,000	6,212	6	-	-	(2)
Upgrade of building	2,800	87	6	-	-	(2)
Working capital	24,405	24,109	12	296	-	
Estimated listing expenses	650	946	0.5	(296)	-	(1)
Total	44,855	31,354				

Notes:

- * Listing date of Rights Shares on 4 March 2016.
- (1) Shortfall of the listing expenses incurred is adjusted from the working capital.

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- (2) On 5 August 2016, the Company announced to extend the deadline of the intended timeframe for the utilisation of the balance proceeds to 4 September 2017 from 4 September 2016.

B9. Group borrowings and debt securities

The Group's borrowings as at 31 December 2016 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short-term borrowings:-</u>			
Bills payable	2,783	-	2,783
Hire purchases	65	-	65
Term loans	351	-	351
	<u>3,199</u>	<u>-</u>	<u>3,199</u>
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long-term borrowings:-</u>			
Hire purchases	209	-	209
Term loans	1,270	-	1,270
	<u>1,479</u>	<u>-</u>	<u>1,479</u>
Total	<u>4,678</u>	<u>-</u>	<u>4,678</u>

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

There was no dividend declared by the Board in the current quarter.

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B12. Earnings/(Loss) per share

Basic earnings/(loss) per share is calculated by dividing the Group's profit/(loss) after tax attributable to owners of the Company for the period over the weighted average number of ordinary shares in issue during the financial year excluding treasury shares.

	Current Quarter Ended 31 December 2016	Corresponding Quarter Ended 31 December 2015	Current Year-To-Date Ended 31 December 2016	Corresponding Year-To-Date Ended 31 December 2015
Group's profit/(loss) after tax attributable to owners of the Company (RM'000)	2,203	(452)	(129)	374
Weighted average number of ordinary shares in issue excluding treasury shares	448,614,592	284,650,403	448,614,592	284,650,403
Basic earnings/(loss) per share (sen)	0.49	(0.16)	(0.03)	(0.13)

Diluted earnings/(loss) per share is calculated by dividing the Group's profit/(loss) after tax attributable to owners of the Company for the period over the weighted average number of ordinary shares in issue during the financial year and adjustment for assumed exercise of Warrants of 458,710,726 (2015: 296,635,881).

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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.

	Current Year-To-Date Ended 31 December 2016 RM'000	Corresponding Year-To-Date Ended 31 December 2015 RM'000
Total retained profits of the Group:-		
- realised	19,158	17,827
- unrealised	(547)	(1,345)
Group's retained profits as per consolidated financial statements	<hr/> 18,611	<hr/> 16,482

This quarterly report for the financial year ended 31 December 2016 has been reviewed and approved by the Board of Directors of Sunzen Biotech for release to Bursa Securities.

Date: 27 February 2017