

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

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 (“MFRS”) 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 2016.

The following MFRS 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 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
- 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

Amendments effective for financial periods beginning on or after 1 January 2019

- MFRS 16 Leases

A2. Auditors’ report on preceding annual financial statements

The audited financial statements of the Company and its subsidiaries for the FYE 31 December 2016 were not subjected to any qualification.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

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.

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

There were 2,675,626 Warrants being exercised in the current quarter under review. The total number of ordinary shares in issue and treasury shares held as at 30 June 2017 is 481,799,767 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 30 June 2017 RM'000	Corresponding Year-To-Date Ended 30 June 2016 RM'000
Asia other than Malaysia	2,571	3,623
Total export revenue	2,571	3,623
Malaysia	119,050	14,444
Total export and local revenue	121,621	18,067

For the current year-to-date, overseas revenue decreased by 29.04% as compared to the corresponding year, while local revenue showed an enormous increase mainly contributed by the trading of crude palm oil, palm kernel and palm kernel shell.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

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 2016.

A10. Capital commitments

Capital commitment authorised but not provided for in the interim financial statements under review as follows:

	30 June 2017	30 June 2016
	RM'000	RM'000
Property, Plant and Equipment		
- Contracted for	3,964	4,361

For the current quarter under review, the Group has approved a consultant fee of RM0.32 million for the amalgamation of the existing office cum factory building at lot 11 and 13 and the building plan for the extension of building. The balance amount as at 30 June 2017 is majority brought forward previously.

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

On 14 July 2017, a new joint venture company, Sunzen Agritechnology (Northern) Sdn. Bhd. (Company No.: 1238788-V) was incorporated with an issued capital of 100 ordinary shares of RM1.00 each, of which 51% of equity is held by Sunzen Feedtech Sdn. Bhd. while the remaining 49% shareholding is owned by Arah Kawasan Sdn. Bhd. The main business activity of the newly incorporated entity is manufacturing and trading of biomass material and fertilizers.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

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 30 June 2017 RM'000
Bank overdraft	500	500	-
Trade line	6,000	6,000	-
Term loans	10,631	6,465	1,448
<hr/>			
Total	17,131	12,965	1,448

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

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 30 June 2017 RM'000	Corresponding Quarter Ended 30 June 2016 RM'000	Current Year-To-Date Ended 30 June 2017 RM'000	Corresponding Year-To-Date Ended 30 June 2016 RM'000
Revenue	75,876	10,008	121,621	18,067
Profit/(Loss) before tax	1,426	(305)	2,484	(1,515)

For the current quarter under review, revenue posted a significant increase compared to the corresponding quarter in 2016 mainly contributed by the trading of crude palm oil, palm kernel, palm kernel shell and Fat Powder product.

The Group recorded a profit before tax of RM1.426 million in the current quarter, bringing the profit for current year-to-date to RM2.484 million. The improved bottom-line is attributed to profit contribution from trading of crude palm oil, palm kernel and palm kernel shell and lower operating expenses incurred in the current quarter.

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 30 June 2017 RM'000	Corresponding Quarter Ended 30 June 2016 RM'000	Current Year-To-Date Ended 30 June 2017 RM'000	Corresponding Year-To-Date Ended 30 June 2016 RM'000
Trading	69,968	2,723	109,293	6,148
Manufacturing	5,908	7,285	12,128	11,919
Project management	-	-	200	-
Total	75,876	10,008	121,621	18,067

Trading products showed a significant increase in revenue contribution for the current quarter relative to the corresponding quarter in 2016 mainly due to the trading of crude palm oil, palm kernel and palm kernel shell. However, manufacturing products achieved a lower revenue for the current quarter which showed 18.90% decline as compared to the same period in 2016.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

B3. Profit before tax

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

	Current Quarter Ended 30 June 2017 RM'000	Corresponding Quarter Ended 30 June 2016 RM'000	Current Year-To-Date Ended 30 June 2017 RM'000	Corresponding Year-To-Date Ended 30 June 2016 RM'000
Interest income	239	444	307	457
Interest expense	(23)	(44)	(53)	(112)
Depreciation	(220)	(238)	(478)	(434)
Write back/(Write down) of inventories	2	(217)	116	(344)
Loss on disposal of property, plant and equipment	-	(397)	-	(397)
(Loss)/Gain on foreign exchange:				
- realised	46	116	73	93
- unrealised	(53)	(22)	(119)	(194)

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

	Current Quarter Ended 30 June 2017 RM'000	Preceding Quarter Ended 31 March 2017 RM'000	Variance	
			RM'000	%
Revenue	75,876	45,745	30,131	65.87
Profit before tax	1,426	1,058	368	34.78

Revenue for the current quarter reported a 65.87% increase compared to the preceding quarter due to trading of crude palm oil, palm kernel and palm kernel shell increased substantially in the current quarter.

Profit before tax increased by 34.78% in comparison to the preceding quarter mainly due to higher earnings from crude palm oil, palm kernel and palm kernel shell and the recognition of higher other operating incomes in the current quarter.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

B5. Prospects

The Board is optimistic of achieving better financial results in the future in view of the overall improvement in the revenue and profitability of the Group achieved to-date.

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 30 June 2017 RM'000	Corresponding Quarter Ended 30 June 2016 RM'000	Current Year-To-Date Ended 30 June 2017 RM'000	Corresponding Year-To-Date Ended 30 June 2016 RM'000
<u>Income tax expense:-</u>				
Current financial year	57	4	91	8
	<hr/> 57	<hr/> 4	<hr/> 91	<hr/> 8
<u>Deferred tax expense:-</u>				
Current financial year	(158)	-	(185)	-
	<hr/> (158)	<hr/> -	<hr/> (185)	<hr/> -
Tax (credit)/expense	<hr/> (101)	<hr/> 4	<hr/> (94)	<hr/> 8

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.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

B8. Status of Corporate Proposal**Proposed acquisition of 5,250,000 ordinary shares in Ecolite Biotech Manufacturing Sdn Bhd (“Ecolite”)**

On 7 July 2017, announced that the Company has entered into a share sale agreement with Chum Mun Cuan and Lim Poh Chuw to acquire 70% equity interest, that is, 5,250,000 ordinary shares in Ecolite for a purchase consideration of RM12,050,360 to be fully satisfied by allotment and issuance of 37,657,375 Sunzen Shares at an issue price of RM0.32 per share. Ecolite involves in the manufacturing and trading of traditional Chinese medicines and herbal health foods and beverages.

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.

Warrants

As at 30 June 2017, 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	42,896,858	22,195,340
Warrants 2016/2021	25.02.2021	0.25	179,423,296	-	179,423,296

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

B8. Status of Corporate Proposal (Cont'd)**Utilisation of Proceeds from Rights Issue of 179,423,296 ordinary shares**

As at 30 June 2017, 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	7,759	6	-	-	(2)
Upgrade of building	2,800	286	6	-	-	(2)
Working capital	24,405	24,109	12	296	-	
Estimated listing expenses	650	946	0.5	(296)	-	(1)
Total	44,855	33,100				

Notes:

* Listing date of Rights Shares on 4 March 2016.

(1) Shortfall of the listing expenses incurred is adjusted from the working capital.

(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.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

B9. Group borrowings and debt securities

The Group's borrowings as at 30 June 2017 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short-term borrowings:-</u>			
Bills payable	-	-	-
Hire purchases	57	-	57
Term loans	360	-	360
	<u>417</u>	<u>-</u>	<u>417</u>
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long-term borrowings:-</u>			
Hire purchases	180	-	180
Term loans	1,088	-	1,088
	<u>1,268</u>	<u>-</u>	<u>1,268</u>
Total	<u>1,685</u>	<u>-</u>	<u>1,685</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.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

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 period excluding treasury shares.

	Current Quarter Ended 30 June 2017	Corresponding Quarter Ended 30 June 2016	Current Year-To-Date Ended 30 June 2017	Corresponding Year-To-Date Ended 30 June 2016
Group's profit/(loss) after tax attributable to owners of the Company (RM'000)	1,472	(361)	2,491	(1,588)
Weighted average number of ordinary shares in issue excluding treasury shares	478,682,443	355,999,702	478,682,443	355,999,702
Basic earnings/(loss) per share (sen)	0.31	(0.10)	0.52	(0.45)

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 period and adjustment for assumed exercise of Warrants of 526,794,477 (2016: 379,939,981).

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

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 30 June 2017 RM'000	Corresponding Year-To-Date Ended 30 June 2016 RM'000
Total retained profits of the Group:-		
- realised	21,959	18,573
- unrealised	(858)	(1,439)
 Group's retained profits as per consolidated financial statements	<hr/> 21,101 <hr/>	<hr/> 17,134 <hr/>

This quarterly report for the financial period ended 30 June 2017 has been reviewed and approved by the Board of Directors of Sunzen Biotech for release to Bursa Securities.

Date: 25 August 2017