

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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.

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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

Total 408,500 Warrants 2014/2019 were exercised in the current quarter under review. The total number of ordinary shares in issue and treasury shares held as at 30 September 2017 is 482,208,267 and 698,000 respectively.

A7. Dividend paid

No dividend paid in the current quarter under review.

A8. Segmental information

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

Geographical Market	Current Year-To-Date Ended 30 September 2017 RM'000	Corresponding Year-To-Date Ended 30 September 2016 RM'000
Asia other than Malaysia	3,816	5,139
Total export revenue	3,816	5,139
Malaysia	196,544	20,831
Total export and local revenue	200,360	25,970

For the current year-to-date, overseas markets contributed 25.74% lower in revenue in comparison to the corresponding year, whereas local market remains the key driver for the revenue of the Group backed by the trading of crude palm oil, palm kernel and the sales of Powder Fats and other animal health products.

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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 September 2017	30 September 2016
	RM'000	RM'000
Property, Plant and Equipment		
- Contracted for	4,227	3,063

For the current quarter under review, the Board has granted approval for the upgrading of new office for approximately RM1.04 million. The remaining balance is brought forward from the previous year.

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.

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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 30 September 2017 RM'000
Bank overdraft	500	500	-
Trade line	6,000	6,000	-
Term loans	10,631	6,465	1,360
Total	17,131	12,965	1,360

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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**

	Current Quarter Ended 30 September 2017 RM'000	Corresponding Quarter Ended 30 September 2016 RM'000	Current Year-To-Date Ended 30 September 2017 RM'000	Corresponding Year-To-Date Ended 30 September 2016 RM'000
Revenue	78,739	7,903	200,360	25,970
Profit/(Loss) before tax	1,403	(727)	3,887	(2,242)

Revenue of the Group increased substantially compared to the corresponding quarter in the preceding year mainly due to the trading of crude palm oil and palm kernel as well as the increase in sales of Powder Fats in the current quarter under review. On year-to-date, the Group recorded a strong growth in revenue compared to the corresponding year mainly due to the factors already mentioned above.

The Group registered a profit before tax of RM1.40 million in the current quarter versus a loss before tax of RM0.73 million in the corresponding quarter. The improved profitability was mainly attributed to earnings from trading of crude palm oil and palm kernel and lower operating expenses incurred in the current quarter. On year-to-date, the Group posted a profit before tax of RM3.89 million in the current year compared to a loss before tax of RM2.2 million a year ago. The improvement on its bottom-line was mainly due to the factors mentioned above.

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 September 2017 RM'000	Corresponding Quarter Ended 30 September 2016 RM'000	Current Year-To-Date Ended 30 September 2017 RM'000	Corresponding Year-To-Date Ended 30 September 2016 RM'000
Trading	69,902	2,161	179,195	8,310
Manufacturing	8,837	5,542	20,965	17,460
Project management	-	200	200	200
Total	78,739	7,903	200,360	25,970

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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 revenue increased substantially compared to the corresponding quarter in the preceding year mainly due to the trading of crude palm oil and palm kernel. Manufacturing products also posted higher revenue relative to the corresponding quarter mainly due to the contribution from Powder Fats. Revenue on year-to-date, trading products and manufacturing products contributed 89.40% and 10.46% respectively, of the Group's total revenue compared to 32.00% and 67.23% respectively, a year ago.

B3. Profit before tax

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

	Current Quarter Ended 30 September 2017 RM'000	Corresponding Quarter Ended 30 September 2016 RM'000	Current Year-To-Date Ended 30 September 2017 RM'000	Corresponding Year-To-Date Ended 30 September 2016 RM'000
Interest income	296	221	603	678
Interest expense	(22)	(38)	(75)	(150)
Depreciation	(239)	(246)	(717)	(680)
Write back/(Write down) of inventories	1	(521)	117	(865)
Loss on disposal of property, plant and equipment	-	(397)	-	(397)
(Loss)/Gain on foreign exchange:				
- realised	(82)	6	9	99
- unrealised	80	99	(39)	(95)

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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 30 September 2017 RM'000	Preceding Quarter Ended 30 June 2017 RM'000	Variance	
			RM'000	%
Revenue	78,739	75,876	2,863	3.77
Profit before tax	1,403	1,426	(23)	(1.61)

Revenue for the current quarter climbed 3.77% compared to the preceding quarter mainly due to an increase in the revenue contribution from Powder Fats in the current quarter.

Profit before tax was 1.61% lower compared to the preceding quarter mainly due to products mix with lower profit margin and lower other income reported in the current quarter under review.

B5. Prospects

The Board is of the opinion that the financial performance of the Group is positive for the financial year ending 31 December 2017 in view of the existing revenue and profitability which have shown improvement overall as compared to a year ago.

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 expense

	Current Quarter Ended 30 September 2017 RM'000	Corresponding Quarter Ended 30 September 2016 RM'000	Current Year-To-Date Ended 30 September 2017 RM'000	Corresponding Year-To-Date Ended 30 September 2016 RM'000
<u>Income tax expense:-</u>				
Current financial year	253	4	344	12
	253	4	344	12
<u>Deferred tax expense:-</u>				
Current financial year	197	-	12	-
	197	-	12	-
Tax expense	450	4	356	12

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B7. Income tax expense (Cont'd)

The Company's wholly-owned subsidiary, Sunzen LifeSciences Sdn. Bhd. is awarded with BioNexus status and granted a 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 spanning from 1 January 2010 to 31 December 2019.

B8. Status of Corporate Proposal

Proposed acquisition of 5,250,000 ordinary shares in Ecolite Biotech Manufacturing Sdn Bhd ("Ecolite"), representing 70% equity interest in Ecolite for a total purchase consideration of RM12,050,360

Subsequent to the initial announcement made on 7 July 2017 on above proposal, the Company had on 7 and 9 November 2017 announced to Bursa Securities that no intention to proceed with the proposal due to certain issues arising from due diligence exercise on Ecolite and its subsidiaries. As a result thereof, both parties have agreed to terminate the share sale agreement. However, should the due diligence issues be resolved to the satisfaction of the Company in the future, the Company may reconsider the proposal.

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 September 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	43,305,358	21,786,840
Warrants 2016/2021	25.02.2021	0.25	179,423,296	-	179,423,296

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B8. Status of Corporate Proposal (Cont'd)

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

As at 30 September 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	7,758	6	-	-	(2)
Upgrade of building	2,800	1,046	6	-	-	(2)
Working capital	24,405	24,109	12	296	-	
Estimated listing expenses	650	946	0.5	(296)	-	(1)
Total	44,855	33,859				

Notes:

- * Listing date of Rights Shares on 4 March 2016.
- (1) Shortfall of the listing expenses incurred is adjusted from the working capital.
- (2) The Company has announced on 5 September 2017 for a further extension of time for the utilisation of balance proceeds up to 4 September 2018 from 5 September 2017.

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B9. Group borrowings and debt securities

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

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short-term borrowings:-</u>			
Bills payable	-	-	-
Hire purchases	58	-	58
Term loans	365	-	365
	423	-	423
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long-term borrowings:-</u>			
Hire purchases	165	-	165
Term loans	995	-	995
	1,160	-	1,160
Total	1,583	-	1,583

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

The Board has declared a single tier interim dividend of RM0.003 per ordinary share in respect of financial year ending 31 December 2017. The dividend will be paid on 27 December 2017 to shareholders whose names appear in the Record of Depositors at close of business on 12 December 2017.

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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 period excluding treasury shares.

	Current Quarter Ended 30 September 2017	Corresponding Quarter Ended 30 September 2016	Current Year-To-Date Ended 30 September 2017	Corresponding Year-To-Date Ended 30 September 2016
Group's profit/(loss) after tax attributable to owners of the Company (RM'000)	874	(744)	3,365	(2,332)
Weighted average number of ordinary shares in issue excluding treasury shares	479,384,275	403,081,789	479,384,275	403,081,789
Basic earnings/(loss) per share (sen)	0.18	(0.18)	0.70	(0.58)

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 535,625,037 (2016: 417,937,601).

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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 30 September 2017 RM'000	Corresponding Year-To-Date Ended 30 September 2016 RM'000
Total retained profits of the Group:-		
- realised	22,695	17,730
- unrealised	(720)	(1,340)
 Group's retained profits as per consolidated financial statements	<hr/> 21,975	<hr/> 16,390

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

Date: 24 November 2017