

Notes to the Quarterly Report – 30 September 2012

**A. EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (“FRS”) 134 INTERIM FINANCIAL REPORTING**

**A1. Basis of preparation**

The interim financial statements of the Group are unaudited and have been prepared in accordance with Financial Reporting Standards (“FRS”) 134 Interim Financial Reporting and Paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the ACE Market.

The interim financial statements should be read in conjunction with the audited financial statements for the financial period ended 30 June 2012.

These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial period ended 30 June 2012.

All significant accounting policies and methods of computation adopted by the Group are consistent with those of the audited financial statements for the financial period ended 30 June 2012.

**A2. Auditors’ report of preceding annual financial statements**

The auditors’ report on the financial statements for the financial period ended 30 June 2012 was not qualified.

**A3. Seasonal or cyclical factors**

The Group’s operations are not materially affected by seasonal or cyclical changes during the current financial quarter under review.

**A4. Unusual items affecting assets, liabilities, equity, net income or cash flows**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group since the last annual audited financial statements.

**A5. Material changes in estimates**

There were no changes in accounting estimates made that would materially affect the financial statements of the Group for the current financial quarter under review.

**A6. Debts and equity securities**

There was no issuance and repayment of debt and equity securities, shares buy back or share cancellation and resale of treasury shares for the current financial quarter under review.

Notes to the Quarterly Report – 30 September 2012

**A7. Dividend paid**

No interim nor final ordinary dividend has been declared, recommended or paid during the financial quarter under review and the financial year-to-date.

**A8. Segment information**

Segmental reporting for the quarter ended/financial period ended 30 September 2012

	<b>Manufacturing RM'000</b>	<b>Marketing and distribution of products RM'000</b>	<b>Others RM'000</b>	<b>Eliminations RM'000</b>	<b>Group RM'000</b>
<b><u>3 months ended 30 September 2012</u></b>					
<b>REVENUE</b>					
External sales	1,245	4,209	-	-	5,454
Inter-segment sales	816	-	-	(816)	-
	<u>2,061</u>	<u>4,209</u>	<u>-</u>	<u>(816)</u>	<u>5,454</u>
<b>RESULTS</b>					
Segment results	162	(476)	(128)	336	(126)
Interest income	5	13	-	-	18
Depreciation of property, plant and equipment	(120)	(34)	-	-	(154)
	<u>37</u>	<u>(497)</u>	<u>(128)</u>	<u>336</u>	<u>(262)</u>
Share of loss in jointly controlled entity	-	-	-	-	-
Finance costs	(75)	(116)	-	-	(191)
	<u>(38)</u>	<u>(613)</u>	<u>(128)</u>	<u>336</u>	<u>(453)</u>
Taxation	-	-	-	-	-
Loss after taxation	<u>(38)</u>	<u>(613)</u>	<u>(128)</u>	<u>336</u>	<u>(453)</u>
<b>Segment assets</b>	<u>26,319</u>	<u>12,104</u>	<u>9,616</u>	<u>(11,006)</u>	<u>37,033</u>
Unallocated corporate assets					23
<b>Consolidated total assets</b>					<u>37,056</u>
<b>Segment liabilities</b>	<u>13,474</u>	<u>37,821</u>	<u>3,127</u>	<u>(23,742)</u>	<u>30,680</u>
Unallocated corporate liabilities					427
<b>Consolidated total liabilities</b>					<u>31,107</u>
<b>OTHER SEGMENTS ITEMS</b>					
Capital expenditure	18	-	-	-	18
Non-cash income	-	-	-	-	-
Non-cash expenses other than depreciation	-	121	-	-	121

Notes to the Quarterly Report – 30 September 2012

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

There was no revaluation of property, plant and equipment for the current financial quarter under review.

**A10. Material events subsequent to the end of the quarter**

There was no material event subsequent to the end of the current financial quarter under review except for the following:-

On 2 October 2012, the Company, announced that the approval for extension of time to complete the Proposed Private Placement had lapsed on 29 September 2012 and that no new shares were issued/placed out pursuant to the Proposed Private Placement.

On 12 October 2012, on behalf of the Board of Directors, M&A Securities Sdn. Bhd. announced a proposal for disposal to Westone Industries (M) Sdn. Bhd. For a four (4) storey shop officec owned by HLS International Sdn. Bhd. (formerly known as Easy Pha-max Marketing Sdn. Bhd. and INS Enterprise Sdn. Bhd.), a wholly-owned subsidiary of INS Bioscience Berhad, for a cash consideration of RM5,800,000.

**A11. Changes in the composition of the Group**

There were no changes in the composition of the Group during the current financial quarter under review.

**A12. Changes in contingent assets and contingent liabilities**

There were no material contingent assets as at the date of this report. Save as disclosed below, there are no material contingent liabilities as at the date of this report:-

	<b>The Group</b>	<b>The Company</b>
	<b>30.09.2012</b>	<b>30.09.2012</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Unsecured</u>		
Corporate guarantees given to financial institutions for facilities granted to the subsidiaries	-	10,950

Notes to the Quarterly Report – 30 September 2012

**A13. Capital commitments**

There was no capital commitment for the current financial quarter under review.

**A14. Significant related party transactions**

There were no significant related party transactions for the financial period ended 30 September 2012 other than those disclosed as follows:-

	<b>RM'000</b>
* INS Holdings Sdn Bhd Office rental paid	73
** GD Development Sdn Bhd Office rental received	9
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**Notes:-**

\* A company in which Datuk Yeat Sew Chuong, Wong Seng Tong and Khoo Keat are shareholders and directors.

\*\* A company in which Datuk Yeat Sew Chuong is a shareholder and director.

The directors are of the opinion that the above transactions have been entered into the ordinary course of business and have been established under terms that were mutually agreed between the parties, and the terms are not more favourable to the Related Parties than those generally available to third parties or the public and are not detrimental to the minority shareholders.

**A15. Cash and cash equivalents**

	<b>As at 30.09.2012 RM'000</b>
Deposits with licensed banks	2,789
Cash and bank balances	176
Bank overdrafts	(3,343)
	<hr/> <hr/>
	(378)

Notes to the Quarterly Report – 30 September 2012

**B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE ACE MARKET**

**B1. Review of performance**

**Current quarter ended 30 September 2012**

For the current quarter ended 30 September 2012, the Group recorded revenue and loss before taxation (“LBT”) of RM5.454 million and RM0.453 million respectively as compared with a revenue and profit before taxation (“PBT”) of RM6.501 million and RM0.102 million respectively in the corresponding quarter ended 30 September 2011 (“Sept 2011”). The quarterly performance of the operating segments can be analysed as follows:-

	<b>CURRENT YEAR QUARTER 30/09/2012</b>	<b>PRECEDING YEAR CORRESPONDING QUARTER 30/09/2011</b>
<b>Segment Revenue:-</b>	<b>RM'000</b>	<b>RM'000</b>
Manufacturing	1,245	2,645
Marketing and distribution of products	4,209	3,856
Others	-	-
	<hr/> 5,454	<hr/> 6,501
<b>Segment PBT/ (LBT):-</b>		
Manufacturing	19	1,424
Marketing and distribution of products	(681)	(670)
Others	(128)	(172)
Eliminations	337	(480)
	<hr/> (453)	<hr/> 102

**Manufacturing**

The decrease in revenue of approximately 52.9% or RM1.40 million was mainly due to the continuing decrease in order from overseas customer for the current quarter ended 30 September 2012.

PBT for the current quarter ended 30 September 2012 was drop by RM1.405 million mainly due to the decrease in gross profit of approximately RM1.773million with expenses decreased which was derived from marketing expenses of RM0.01million, administrative expenses of RM0.21 million and other operating expenses of RM0.07 million respectively.

**Marketing and distribution of products**

Revenue from marketing and distribution of products increased by 9% or RM0.353 million due to sales from local customer increased from redemption of healthcare products. The increase in LBT of approximately 16.4% or RM0.110 million was mainly due to there was write-back of forfeiture income of RM0.121 million in the current quarter ended 30 September 2012.

Notes to the Quarterly Report – 30 September 2012

**B1. Review of performance (Cont'd)**

**Current quarter ended 30 September 2012 (Cont'd)**

Others

There is no revenue for others segment. LBT decreased by RM0.04 million mainly due to the expenses incurred for the Proposed Private Placement exercise of which was announced on 13 June 2011 and printing charges for annual report in the corresponding quarter ended 30 September 2011.

**B2. Variation of results against previous quarter ended 30 June 2012**

	<b>CURRENT QUARTER</b>	<b>PREVIOUS QUARTER</b>
	<b>30/09/2012</b>	<b>30/6/2012</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	5,454	7,597
Gross profit	1,614	275
LBT	(453)	(15,242)
Loss after tax ("LAT")	(453)	(15,207)

The Group's revenue for current quarter ended 30 September 2012 amounted to RM5.454 million, representing a decrease of approximately 28.2% or RM2.143 million as compared to previous quarter ended 30 June 2012 of RM7.597 million. The Group's overall revenue decreased mainly from decrease in local sales due to weak demand for healthcare products and decrease in oversea sales as a result of lower orders received during the quarter.

LBT for current quarter ended 30 September 2012 decreased by approximately 970.3% or RM14.789 million as compared to previous quarter ended 30 June 2012, mainly due to improvement of gross profit of RM1.339 million, and decrease in operational expenses such as marketing expenses of RM0.453 million, administrative expenses of RM0.671 million and depreciation of property, plant and equipment of RM0.562 million respectively.

Furthermore, the following expenses occurred in previous quarter ended 30 June 2012 as to compliance of Financial Reporting Standards and the Companies Act 1965 in Malaysia:

- (i) impairment loss on goodwill of RM1.822 million;
- (ii) impairment loss on plant and equipment amounting to RM5.237 million;
- (iii) impairment loss on receivables amounting to RM2.513 million;
- (iv) impairment loss on amount owing by a jointly controlled entity of RM1.703 million;
- and
- (v) write-back of forfeiture income of RM0.489 million;

### **B3. Prospects**

In line with supporting the Group's product development initiatives, the Group will continue to invent in new health care products in order to complement its existing health supplements product range.

The Group will focus on Original Equipment Manufacturer ("OEM") opportunity by providing OEM health supplement products design and manufacturing to sustain customer growth and extend OEM customers Life Cycle Management Services to manage their products. The Group will seek for potential customers locally and internationally by attending health supplement products exhibitions and fairs. It will eventually contribute profitability and value added to the Group.

At the same time, the Group will streamline its business operations by closure of certain loss making operations, such as retail business. In light of the challenges ahead, the Group will continue to exercise and employ prudence in its management and will strive to enhance its competitiveness and processing effectively.

Barring any unforeseen circumstances, the Group is optimistic that the existing and new products will contribute positively to its future financial performance.

### **B4. Profit forecast and profit guarantee**

The Group did not announce or disclose any profit forecast or profit guarantee during the current financial quarter under review.

Notes to the Quarterly Report – 30 September 2012

**B5. Loss before taxation**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Quarter Ended	Preceding Year Corresponding Period	3 MONTHS Current Year To Date	3 MONTHS Preceding Year Corresponding Period
	RM'000	RM'000	RM'000	RM'000
This has been arrived at after charging/(crediting):				
Interest income	(18)	(1)	(18)	(1)
Interest expenses	191	195	191	195
Amortisation of intangible assets	25	25	25	25
Depreciation of property and equipment	414	486	414	486
Allowance for impairment losses on receivables	-	80	-	80
Writeback of impairment losses on receivables	-	(115)	-	(115)
Writeback of forfeited income	121	-	121	-
Provision for writeback of forfeited income	-	193	-	193
Forfeiture of advance received from distributors	-	(2,044)	-	(2,044)
Property and equipment written off	-	23	-	23
Loss on foreign exchange -realised	3	2	3	2

Other than the items mentioned above, there was no other income including investment income, gain or loss on disposal of quoted & unquoted investments or properties, gain or loss on derivatives and exceptional items for the current quarter and financial period ended 30 September 2012.

**B6. Taxation**

	3 months quarter ended 30.09.2012 RM'000	3 months (Cumulative) ended 30.09.2012 RM'000
Current year taxation	-	-



**B7. Status of corporate proposals**

Save as disclosed below, there are no other corporate proposals announced but not completed as at 28 November 2012:

- (a) On 22 September 2011, OSK Investment Bank Berhad (“OSK”) had, on behalf of the Board of Directors of INS Bioscience Berhad (“INSBIO”) (“Board”), announced that the Company proposed to implement a Proposed Private Placement of not more than ten percent (10%) of the issued and paid-up share capital (net of treasury shares) of the Company, to investors to be identified (“Proposed Private Placement”).

The Proposed Private Placement will enable INSBIO to raise funds without incurring interest cost compared to bank borrowings. The Board views the Proposed Private Placement as the most appropriate avenue of raising funds given the short expected timeframe for completion of the exercise as compared to other exercise that may require further shareholders' approval.

Bursa Securities had vide its letter dated 30 September 2011, approved the listing and quotation of up to 28,603,862 placement shares to be issued pursuant to the Proposed Private Placement subject to the conditions as per INSBIO's announcement on 30 September 2011. The approval had since lapsed on 29 March 2012 and OSK had, on behalf of the board, submitted an application to Bursa Securities to seek an extension of time of six (6) months to implement the Proposed Private Placement.

On 20 March 2012, Bursa Securities had approved the application for an extension of time of six (6) months from 30 March 2012 to 29 September 2012 for the Company to complete the Proposed Private Placement.

On 2 October 2012, on behalf of the Board, OSK announced that the approval for extension of time to complete the Proposed Private Placement had lapsed on 29 September 2012 and that no new shares were issued/placed out pursuant to the Proposed Private Placement.

- (b) By refer to the Company's announcement dated 30 August 2012, wherein it was announced that INSBIO is an Affected Listed Issuer as it has triggered Rules 2.1(a), (b) and (c) pursuant to Guidance Note 3 of the ACE Market Listing Requirement (“ACE LR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”).

On behalf of the Board of Directors of INSBIO, M&A Securities Sdn Bhd is pleased to announce that it had on 20 November 2012 been appointed as the Sponsor to the Company pursuant to Rule 8.04(3)(a)(ii) of the ACE LR of Bursa Securities.

Notes to the Quarterly Report – 30 September 2012

### **B8. Group's borrowings and debt securities**

Details of the Group's bank borrowings as at 30 September 2012 which are denominated in Ringgit Malaysia are as follows :-

	<b>As at 30.9.2012. RM'000</b>
Short term borrowings:	
Secured	
- Hire purchase payables	208
- Term loan	275
- Bill Payable	2,547
	<u>3,030</u>
Long term borrowings:	
Secured	
- Hire purchase payables	469
- Term loan	3,446
	<u>3,915</u>
Total borrowings	<u><u>6,945</u></u>

### **B9. Material litigations**

There were no other material litigations since the last financial period ended 30 June 2012 except for the following:-

- (i) Legal proceedings commenced Christian Coffinet (“Coffinet”) and Frank Annenberg (collectively “the Plaintiffs”) against INSBIO, Datuk Yeat Sew Chuong, Wong Seng Tong and 7 other Defendants (collectively “the Defendants”)

On 30 October 2012, The Board of Directors of INSBIO (“the Board”) wishes to announce that the Company is involved in a civil suit filed by Christian Coffinet (“Coffinet”) and Frank Annenberg (collectively “the Plaintiffs”) on 28.1.2011 against INSBIO, Datuk Yeat Sew Chuong, Wong Seng Tong and 7 other Defendants (collectively “the Defendants”) bearing Case No. SC 111260 in Los Angeles Superior Court, State of California, United States of America.

The relief sought against the Defendants as pleaded in the Summons vis-à-vis each of the cause of action include amongst others, general and compensatory damages in excess of US\$963,000, prejudgment interest, consequential damages, emotional damages, punitive damages, monetary damages, loss of profit, economic damages and restitution respectively. The estimated potential liability as evidenced in the Plaintiff’s request for entry of default is at US\$1,101,710.00.

Notes to the Quarterly Report – 30 September 2012

**B9. Material litigations (Cont'd)**

There were no other material litigations since the last financial period ended 30 June 2012 except for the following:-(Cont'd)

- (i) Legal proceedings commenced Christian Coffinet (“Coffinet”) and Frank Annenberg (collectively “the Plaintiffs”) against INSBIO, Datuk Yeat Sew Chuong, Wong Seng Tong and 7 other Defendants (collectively “the Defendants”) (Cont'd)

The Company has engaged a legal firm in the United States of America, Reyes Law Group (“RLG”), to defend the suit for and on behalf of the Company, its directors, Datuk Yeat Sew Chuong and Wong Seng Tong and INS Holdings.

The Company and its directors, Datuk Yeat Sew Chuong and Wong Seng Tong have represented to RLG that the the Company does not have any contractual relationship with INS USA nor the Plaintiffs and the Company does not have common directors and shareholders with INS USA and as such a proposed step being contemplated is to file a motion for summary judgment at some point shortly before trial, which if successful will get the Plaintiffs’ case dismissed.

RLG is of the opinion that the Plaintiffs’ legal position has no real merit and it will be easy enough to prove that the Company’s version of facts is correct. If there is any liability of INS USA to be proven, it should not create any liability for the Company as they have no legal relationship to each other.

Based on the above, the directors are of the view that the Company does not expect to incur any losses arising from the suit and the suit will not have any effect on the Company’s financial position and operation.

The Court has fixed the suit for continued trial on 25 February 2013.

**B10. Dividends**

No dividend has been declared / recommended for the current financial quarter ended 30 September 2012.

Notes to the Quarterly Report – 30 September 2012

**B11. Loss per share**

	<b>Individual Quarter Current Quarter Ended 30.09.2012</b>	<b>Cumulative Quarter Current Year- To-date 30.09.2012</b>
<b>(a) Basic loss per share attributable to equity holders of the parent</b>		
Net LAT attributable to equity holders of the parent (RM'000)	(453)	(453)
Weighted average number of ordinary shares ('000) #	286,038	286,038
<b>Loss per share (sen)</b>	<u>(0.16)</u>	<u>(0.16)</u>
<i># Less treasury shares of 641,400</i>		
<b>(b) Fully diluted profit per share</b>	<u>N/A</u>	<u>N/A</u>

**B12. Realised and unrealised profits/losses disclosure**

	<b>As At 30/9/2012 RM'000</b>	<b>As At 30/6/2012 RM'000</b>
Accumulated losses of the Group		
-Realised loss	(68,003)	(67,550)
-Unrealised gain	425	425
	<u>(67,578)</u>	<u>(67,125)</u>
Less: Consolidation adjustments	21,530	21,530
	<u>(46,048)</u>	<u>(45,595)</u>

**B13. Authorisation For Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 29 November 2012.

By Order of the Board,  
 Ng Heng Hooi (MAICSA NO: 7048492)  
 Company Secretary  
 Kuala Lumpur  
 Date: 29 November 2012.