

Notes to the Quarterly Report – 31 December 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.

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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 current quarter/ financial period ended 31 December 2012:-

| | Manufacturing RM'000 | Marketing and distribution of products RM'000 | Others RM'000 | Eliminations RM'000 | Group RM'000 |
|---|---------------------------------|--|--------------------------|--------------------------------|-------------------------|
| <u>3 months ended 31 December 2012</u> | | | | | |
| REVENUE | | | | | |
| External sales | 1,579 | 973 | - | - | 2,552 |
| Inter-segment sales | 498 | - | - | (498) | - |
| | <u>2,077</u> | <u>973</u> | <u>-</u> | <u>(498)</u> | <u>2,552</u> |
| RESULTS | | | | | |
| Segment results | 83 | 308 | (204) | 86 | 273 |
| Interest income | 5 | 14 | - | - | 19 |
| Depreciation of property, plant and equipment | (372) | (31) | - | - | (403) |
| | <u>(284)</u> | <u>291</u> | <u>(204)</u> | <u>86</u> | <u>(111)</u> |
| Share of loss in jointly controlled entity | - | - | - | - | - |
| Finance costs | (44) | (33) | - | - | (77) |
| | <u>(328)</u> | <u>258</u> | <u>(204)</u> | <u>86</u> | <u>(188)</u> |
| Loss before taxation | (328) | 258 | (204) | 86 | (188) |
| Taxation | - | - | - | - | - |
| Loss after taxation | <u>(328)</u> | <u>258</u> | <u>(204)</u> | <u>86</u> | <u>(188)</u> |
| <u>6 months ended 31 December 2012</u> | | | | | |
| REVENUE | | | | | |
| External sales | 2,824 | 5,182 | - | - | 8,006 |
| Inter-segment sales | 1,314 | - | - | (1,314) | - |
| | <u>4,138</u> | <u>5,182</u> | <u>-</u> | <u>(1,314)</u> | <u>8,006</u> |

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A8. Segment information (Cont'd)

Segmental reporting for the current quarter/ financial period ended 31 December 2012:-

| | Manufacturing RM'000 | Marketing and distribution of products RM'000 | Others RM'000 | Eliminations RM'000 | Group RM'000 |
|---|---------------------------------|--|--------------------------|--------------------------------|-------------------------|
| 6 months ended 31 December 2012 (Cont'd) | | | | | |
| RESULTS | | | | | |
| Segment results | 549 | (233) | (332) | 420 | 404 |
| Interest income | 10 | 27 | - | - | 37 |
| Depreciation of property, plant and equipment | (749) | (65) | - | - | (814) |
| | (190) | (271) | (332) | 420 | (373) |
| Share of loss in jointly controlled entity | - | - | - | - | - |
| Finance costs | (119) | (149) | - | - | (268) |
| Loss before taxation | (309) | (420) | (332) | 420 | (641) |
| Taxation | - | - | - | - | - |
| Loss after taxation | (309) | (420) | (332) | 420 | (641) |
| Segment assets | 25,962 | 9,406 | 9,451 | (10,952) | 33,867 |
| Unallocated corporate assets | | | | | 34 |
| Consolidated total assets | | | | | 33,901 |
| Segment liabilities | 13,636 | 38,109 | 3,167 | (26,772) | 28,140 |
| Unallocated corporate liabilities | | | | | - |
| Consolidated total liabilities | | | | | 28,140 |
| OTHER SEGMENTS ITEMS | | | | | |
| Capital expenditure | 18 | - | - | - | 18 |
| Non-cash income | - | 2,089 | - | - | 2,089 |
| Non-cash expenses other than depreciation | - | (1,402) | - | - | (1,402) |

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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 during the quarter under review

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

- (a) On 22 November 2012, INSBIO circular to shareholders in relation to the proposed disposal to Westone Industries (M) Sdn. Bhd. of a four(4) storey shop office 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 INSBIO for a cash consideration of RM5,800,000 ("Proposed Disposal"). As at 28 February 2013, the Proposed Disposal is still pending of completion as per the terms and conditions of the Sales and Purchase Agreement.

A11. 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.

A12. Changes in the composition of the Group

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

A13. 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:-

| | The Group | The Company |
|---|-------------------|--------------------|
| | 31.12.2012 | 31.12.2012 |
| | RM'000 | RM'000 |
| <u>Unsecured</u> | | |
| Corporate guarantees given to financial institutions for facilities granted to the subsidiaries | - | 10,950 |
| | <hr/> | <hr/> |

A14. Capital commitments

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

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A15. Significant related party transactions

There were no significant related party transactions for the financial period ended 31 December 2012 other than those disclosed as follows:-

| | RM'000 |
|---|---------------|
| * INS Holdings Sdn Bhd Office rental paid | 73 |
| ** GD Development Sdn Bhd Office rental received | 18 |
| | <hr/> |

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.

A16. Cash and cash equivalents

| | As at 31.12.2012 RM'000 |
|------------------------------|--|
| Deposits with licensed banks | 734 |
| Cash and bank balances | 331 |
| Bank overdrafts | (2,940) |
| | <hr/> |
| | (1,875) |

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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 31 December 2012

For the current quarter ended 31 December 2012, the Group recorded revenue and loss before taxation (“LBT”) of RM2.552 million and RM0.188 million respectively as compared with a revenue and profit before taxation (“PBT”) of RM7.508 million and RM0.143 million respectively in the corresponding quarter ended 31 December 2011 (“Dec 2011”). The quarterly performance of the operating segments can be analysed as follows:-

| | CURRENT YEAR QUARTER 31.12.2012 | PRECEDING YEAR CORRESPONDING QUARTER 31.12.2011 |
|--|--|--|
| Segment Revenue:- | RM'000 | RM'000 |
| Manufacturing | 1,579 | 1,201 |
| Marketing and distribution of products | 973 | 6,307 |
| Others | - | - |
| | <u>2,552</u> | <u>7,508</u> |
| (Loss)/Profit Before Taxation (“LBT” / “PBT”):- | | |
| Manufacturing | (328) | (463) |
| Marketing and distribution of products | 258 | 1,149 |
| Others | (204) | (142) |
| Eliminations | 86 | (403) |
| | <u>(188)</u> | <u>143</u> |

Manufacturing

Revenue increased by approximately 31.5% or RM0.378 million was mainly due to improvement in sales orders received from its Original Equipment Manufacturer (“OEM”) customers for the current quarter ended 31 December 2012.

LBT for the current quarter ended 31 December 2012 was reduced from RM0.462 million to RM0.328 million mainly due to the increase in revenue.

Marketing and distribution of products

Revenue from marketing and distribution of products decreased by RM5.334 million or 84.6% and PBT decreased by RM0.891 million or 77.5% was mainly due to lower revenue derived from local customer.

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B1. Review of performance (Cont'd)

Current quarter ended 31 December 2012 (Cont'd)

Others

There is no revenue for others segment. LBT increased by RM0.062 million mainly due to the expenses incurred for appointment of M&A Securities Sdn Bhd as the Sponsor to the Company pursuant to Rule 8.04(3)(a)(ii) of the ACE LR of Bursa Securities on 20 November 2012 and also for legal and professional fees incurred for the disposal of a property.

B2. Variation of results against previous quarter ended 30 September 2012

| | CURRENT QUARTER | PREVIOUS QUARTER |
|------------------------|----------------------------|-----------------------------|
| | 31.12.2012 | 30.9.2012 |
| | RM'000 | RM'000 |
| Revenue | 2,552 | 5,454 |
| Gross profit | 298 | 1,614 |
| LBT | (188) | (453) |
| Loss after tax ("LAT") | (188) | (453) |

The Group's revenue for current quarter ended 31 December 2012 amounted to RM2.552 million, representing a decrease of approximately RM2.902 million or 53.2% as compared to previous quarter ended 30 September 2012 of RM5.54 million. The Group's overall revenue decreased mainly from decrease in local and overseas sales which also caused the decrease in gross profit.

LBT for current quarter ended 31 December 2012 decreased by approximately 58.5% or RM0.265 million as compared to previous quarter ended 30 September 2012 due to cost saving in administrative expenses and finance costs, with the reduce of RM0.614 million and RM0.114 million respectively. Furthermore, reduce in gross profit and increase in write-back of forfeited income and provision for write-back of expired points for RM0.786 million and RM0.444 million respectively were contradict with the other income derived from forfeiture of advances from distributors of RM2.089 million.

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B3. Prospects

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

The Group will stay focus on Original Equipment Manufacturer ("OEM") opportunity by providing OEM health supplement products design and manufacturing to sustain customer growth and extend OEM customers to manage their products. The Group will further 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.

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.

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B5. Loss before taxation

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|--|---|--|--|---|
| | Current Quarter Ended 31.12.2012 RM'000 | Preceding Year Corresponding Period 31.12.2011 RM'000 | 6 MONTHS Current Year To Date 31.12.2012 RM'000 | 6 MONTHS Preceding Year Corresponding Period 31.12.2011 RM'000 |
| This has been arrived at after charging/(crediting): | | | | |
| Interest income | (19) | (20) | (37) | (21) |
| Interest expenses | 344 | 184 | 535 | 379 |
| Amortisation of intangible assets | 25 | 25 | 50 | 50 |
| Depreciation of property, plant and equipment | 400 | 757 | 814 | 1,243 |
| Allowance for impairment losses on receivables | - | 20 | - | 100 |
| Writeback of impairment losses on receivables | - | (887) | - | (1,002) |
| Writeback of forfeited income | 786 | 833.00 | 907 | 833.00 |
| Provision for writeback of forfeited income | 133 | 109 | 133 | 302 |
| Forfeiture of advance received from distributors | (2,089) | (2,267) | (2,089) | (4,311) |
| Deposit written off | 154 | - | 154 | - |
| Plant and equipment written off | - | 23 | - | 23 |
| Loss on foreign exchange -realised | 3 | - | 6 | 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.

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B6. Taxation

| | 3 months quarter ended 31.12.2012 RM'000 | 6 months (Cumulative) ended 31.12.2012 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 27 February 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.

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B7. Status of corporate proposals (Con'td)

- (b) By referring 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.

B8. Group's borrowings and debt securities

Details of the Group's bank borrowings as at 31 December 2012 which are denominated in Ringgit Malaysia are as follows :-

| | As at 31.12.2012 RM'000 |
|--------------------------|--|
| Short-term borrowings: | |
| Secured | |
| - Hire purchase payables | 199 |
| - Term loan | 276 |
| - Bill Payable | 940 |
| | <u>1,415</u> |
| Long-term borrowings: | |
| Secured | |
| - Hire purchase payables | 404 |
| - Term loan | 3,420 |
| | <u>3,824</u> |
| Total borrowings | <u><u>5,239</u></u> |

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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 by Christian 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 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.

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 announcement on 22 February 2013, The Board of Directors of INSBIO announced that the Company has been notified by the Company’s solicitors vide its letter dated 21 February 2013 that pursuant to the stipulation filed in court by the Plaintiff’s attorney, one of the Plaintiff, Christian Coffinet agreed to dismiss all claims made against some of the Defendants. These Defendants namely INSBIO, INS Holdings Bhd, Datuk David Yeat Sew Chuong, Wong Seng Tong, Edward Ling, Carmelita Reyes and Marissa Cris Gines.

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.

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B10. Dividends

No dividend has been declared / recommended for the current financial quarter ended 31 December- 2012.

B11. Loss per share

| | Individual Quarter Current Quarter Ended 31.12.2012 | Cumulative Quarter Current Year- To-date 31.12.2012 |
|--|--|--|
| (a) Basic loss per share attributable to equity holders of the parent | | |
| Net LAT attributable to equity holders of the parent (RM'000) | (188) | (641) |
| Weighted average number of ordinary shares ('000) # | 286,038 | 286,038 |
| Loss per share (sen) | <u>(0.07)</u> | <u>(0.22)</u> |
| <i># Less treasury shares of 641,400</i> | | |
| (b) Fully diluted profit per share | <u>N/A</u> | <u>N/A</u> |

B12. Realised and unrealised profits/losses disclosure

| | As At 31.12.2012 RM'000 | As At 30.6.2012 RM'000 |
|---------------------------------|--|---------------------------------------|
| Accumulated losses of the Group | | |
| -Realised loss | (73,300) | (67,550) |
| -Unrealised gain | - | 425 |
| | <u>(73,300)</u> | <u>(67,125)</u> |
| Less: Consolidation adjustments | 27,064 | 21,530 |
| | <u>(46,236)</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 27 February 2013.

By Order of the Board,
 Ng Heng Hooi (MAICSA NO: 7048492)
 Company Secretary
 Kuala Lumpur
 Date: 27 February 2013