

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

A. NOTES PURSUANT TO THE FINANCIAL REPORTING STANDARD 134 (FRS 134): INTERIM FINANCIAL REPORTING

A1. Basis of reporting preparation

The interim financial statements are unaudited and have been prepared in accordance with the Financial Reporting Standards 134 (FRS 134): “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board (“MASB”) and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the ACE Market (“ACE LR”).

The interim financial statements should be read in conjunction with the Group’s audited financial statements presented in the annual report for the financial year ended (“FYE”) 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

The accounting policies and methods of computation adopted by Sunzen Biotech Berhad (“Sunzen Biotech” or “Company”) and its subsidiaries (“Group”) in the interim financial statements are consistent with those adopted in the most recent audited financial statements for the FYE 31 December 2010, except for the mandatory adoption of the following new and revised Financial Reporting Standards (“FRSs”) and Issues Committee Interpretations (“IC Int.”) beginning on and after 1 January 2011 as detailed below:

FRS 1 (Revised)	First-time adoption of Financial Reporting Standards
FRS 3 (Revised)	Business Combinations
FRS 124 (Revised)	Related Party Disclosures
FRS 127 (Revised)	Consolidated and Separate Financial Statements
Amendments to FRS 1 (Revised)	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Scope of FRS 2 and Revised FRS 3 (2010)
Amendments to FRS 2	Group Cash-settled Share-based Payment Transactions
Amendments to FRS 5	Plan to Sell the Controlling Interest in a Subsidiary
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Amendments to FRS 138	Consequential Amendments Arising from Revised FRS 3 (2010)
Amendments to IC Int. 14	Prepayment of a Minimum Funding Requirement
Amendments to IC Int. 9	Scope of IC Interpretation 9 and FRS 3 (Revised)
Amendments to FRSs “Improvements to FRSs (2010)”	
IC Int. 4	Determining Whether An arrangement Contains Lease
IC Int. 12	Service Concession Arrangements
IC Int. 15	Agreements for the Construction of Real Estate

A1. Basis of reporting preparation (*Cont'd*)

IC Int. 16	Hedges of a Net Investment in a Foreign Operation
IC Int. 17	Distributions of Non-cash Assets to Owners
IC Int. 18	Transfers of Assets from Customers
IC Int. 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above FRSs, Amendments and IC Int. did not have any significant impact on the interim financial statements upon their initial application, other than the following:

- (i) FRS 3 (Revised) introduces significant changes to the accounting for business combinations, both at the acquisition date and post acquisition, and requires greater use of fair values. In addition, all transaction costs, other than share and debt issue costs, will be expensed as incurred. This revised standard will be applied prospectively and therefore there will not have any financial impact on the financial statements of the Group for the current financial year but may impact the accounting for future transactions or arrangements.
- (ii) FRS 127 (Revised) requires accounting for changes in ownership interests by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the minority interest to be absorbed by the minority interest instead of by the parent. The Group will apply the major changes of FRS 127 (Revised) prospectively and therefore there will be no financial impact on the financial statements of the Group for the current financial year but may impact the accounting for its future transactions or arrangements.

A2. Auditors' report on preceding annual financial statements

The audited financial statements of the Company and its subsidiaries for the FYE 31 December 2010 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.

SUNZEN BIOTECH BERHAD
(Company No: 680889-W)
(Incorporated in Malaysia)

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 no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter under review.

A7. Dividends paid

There was no dividend paid during the current quarter under review.

A8. Segmental information

Segmental revenue based on geographical market as follows:

Geographical Market	Current Year-To-Date Ended 31 December 2011 RM'000	Corresponding Year-To-Date Ended 31 December 2010 RM'000
Asia other than Malaysia	4,448	5,152
Middle East	872	2,377
Malaysia	26,297	21,963
Total	31,617	29,492

A9. Valuation of property, plant and equipment

The valuation of the Group's freehold lands and buildings has been brought forward without any amendments from the annual financial statements for the FYE 31 December 2010.

A10. Capital commitments

As at the end of reporting period, there were no outstanding capital commitments not provided for in the financial statements.

SUNZEN BIOTECH BERHAD
(Company No: 680889-W)
(Incorporated in Malaysia)

A11. Material subsequent event

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 under review.

A12. Changes in the Composition of the Group

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

A13. Contingent Liabilities

Save for the corporate guarantee granted by the Company in favour of financial institutions for banking facilities extended to a subsidiary amounting to RM17,131,000, 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.

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 31 December 2011 RM'000	Corresponding Quarter Ended 31 December 2010 RM'000	Current Year-To-Date Ended 31 December 2011 RM'000	Corresponding Year-To-Date Ended 31 December 2010 RM'000
Revenue	8,470	8,418	31,617	29,492
Profit before taxation ("PBT")	472	772	2,382	2,518

For the current quarter under review, the Group registered only a marginal increase in revenue by 0.60% or RM52,000 as compared to the corresponding quarter ended 31 December 2010 mainly due to a decrease in overseas sales of 60.80% despite an increase of 21.60% in local sales.

The PBT for the current quarter ended 31 December 2011 indicated a decrease of 38.90%. The decrease in PBT was mainly due to higher operating expenses incurred and loss on foreign exchange in the current quarter.

For the current year-to-date, the Group recorded an increase in revenue of 7.20% or RM2.125 million as compared to the corresponding year-to-date ended 31 December 2010 largely due to an increase in local sales of 19.70% despite overseas sales decreased by 29.30%.

The PBT for the current year-to-date ended 31 December 2011 showed a decrease of 5.40% or RM136,000 mainly due to an increase in operating expenses and lower gain on foreign exchange.

SUNZEN BIOTECH BERHAD
 (Company No: 680889-W)
 (Incorporated in Malaysia)

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

	Current Quarter Ended 31 December 2011 RM'000	Corresponding Quarter Ended 31 December 2010 RM'000	Current Year-To-Date Ended 31 December 2011 RM'000	Corresponding Year-To-Date Ended 31 December 2010 RM'000
Trading	4,843	4,134	12,946	15,100
Manufacturing	3,627	4,284	18,671	14,392
<hr/>				
Total revenue	8,470	8,418	31,617	29,492

For the current quarter under review, the revenue of trading products increased by 17.20% as compared to the corresponding quarter ended 31 December 2010 mainly attributed to better response to the sales promotion campaign held locally at the year end.

The revenue of manufacturing products for the current quarter ended 31 December 2011 showed a decrease of 15.30% mainly due to a decrease in overseas sales for Orgacids products.

SUNZEN BIOTECH BERHAD
 (Company No: 680889-W)
 (Incorporated in Malaysia)

B3. Profit before taxation

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

	Current Quarter Ended 31 December 2011 RM'000	Corresponding Quarter Ended 31 December 2010 RM'000	Current Year-To-Date Ended 31 December 2011 RM'000	Corresponding Year-To-Date Ended 31 December 2010 RM'000
Interest income	25	41	125	132
Other income including investment income	-	-	-	-
Interest expense	(127)	(110)	(463)	(413)
Depreciation and amortisation	(300)	(193)	(877)	(893)
Provision for and write off of receivables	-	-	-	-
Provision for and write off of inventories	-	(108)	(260)	(508)
Gain on disposal of quoted or unquoted investments or properties	72	32	118	32
Impairment of assets	-	-	-	-
Gain/(loss) on foreign exchange	(73)	74	192	630
Gain/(loss) on derivatives	-	-	-	-
Exceptional items	-	-	-	-

SUNZEN BIOTECH BERHAD
 (Company No: 680889-W)
 (Incorporated in Malaysia)

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

	Current Quarter Ended 31 December 2011 RM'000	Preceding Quarter Ended 30 September 2011 RM'000	Variance	
			RM'000	%
Revenue	8,470	7,701	769	10.00
PBT	472	555	(83)	(15.00)

For the current quarter under review, revenue increased by 10.00% as compared to the preceding quarter ended 30 September 2011. The increase in revenue was mainly due to an increase in local sales.

The PBT indicated a decrease of 15.00% mainly due to a decrease in profit contribution for manufacturing products with the decrease in overseas sales, an increase in depreciation charge for laboratory equipment and maintenance cost incurred for plant and machinery in the current quarter.

B5. Prospects

The Board is of the opinion that the financial result of the Group for 2012 will depend very much on the performance of overseas market and the uninterrupted supply of products from the principal supplier. The Board also believes that the participation in several overseas international trade exhibitions in 2011 would give a positive impact on the overseas sales ahead.

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. Taxation

	Current Quarter Ended 31 December 2011 RM'000	Corresponding Quarter Ended 31 December 2010 RM'000	Current Year-To-Date Ended 31 December 2011 RM'000	Corresponding Year-To-Date Ended 31 December 2010 RM'000
<u>Income tax expense</u>				
Current financial year	140	120	616	462
(Over)/Underprovision in previous financial year	-	-	(50)	20
	<hr/> 140	<hr/> 120	<hr/> 566	<hr/> 482
<u>Deferred tax expense</u>				
Current financial year	42	(54)	56	(112)
(Over)/Underprovision in previous financial year	-	-	-	-
	<hr/> 42	<hr/> (54)	<hr/> 56	<hr/> (112)
Tax expense	<hr/> 182	<hr/> 66	<hr/> 622	<hr/> 370

SUNZEN BIOTECH BERHAD
(Company No: 680889-W)
(Incorporated in Malaysia)

B7. Taxation (*Cont'd*)

The effective tax rate of the Group for the current quarter under review was lower than the statutory tax rate largely due to the 100% tax exemption of the statutory income of the Company's wholly owned subsidiary, Sunzen LifeSciences Sdn Bhd for the BioNexus status incentive awarded by the Ministry of Finance, with the recommendation from Malaysian Biotechnology Corporation Sdn Bhd. The tax incentive granted is for a period of 10 years which commenced from 1 January 2010.

B8. Unquoted investments and or properties

There were no acquisitions or disposals of unquoted investments and properties for the current quarter under review.

B9. Quoted securities

Investments in quoted securities as at 31 December 2011 were as follows:

	Cost	Market Price
	RM'000	RM'000
Quoted shares	5	5

No acquisition of quoted securities for the current quarter under review, but there was a disposal of 8,000 shares for proceeds of RM17,600.

SUNZEN BIOTECH BERHAD
 (Company No: 680889-W)
 (Incorporated in Malaysia)

B10. Status of Corporate Proposal

There was no other corporate proposal announced but not completed as at the date of this announcement.

Utilisation of IPO Proceeds

As at 31December 2011, the status of utilisation of the gross proceeds of RM8 million raised from the public issue was as follows:

Purpose	Proposed utilisation RM'000	Actual utilisation RM'000	Intended timeframe for utilisation from the listing date* (Months)	Deviation		Explanation
				RM'000	%	
Research and development	4,770	2,830	36	-	-	Note ⁽¹⁾
Overseas expansion	1,000	1,000	48	-	-	-
Working capital	430	250	24	-	-	-
Estimated listing expenses	1,800	1,980	3	(180)	(10.00)	Note ⁽²⁾
Total	8,000	6,060				

Notes:

- (1) Sunzen Biotech had announced to Bursa Securities on 26 May 2011 to extend the utilisation of proceeds period to 8 October 2012.
- (2) The excess amount of listing expenses incurred during the implementation of Sunzen Biotech's listing exercise was adjusted to the Company's working capital.

* Sunzen Biotech was listed on 8 October 2008.

SUNZEN BIOTECH BERHAD
 (Company No: 680889-W)
 (Incorporated in Malaysia)

B11. Group borrowings and debt securities

The Group's borrowings as at 31 December 2011 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short-term borrowings:-</u>			
Bills payable	3,101	-	3,101
Hire purchases	126	-	126
Term loan	499	-	499
	<u>3,726</u>	<u>-</u>	<u>3,726</u>
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long-term borrowings:-</u>			
Hire purchases	229	-	229
Term loan	5,377	-	5,377
	<u>5,606</u>	<u>-</u>	<u>5,606</u>
Total	<u>9,332</u>	<u>-</u>	<u>9,332</u>

The above borrowings are denominated in Ringgit Malaysia.

B12. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off-balance sheet risk.

B13. 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.

B14. Dividend declared or recommended

There was no dividend declared during the quarter under review.

SUNZEN BIOTECH BERHAD
 (Company No: 680889-W)
 (Incorporated in Malaysia)

B15. Earnings per share

Basic earnings per share are calculated by dividing the Group's profit after taxation attributable to owners of the Company for the period over the weighted average number of ordinary shares in issue during the financial year as follows:

	Current Quarter Ended 31 December 2011	Corresponding Quarter Ended 31 December 2010	Current Year-To -Date Ended 31 December 2011	Corresponding Year-To-Date Ended 31 December 2010
Group's profit after taxation attributable to owners of the Company (RM)	290,000	706,000	1,760,000	2,148,000
Weighted average number of ordinary shares in issue	149,390,500	149,390,500	149,390,500	149,390,500
Basic earnings per share (sen)	0.19	0.47	1.18	1.44

B16. Update on the status of the Memorandum of Understanding (“MOU”) pursuant to Rule 9.29 of the ACE LR

- (a) On 24 November 2008, the Company signed a MOU with University Putra Malaysia (“UPM”) for the collaboration on research and development work on animal health products.

UPM has submitted an application for a grant to the Ministry of Higher Education for the further development of fermented products which are currently under research studies.

- (b) On 2 June 2010, Sunzen Feedtech Sdn Bhd signed a MOU with Universiti Sains Malaysia for the research collaboration on development and pre-commercialisation of a new organic acid blend for enhancement of growth performance and disease resistance in farmed aquatic animals without the use of antibiotics.

On 25 September 2010, the Ministry of Agriculture (“MOA”) had approved a Technofund grant of RM1,155,000 to Sunzen Feedtech Sdn Bhd for above collaboration. The grant will be fully utilised according to the scaled down scope.

As of 31 December 2011, the installation and trial run of pilot plant had been completed as scheduled. Currently, the team is working on the new product for field testing.

SUNZEN BIOTECH BERHAD
(Company No: 680889-W)
(Incorporated in Malaysia)

B17. Realised and Unrealised Profits or Losses Disclosure

	Current Year-To-Date Ended 31 December 2011 RM'000	Corresponding Year-To-Date Ended 31 December 2010 RM'000
Total retained profits of the Group:-		
- Realised	16,919	15,635
- Unrealised	(612)	(416)
 Total group retained profits as per consolidated financial statements	<hr/> 16,307 <hr/>	<hr/> 15,219 <hr/>

This quarterly report for the financial year ended 31 December 2011 has been seen and approved by the Board of Directors of Sunzen Biotech for release to Bursa Securities.

Date: 28 February 2012