

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2012

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

A1. Basis of reporting preparation

The interim financial statements are unaudited and have been prepared in accordance with the Malaysian Financial Reporting Standards 134 (MFRS 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”).

These interim financial statements are the Group’s first MFRS compliant interim financial statements and hence MFRS 1: First-Time Adoption of Malaysian Financial Reporting Standards (MFRS 1) has been applied. The date of transition to the MFRS framework is 1 January 2011. At that transition date, the Group reviewed its accounting policies and considered the transitional opportunities under MFRS 1. As the requirements under FRS and MFRS are similar, the significant accounting policies adopted in preparing this interim financial statements, are consistent with those of the audited financial statements for the financial year ended (“FYE”) 31 December 2011.

The interim financial statements should be read in conjunction with the Group’s audited financial statements presented in the annual report for the FYE 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.

As at the date of authorization of these interim financial statements, the following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group:

MFRSs, Amendments to MFRSs and IC Interpretation		Effective Date
MFRS 9	Financial Instruments	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits	1 January 2013
MFRS 127	Separate Financial Statements	1 January 2013
MFRS 128	Investments in Associates and Joint Ventures	1 January 2013
Amendments to MFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012

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

Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

The initial adoption of the above applicable MFRSs (and its consequential amendments) and IC Interpretation, is expected to have no material impact on the interim financial statements of the Group.

A2. Auditors' report on preceding annual financial statements

The audited financial statements of the Company and its subsidiaries for the FYE 31 December 2011 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.

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.

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A8. Segmental information

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

Geographical Market	Current Year-To-Date Ended 30 June 2012 RM'000	Corresponding Year-To-Date Ended 30 June 2011 RM'000
Asia other than Malaysia	2,927	2,331
Middle East	-	872
Malaysia	13,116	12,243
Africa	57	-
Total	16,100	15,446

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 2011.

A10. Capital commitments

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

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.

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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.

The corporate guarantee forms part of the securities pledged for the following banking facilities made available to a subsidiary company:

Banking Facility:	Limit RM'000	Outstanding Balance
		As At 30 June 2012 RM'000
Bank overdraft	500	5
Trade line	6,000	1,971
Term loans	6,465	5,628
Total	12,965	7,604

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 2012 RM'000	Corresponding Quarter Ended 30 June 2011 RM'000	Current Year-To-Date Ended 30 June 2012 RM'000	Corresponding Year-To-Date Ended 30 June 2011 RM'000
Revenue	7,947	7,891	16,100	15,446
Profit before taxation ("PBT")	363	563	953	1,355

The Group recorded a slight increase of 0.71% or RM56,000 in revenue for the second quarter compared with the corresponding quarter previous year. This was caused mainly by the volatility of prices faced by poultry industry in the country.

Despite an increase in revenue, the Group's PBT dipped by 35.35% or RM200,000 in the second quarter compared with the corresponding quarter previous year as impacted by higher cost of raw material and the increase of lower margin product sales.

For the first half of 2012 ended June 30, the Group's revenue increased by 4.23% or RM654,000 compared with the same period previous year whereas PBT declined by 29.67% or RM402,000.

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 30 June 2012 RM'000	Corresponding Quarter Ended 30 June 2011 RM'000	Current Year-To-Date Ended 30 June 2012 RM'000	Corresponding Year-To-Date Ended 30 June 2011 RM'000
Trading	3,949	4,243	8,231	7,856
Manufacturing	3,998	3,648	7,869	7,590
Total revenue	7,947	7,891	16,100	15,446

Trading products sales decreased by 6.93% in the current quarter ended June 30 compared with the corresponding quarter previous year. This was attributed to the decrease in local sales of water soluble product, disinfectant product and companion animal product.

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 (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 (*Cont'd*)

Manufacturing products sales increased by 9.59% in the current quarter ended June 30 compared with the corresponding quarter previous year mainly due to the increase in both local sales of premixes product and overseas sales of Orgacids product.

B3. Profit before taxation

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

	Current Quarter Ended 30 June 2012 RM'000	Corresponding Quarter Ended 30 June 2011 RM'000	Current Year-To-Date Ended 30 June 2012 RM'000	Corresponding Year-To-Date Ended 30 June 2011 RM'000
Interest income	24	30	48	68
Other income including investment income	-	-	-	-
Interest expense	(107)	(113)	(210)	(216)
Depreciation and Amortization	(217)	(191)	(431)	(375)
Provision for and write off of receivables	-	-	-	-
Provision for and write off of inventories	(25)	(60)	(83)	(148)
Gain on disposal of quoted or unquoted investments or properties	-	-	2	-
Impairment of assets	-	-	-	-
Gain/(loss) on foreign exchange	(28)	68	83	175
Gain/(loss) on derivatives	-	-	-	-
Exceptional items	-	-	-	-

SUNZEN BIOTECH BERHAD
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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 June 2012 RM'000	Preceding Quarter Ended 31 March 2012 RM'000	Variance	
			RM'000	%
Revenue	7,947	8,153	(206)	(2.53)
PBT	363	590	(227)	(38.47)

The Group recorded lower revenue of 2.53% for the second quarter ended June 30 compared with the preceding quarter ended 31 March due to the decrease in sales volume of trading product.

PBT decreased by 38.47% in the second quarter ended 30 June compared with the preceding quarter ended 31 March. The lower PBT was mainly due to higher operating expenses incurred.

B5. Prospects

The overall financial performance of the Group is dependent greatly on the sales vibrancy of Orgacids product in existing overseas market and developing new overseas markets for the product.

The Group will continue to embark on research and development activity on Orgacids in potential overseas markets. The outcome of the research and development conducted in China is expected to be known in the next few months.

B6. Profit forecast and profit guarantee

No profit forecast or profit guarantee has been issued by the Group for the current quarter under review.

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 (Company No: 680889-W)
 (Incorporated in Malaysia)

B7. Taxation

	Current Quarter Ended 30 June 2012 RM'000	Corresponding Quarter Ended 30 June 2011 RM'000	Current Year-To-Date Ended 30 June 2012 RM'000	Corresponding Year-To-Date Ended 30 June 2011 RM'000
<u>Income tax expense</u>				
Current financial year	143	155	301	323
(Over)/underprovision in previous financial year	(38)	(50)	(38)	(50)
	105	105	263	273
<u>Deferred tax expense</u>				
Current financial year	18	43	31	43
(Over)/underprovision in previous financial year	-	-	-	-
	18	43	31	43
Tax expense	123	148	294	316

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 from 1 January 2010.

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 (Company No: 680889-W)
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B8. 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 30 June 2012, 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	3,836	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	7,066				

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.

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B9. Group borrowings and debt securities

The Group's borrowings as at 30 June 2012 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short-term borrowings:-</u>			
Bills payable	1,971	-	1,971
Hire purchases	139	-	139
Term loan	513	-	513
	<u>2,623</u>	<u>-</u>	<u>2,623</u>
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long-term borrowings:-</u>			
Hire purchases	148	-	148
Term loan	5,115	-	5,115
	<u>5,263</u>	<u>-</u>	<u>5,263</u>
Total	<u>7,886</u>	<u>-</u>	<u>7,886</u>

The above borrowings are denominated in Ringgit Malaysia.

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

No dividend was declared for the current quarter.

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B12. Earnings per share

Basic earnings per share is 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 period as follows:

	Current Quarter Ended 30 June 2012	Corresponding Quarter Ended 30 June 2011	Current Year-To -Date Ended 30 June 2012	Corresponding Year-To-Date Ended 30 June 2011
Group's profit after taxation attributable to owners of the Company (RM)	240,000	415,000	659,000	1,039,000
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)	0.16	0.28	0.44	0.70

B13. 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.

Subsequently, the monitoring committee from MOA had made a field visit to our pilot plant on 11 May 2012 and was verbally satisfied with the progress of the project.

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B14. Realised and Unrealised Profits or Losses Disclosure

	Current Year-To-Date Ended 30 June 2012 RM'000	Corresponding Year-To-Date Ended 30 June 2011 RM'000
Total retained profits of the Group:-		
- Realised	17,625	16,131
- Unrealised	(661)	(545)
 Total group retained profits as per consolidated financial statements	<hr/> 16,964 <hr/>	<hr/> 15,586 <hr/>

This quarterly report for the financial period ended 30 June 2012 has been seen and approved by the Board of Directors of Sunzen Biotech for release to Bursa Securities.

Date: 30 August 2012