

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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, resale and repayments of debt and equity securities during the current quarter under review. On 5 July 2012, the Company repurchased 10,000 of its issued ordinary shares from the open market for a total consideration of RM2,144 at an average price of RM0.21 per share. The repurchase transaction was financed by internally generated funds. The shares repurchased are being held as treasury shares.

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 September 2012 RM'000	Corresponding Year-To-Date Ended 30 September 2011 RM'000
Asia other than Malaysia	4,419	3,606
Middle East	182	872
Malaysia	19,616	18,669
Africa	57	-
Total	24,274	23,147

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 Islamic 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 for the following banking facilities made available to a subsidiary company.

Islamic Banking Facility	Corporate Guarantee RM'000	Limit RM'000	Outstanding Balance As At 30 September 2012 RM'000
Bank overdraft	500	500	-
Trade line	6,000	6,000	1,683
Term loans	10,631	6,465	5,503
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Total	17,131	12,965	7,186

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 2012 RM'000	Corresponding Quarter Ended 30 September 2011 RM'000	Current Year-To-Date Ended 30 September 2012 RM'000	Corresponding Year-To-Date Ended 30 September 2011 RM'000
Revenue	8,174	7,701	24,274	23,147
Profit before taxation ("PBT")	684	555	1,637	1,910

The Group's revenue increased by 6.14% or RM473,000 in the third quarter compared with the corresponding quarter of previous year.

An increase of 23.24% or RM129,000 in Group's PBT for the third quarter compared with the corresponding quarter of previous year mainly due to higher sales volume of trading products.

For the year-to-date ended 30 September 2012, the Group's revenue increased by 4.87% or RM1,127,000 compared with the same period of previous year whereas PBT decreased by 14.29% or RM273,000. The decline in PBT was mainly due to higher product cost for manufacturing products and the increase of lower margin product sales as well as the increase in operating expenses.

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 2012 RM'000	Corresponding Quarter Ended 30 September 2011 RM'000	Current Year-To-Date Ended 30 September 2012 RM'000	Corresponding Year-To-Date Ended 30 September 2011 RM'000
Trading	3,969	3,529	12,200	11,385
Manufacturing	4,205	4,172	12,074	11,762
Total	8,174	7,701	24,274	23,147

Trading products sales increased by 12.47% in the current quarter ended 30 September 2012 compared with the corresponding quarter previous year. This was mainly attributed to companion animal product sales increased.

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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)

For the year-to-date ended 30 September 2012, the Group's trading products sales increased by 7.16% compared with the same period previous year. This was mainly due to higher sales volume of feed supplement and companion animal products despite lower sales volume of injectable and water soluble products.

Manufacturing products recorded 0.79% increase in sales for the current quarter ended 30 September 2012 compared with the corresponding quarter previous year. For the quarter under review, feed supplement product sales increased whereas premixes product sales decreased, resulted in having a marginal increase in manufacturing products sales.

For the year-to-date ended 30 September 2012, the Group's manufacturing products sales increased by 2.65% compared with the same period previous year. This was mainly due to higher sales volume of premixes product despite lower sales volume of feed supplement product.

B3. Profit before taxation

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

	Current Quarter Ended 30 September 2012 RM'000	Corresponding Quarter Ended 30 September 2011 RM'000	Current Year-To-Date Ended 30 September 2012 RM'000	Corresponding Year-To-Date Ended 30 September 2011 RM'000
Interest income	24	32	72	100
Other income including investment income	-	-	-	-
Interest expense	(99)	(120)	(309)	(336)
Depreciation and amortisation	(220)	(203)	(651)	(578)
Provision for and write off of receivables	-	-	-	-
Provision for and write off of inventories	(33)	(112)	(116)	(260)
Product development expenditure written off	(77)	-	(77)	-
Gain on disposal of quoted or unquoted investments or plant and equipment	1	46	3	46
Impairment of assets	-	-	-	-
Gain/(loss) on foreign exchange	62	90	145	265
Gain/(loss) on derivatives	-	-	-	-
Exceptional items	-	-	-	-

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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 2012 RM'000	Preceding Quarter Ended 30 June 2012 RM'000	Variance	
			RM'000	%
Revenue	8,174	7,947	227	2.86
PBT	684	363	321	88.43

The Group reported 2.86% increase in revenue for the third quarter ended 30 September 2012 compared with the preceding quarter ended 30 June 2012 due to the increase in sales volume of manufacturing products in respect of feed supplement.

Group's PBT increased by 88.43% in the third quarter ended 30 September 2012 compared with the preceding quarter ended 30 June 2012. This was attributed to higher sales volume, lower operating expenses and unrealised gain on foreign exchange for overseas trade payable.

B5. Prospects

Overall financial performance of the Group depends heavily on sales of Orgacids product in overseas markets. Based on current scenario, the Group does not anticipate any drastic change in the fourth quarter's performance to impact the financial results of 2012.

The demonstration trial of Orgacids for local chickens in China has shown positive results, however, the poultry company plans to carry out a second trial to substantiate the first trial's results. Positive results of the trial will create a better prospect for future sales in China market.

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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B7. Taxation

	Current Quarter Ended 30 September 2012 RM'000	Corresponding Quarter Ended 30 September 2011 RM'000	Current Year-To-Date Ended 30 September 2012 RM'000	Corresponding Year-To-Date Ended 30 September 2011 RM'000
<u>Income tax expense</u>				
Current financial year	146	153	447	476
(Over)/underprovision in previous financial year	-	-	(38)	(50)
	146	153	409	426
<u>Deferred tax expense</u>				
Current financial year	27	(29)	58	14
(Over)/underprovision in previous financial year	-	-	-	-
	27	(29)	58	14
Tax expense	173	124	467	440

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 to 31 December 2019.

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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 September 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	3,967	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	7,197				

Notes:

(1) Sunzen Biotech had announced to Bursa Securities on 3 October 2012 to further extend the utilisation period for the balance proceeds to 8 October 2013.

(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 September 2012 were as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short-term borrowings:-</u>			
Bills payable	1,683	-	1,683
Hire purchases	141	-	141
Term loan	520	-	520
	<u>2,344</u>	<u>-</u>	<u>2,344</u>
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long-term borrowings:-</u>			
Hire purchases	112	-	112
Term loan	4,983	-	4,983
	<u>5,095</u>	<u>-</u>	<u>5,095</u>
Total	<u>7,439</u>	<u>-</u>	<u>7,439</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

An interim tax-exempt dividend of RM0.006 per ordinary share of RM0.10 each for the financial year ending 31 December 2012 was declared during the quarter under review and shall be paid on 24 December 2012.

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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 excluding treasury shares during the financial period as follows:

	Current Quarter Ended 30 September 2012	Corresponding Quarter Ended 30 September 2011	Current Year-To -Date Ended 30 September 2012	Corresponding Year-To-Date Ended 30 September 2011
Group's profit after taxation attributable to owners of the Company (RM)	511,000	431,000	1,170,000	1,470,000
Weighted average number of ordinary shares in issue excluding treasury shares	149,380,500	149,390,500	149,380,500	149,390,500
Basic earnings per share (sen)	0.34	0.29	0.78	0.98

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 2012 RM'000	Corresponding Year-To-Date Ended 30 September 2011 RM'000
Total retained profits of the Group:-		
- Realised	18,026	16,506
- Unrealised	(551)	(489)
Total group retained profits as per consolidated financial statements	17,475	16,017

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

Date: 22 November 2012