

INS BIOSCIENCE BERHAD  
(Company No. 623239-V)  
(Incorporated in Malaysia)

Notes to the Quarterly Report – 30 September 2008

**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 MESDAQ Market.

The interim financial statements should be read in conjunction with the audited financial statements of INS Bioscience Berhad (“INSBIO”) and its subsidiaries (“the Group”) for the year ended 31 December 2007. The 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 year ended 31 December 2007.

The significant accounting policies adopted are consistent with those of the audited financial statement for the year ended 31 December 2007. The Group adopts the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2008:

FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 111	Construction Contracts
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

The above FRSs align the MASB’s FRSs with the equivalent International Accounting Standards (“IASs”), both in terms of form and content. The adoption of these standards will only impact the form and content of disclosures presented in the financial statements.

The new/revised FRS which has impact on the reclassification of financial statements of the Group is as follows:

(a) FRS 117: Leases

The adoption of the revised FRS 117 has resulted in a retrospective change in the accounting policy relating to the reclassification of leasehold land. The up-front payments made for the leasehold land represents prepaid lease payments and are amortised on a straight-line basis over the lease term. A lease of land and building is apportioned into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Prior to 1 January 2007, leasehold land was classified as property, plant and equipment and was stated at cost less accumulated depreciation.

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

The auditors' report on the financial statements for the year ended 31 December 2007 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 was no change 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, share cancellation or shares held as treasury shares and resale of treasury shares for the current financial quarter under review.

**A7. Dividend paid**

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

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Notes to the Quarterly Report – 30 September 2008

**A8. Segment information**

Segmental reporting for the financial period ended 30 September 2008.

	<b>Manufacturing</b>	<b>Marketing and distribution of products</b>	<b>Others</b>	<b>Eliminations</b>	<b>Group</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>REVENUE</b>					
External sales	2,809	57,392	-	-	60,201
Inter-segment sales	14,229	5,654	50	(19,933)	-
	<u>17,038</u>	<u>63,046</u>	<u>50</u>	<u>(19,933)</u>	<u>60,201</u>
<b>RESULTS</b>					
Segment results	<u>2,821</u>	<u>(302)</u>	<u>(434)</u>	<u>(78)</u>	<u>2,007</u>
Unallocated corporate expenses					-
Finance costs					(54)
Interest income					288
Profit before taxation					<u>2,241</u>
Taxation					(229)
Profit after taxation					<u><u>2,012</u></u>

Notes to the Quarterly Report – 30 September 2008

**A8. Segment information (Cont'd)**

	<b>Manufacturing</b>	<b>Marketing and distribution of products</b>	<b>Others</b>	<b>Eliminations</b>	<b>Group</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>OTHER INFORMATION</b>					
<b>Segment assets</b>	39,043	33,960	21,224	(23,282)	70,945
Unallocated corporate assets					285
<b>Consolidated total assets</b>					<u>71,230</u>
<b>Segment liabilities</b>	19,313	29,822	65	(23,282)	25,918
Unallocated corporate liabilities					325
<b>Consolidated total liabilities</b>					<u>26,243</u>
Capital expenditure	1,350	7,352	-	-	8,702
Depreciation	952	636	-	-	1,588
Non-cash expenses other than depreciation	4,221	5,301	-	-	9,522

**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.

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

There were no changes in the composition of the Group, including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations for 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.

<b>Contingent Liabilities</b>	<b>The Group 30.09.2008 RM'000</b>	<b>The Company 30.09.2008 RM'000</b>
Corporate guarantees given to financial institutions for facilities granted to the subsidiaries, unsecured	-	4,103
Claim of commission by a former distributor, unsecured (a)	3,700	-
Claim of royalty by a former director (b)	278	-
	<u>3,978</u>	<u>4,103</u>

- (a) A former distributor has made a claim against a subsidiary, Easy Pha-Max Marketing Sdn. Bhd. (“EPMSB”), for a purported sum of approximately RM3.7 million being his alleged loss of commission for the period from July 1999 to December 2005, together with interest at 8% per annum on the sum of approximately RM3.7 million effective from January 2005, and a further loss of commission and bonus from January 2005 to the date of the writ summons to be assessed by the court, and interest together with general damages to be assessed and interest until full realisation.

EPMSB had filed an application to strike out the Writ of Summons and Statement of Claim on 24 November 2006. On 6 September 2007, the judge ordered to consolidate this case with another case with Civil Suit no. S5-22-445-2001 (“2001 case”) and all the file would transferred to this case. As EPMSB applied to strike out the Writ and Statement of claim of both cases, the court had fixed a further mention date on 23 January 2009 for this case pending disposal of striking out application of the 2001 case.

Notes to the Quarterly Report – 30 September 2008

**A12. Changes in contingent assets and contingent liabilities (Cont'd)**

- (b) On 14 June 2006, two subsidiaries EPMSB and TOF were served with a Writ of Summons and Statement of Claim dated 9 March 2006 by a former director of TOF in the Kuala Lumpur High Court.

The former director filed a claim against EPMSB and TOF (collectively referred to as “Defendants”) for a sum of RM277,960 being total royalty alleged to be payable to him as at 31 December 2004, interest on sum of RM277,960 at a rate which the Court think fit and proper from 1 January 2005 until the date of judgement till the date of full realization.

The Case Management has been fixed on 12 January 2009.

Based on legal opinion, the directors are of the view that the suits by the former distributor and director have no basis and are unlikely to succeed. Accordingly, no provision has been made in the financial statements.

**A13. Capital commitments**

	<b>As at 30.09.2008</b>
	<b>RM'000</b>
Approved and contracted for:~	
- contract sum for construction of R&D centre in College of Food Science & Nutritional Engineering, China Agriculture University, Beijing	701
- club membership	27
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	728
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Notes to the Quarterly Report – 30 September 2008

**A14. Significant related party transactions**

There were no significant related party transactions for the financial period ended 30 September 2008 other than those disclosed as follows:-

	<b>RM'000</b>
* Bio-Agro Products Sdn Bhd Office rental received	9
** IBG Manufacturing Sdn Bhd Office rental received	9
*** INS Holdings Berhad Office rental paid	<u>313</u>

\* A company in which Wong Seng Tong is director.

\*\* A company in which Datuk Yeat Sew Chuong and Wong Seng Tong are directors, and Datuk Yeat Sew Chuong is deemed to have interest.

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

The directors are of the opinion that the above transactions have been entered into the normal course of business and have been established under terms that were mutually agreed between the parties.

**A15. Cash and cash equivalents**

	<b>As at 30.09.2008 RM'000</b>
Fixed deposits with licensed banks	6,106
Cash and bank balances	<u>1,795</u>
	<u><u>7,901</u></u>

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

**B1. Review of performance**

The Group's total revenue for the quarter under review decreased by 49% to RM16.615 million as compared to RM32.865 million in the corresponding period of the preceding year. Group's profit before tax was RM0.057million as compared to the RM0.571 million profit before tax reported in the corresponding period of the previous year. The decrease of revenue and profit before tax mainly due to lower sales generated from slimming series products at local market for the quarter under review as compared to the corresponding period of the preceding year.

**B2. Variation of results against preceding quarter**

	<b>July – Sept'08</b>	<b>Apr – June'08</b>	<b>Jan – Mar'08</b>
	<b>(3<sup>rd</sup> Q)</b>	<b>(2<sup>nd</sup> Q)</b>	<b>(1<sup>st</sup> Q)</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	16,615	22,289	21,297
Profit before tax ("PBT")	57	1,062	1,122
Profit after tax ("PAT")	7	953	1,052

For the current financial quarter ended 30 September 2008, the Group recorded a total revenue and PBT of RM16.615 million and RM0.057 million respectively, compared to the revenue and PBT of RM22.289 million and RM1.062 million respectively as stated in the previous financial quarter ended 30 June 2008. The lower revenue and PBT for the current quarter was mainly due to lower sales generated from local market as a result of the stiff competition in the consumer market and also consumers are feeling the pinch of the recent fuel hike, high electricity tariffs and other inflationary pressures thus resulting in slower consumer spending in the country.

**B3. Prospects**

The Group will continue to increase the awareness on the Group's brands as well as to promote natural herbal products by continue the business program, "Strategic Alliance Partner" (SAP) which received good response and succeeded in initiating the first ten (10) SAPs in May 2008 and as at to-date, the Group has approximately 60 SAPs. In view of the current consumer spending pattern, the Group will implement new marketing strategy to stimulate the consumer market. In addition, the Group will open more new physical outlets in next financial year which will complement the Group's existing e-commerce retailing network services and will increase the Group revenue.

Barring any unforeseen circumstances and in order to support the Group's development plan, the Group will continue to launch new products in the forthcoming quarter and these products are expected to further contribute to the Group's total revenue in year 2008. The prospects of the Group are also dependent on the progress of the market penetration of the Group's products.



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**B4. Profit forecast and profit guarantee**

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

**B5. Taxation**

	<b>3 months quarter ended 30.09.2008 RM'000</b>	<b>9 months (Cumulative) ended 30.09.2008 RM'000</b>
Current period taxation	<u>50</u>	<u>229</u>

The effective tax rate for current financial quarter presented above is higher than the statutory tax rate principally due to certain expenses is not deductible for tax purposes.

The effective tax rate for current financial year presented above is lower than the statutory tax rate principally due to the utilization of unabsorbed tax losses brought forward.

**B6. Disposal of and unquoted investments and/or properties**

There were no disposals of unquoted investments and/or properties of the Group during the current financial quarter under review.

**B7. Quoted securities**

There were no acquisitions or disposals of quoted and marketable securities during the current financial quarter under review.

Notes to the Quarterly Report – 30 September 2008

**B8. Status of corporate proposals**

On 7 August 2008, OSK Investment Bank Berhad had on behalf of the Company, announced that INSBIO intends to seek the approval of its shareholders, to purchase up to ten percent (10%) of its issued and paid-up share capital, at a general meeting to be convened. Shareholders of INS Bioscience Berhad had approved the proposal at the company's extraordinary general meeting held on 18 September 2008.

The Company's entire issued and paid up capital of 286,680,020 ordinary shares of RM0.10 each were listed and quoted on 26 July 2005 on the Mesdaq market of Bursa Malaysia Securities Berhad. The proceeds from the Public Issue were received after the Company's listing. As at 19 November 2008 (being a date not earlier than seven days before the date of this announcement), the status of utilisation of the proceeds from the Public Issue is as follows:-

			Proceeds from IPO RM'000	Revision as approved by the Securities Commission (a) RM'000	Actual utilisation as at 19.11.2008 RM'000	Intended timeframe for utilization (b)	Balance unutilised PAYEE'00 0	% unutilised
1	R&D Centre and Manufacturing Plant		18,000	12,000	11,006	July-09	994	8.28%
2	R&D Expenditure		4,000	4,000	926	July-09	3,074	76.85%
3	Working Capital		1,088	5,088	5,088		-	-
4	Estimated Listing Expenses		2,000	2,000	2,000		-	-
5	Repayment of hire purchase facilities		-	2,000	2,000		-	-
			<u>25,088</u>	<u>25,088</u>	<u>21,020</u>		<u>4,068</u>	<u>16.21%</u>

Notes:-

- (a) On 16 January 2006, the Securities Commission had approved the reallocation of RM6 million from the unutilised proceeds for research and development ("R&D") centre and manufacturing plant to working capital (RM4 million) and repayment of hire purchase facilities (RM2 million) respectively.
- (b) On 9 January 2008, the Securities Commission had approved the extension of intended timeframe for utilisation of IPO funds from 25 January 2008 to 25 July 2009.

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### **B9. Group's borrowings and debt securities**

Details of Group's bank borrowings as at 30 September 2008 which are denominated in Ringgit Malaysia were as follows :-

	<b>As at 30.09.2008</b>
	<b>RM'000</b>
Short term borrowings:	
Secured	
- Hire purchase payables	215
- Bills payables	550
	<hr/>
	765
	<hr/>
Long term borrowings:	
Secured	
- Hire purchase payables	821
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Total borrowings	<u>1,586</u>

### **B10. Off balance sheet financial instruments**

The Group does not have any financial instruments with off-balance sheet risk as at the date of this announcement.

### **B11. Material litigations**

There were no other material litigations since the last financial year ended 31 December 2007 except for the following:-

- (i) Legal proceedings commenced by Ling Lit Yain (“Ling”) against Easy Pha-Max Marketing Sdn Bhd (“EPMSB”), a wholly owned subsidiary of INSBIO

On 3 January 2006, EPMSB was served with a Writ of Summons and Statement of Claim dated 28 December 2005 by Ling bearing the Civil Suit No. S6-22-925-2005.

Ling filed a claim against EPMSB for a purported sum of RM3,719,591.98 being his alleged loss of commission for the period from July 1999 to 31 December 2005, together with interest at 8% per annum on the sum of RM3,719,591.98 effective from 1 January 2005; further loss of commission and bonus from 1 January 2005 to the date of the writ of summons to be assessed by court, and interest together with general damages to be assessed and interest until full realisation.

EPMSB had filed an application to strike out the Writ of Summons and Statement of Claim on 24 November 2006. On 6 September 2007, the judge ordered to consolidate this case with another case with Civil Suit no. S5-22-445-2001 (“2001 case”) and all the file would transferred to this case. As EPMSB applied to strike out the Writ and Statement of Claims of both cases, the court had fixed a further mention date on 23 January 2009 for this case pending disposal of striking out application of the 2001 case.

Notes to the Quarterly Report – 30 September 2008

**B11. Material litigations (Cont'd)**

(ii) Legal proceedings commenced by EPMSB against Hon Kwee Chian

On 16 January 2006, EPMSB had filed a Writ of Summons and Statement of Claim against Hon Kwee Chian in the Kuala Lumpur High Court bearing Civil Suit No. S2-23-8-2006.

Mr. Hon Kwee Chian was a distributor of EPMSB. The Statement of Claim filed against Mr. Hon Kwee Chian are for defamation as a result of the publication of several defamatory statements in connection with EPMSB and EPMSB's way of trade and business carried on by EPMSB at the time of publications to disparage EPMSB's reputation.

On 3 August 2007, the Court had awarded EPMSB the sum of RM50,000 as damages with interest rate of 8% per annum from 3 August 2007 until the date of full realization. A copy of the certified true copy of the sealed Penghakiman dated 3 August 2007 was served on 10 October 2007.

EPMSB had instructed its solicitors to file a bankruptcy notice against Hon Kwee Chian.

(iii) Legal proceedings commenced by EPMSB against Yigaho Corporation Sdn Bhd ("Yigaho")

EPMSB had on 4 January 2006 filed a Writ of Summons and Statement of Claim against Yigaho in the Kuala Lumpur High Court bearing Civil Suit No. S3-23-1-2006.

EPMSB is seeking, amongst others, damages for libel, aggravated and exemplary damages, an injunction restraining Yigaho from further publishing any publications containing the above statements or any similar words defamatory to EPMSB, interest and costs.

The hearing of Case Management has been postponed to 26 March 2009.

(iv) Legal proceedings commenced by Lim Soon Hooi ("LSH") against EPMSB and The Origin Foods Sdn Bhd ("TOF"), wholly owned subsidiaries of INSBIO.

On 14 June 2006, EPMSB and TOF were served with a Writ of Summons and Statement of Claim dated 9 March 2006 by LSH in the Kuala Lumpur High Court bearing Civil Suit No. S2-22-198-2006.

LSH filed a claim against EPMSB and TOF (collectively referred to as "Defendants") for a sum of RM277,960.00 being total royalty payable to LSH as at 31 December 2004, interest on the sum of RM277,960.00 at a rate which the Court think fit and proper from 1 January 2005 until the date of judgement and interest at 8% per annum on the sum of RM277,960.00 from the date of judgment until the date of full realisation.

Notes to the Quarterly Report – 30 September 2008

**B11. Material litigations (Cont'd)**

- (iv) Legal proceedings commenced by Lim Soon Hooi (“LSH”) against EPMSB and The Origin Foods Sdn Bhd (“TOF”), wholly owned subsidiaries of INSBIO. (Cont'd)

The Case Management has been fixed on 12 January 2009.

- (v) Legal proceedings commenced by EPMSB against Lim Chiew Yin (“LCY”) and Yigaho Corporation Sdn Bhd (“Yigaho”)

EPMSB had on 15 June 2006 filed a Writ of Summons and Statement of Claim against LCY and Yigaho in the Kuala Lumpur High Court bearing Civil Suit No. S5-23-62-2006 for having published or caused to be published the defamatory statement against EPMSB on page 71 of the 10th Edition (September 2005 issue) of the Global Business Magazine, which at all material time was a popular business magazine widely read by the Malaysian direct sales circles, under the sub-title “Yigaho Group”.

EPMSB is seeking, amongst others, general damages, aggravated and exemplary damages, an injunction restraining LCY, Yigaho and/or their servant from repeating the above statement, or any part thereof, interest and cost and such other relief which the Court may deem fit and proper to grant.

The case has been fixed for case management on 14 January 2009.

- (vi) Statement of claim commenced by EPMSB against GB Explorer Sdn Bhd, Tan Yew Tee and Tan Yew Lim

EPMSB had on 7 February 2007 filed a Statement of Claim against GB Explorer Sdn Bhd, Tan Yew Tee and Tan Yew Lim (Collectively “The Defendants”) in the Kuala Lumpur High Court bearing Civil Suit No. S7-23-82-2006 for libel contained in 2 separate articles having been published and/or caused to be published by the Defendants in a local Chinese Language Magazine, namely the Global Business Magazine on page 134, paragraph 2 of “The (2005) GBM Direct Sales Special Edition” (and in The GBM Website) and on page 71 of “The 10th Edition (September 2005 issue) of the GBM”, which at all material time was a popular business magazine widely read by the Malaysian direct sales circles, under the sub-title “Yigaho Group”.

EPMSB is seeking, amongst others, general damages, aggravated and exemplary damages, interest and cost and such other relief which the Court may deem fit and proper to grant.

The mention date for the case has been fixed on 18 February 2009 pending settlement by both parties in the suit.

**B12. Dividends**

The Board of Directors did not recommend any interim dividends in respect of the current financial quarter under review.

**B13. Earnings per share**

	<b>Individual Quarter Current Quarter Ended 30.09.2008</b>	<b>Cumulative Quarter Current Year-To- date 30.09.2008</b>
<b>(a) Basis earnings per share attributable to equity holders of the parent</b>		
Net profit after tax attributable to equity holders of the parent (RM'000)	21	2,057
Weighted average number of ordinary shares ('000)	286,680	286,680
<b>Earnings per share (sen)</b>	<u>0.01</u>	<u>0.72</u>
<b>(b) Fully diluted earnings per share</b>	<u>N/A</u>	<u>N/A</u>

**B14. 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 21 November 2008.

By Order of the Board,  
Yeap Kok Leong (MAICSA NO: 0862549)  
Company Secretary  
Kuala Lumpur  
Date: 25 November 2008