

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

Notes to the Quarterly Report – 31 December 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 were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period ended 31 December 2008, except for:-

The shareholders of INSB had given their approval for INSB to buy-back its own shares at the Extraordinary General Meeting ("EGM") held on 18 September 2008. During the current quarter ended 31 December 2008, INSB bought back from the open market, 185,000 ordinary shares of RM0.10 each ("INSB Shares") listed and quoted on the MESDAQ Market of Bursa Malaysia Securities Berhad at an average buy-back price of RM0.158 per share. The total consideration paid for the share buy-back of INSB Shares by INSB during financial period ended 31 December 2008, excluding transaction costs, was RM29,320 and was financed by internally generated funds. The INSB Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. As at 31 December 2008, the total shares bought back, all of which are held as treasury shares, amounted to 0.06% of INSB Shares. None of the treasury shares held were resold or cancelled during the financial period ended 31 December 2008.

A7. Dividend paid

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

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A8. Segment information

Segmental reporting for the financial period ended 31 December 2008.

	Manufacturing RM'000	Marketing and distribution of products RM'000	Others RM'000	Eliminations RM'000	Group RM'000
REVENUE					
External sales	6,011	64,433	-	-	70,444
Inter-segment sales	15,270	4,801	50	(20,121)	-
	<u>21,281</u>	<u>69,234</u>	<u>50</u>	<u>(20,121)</u>	<u>70,444</u>
RESULTS					
Segment results	<u>3,446</u>	<u>(2,266)</u>	<u>(520)</u>	<u>9</u>	<u>669</u>
Unallocated corporate expenses					
Finance costs					(93)
Interest income					353
Profit before taxation					<u>929</u>
Taxation					(323)
Profit after taxation					<u><u>606</u></u>

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A8. Segment information (Cont'd)

	Manufacturing	Marketing and distribution of products	Others	Eliminations	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
OTHER INFORMATION					
Segment assets	40,579	28,236	21,084	(24,052)	65,847
Unallocated corporate assets					340
Consolidated total assets					<u>66,187</u>
Segment liabilities	20,238	25,981	81	(24,052)	22,248
Unallocated corporate liabilities					387
Consolidated total liabilities					<u>22,635</u>
Capital expenditure	1,836	7,686	-	-	9,522
Depreciation	1,288	818	-	-	2,106
Non-cash expenses other than depreciation	4,770	7,018	-	-	11,788

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.

Contingent Liabilities	The Group 31.12.2008 RM'000	The Company 31.12.2008 RM'000
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 Claims of both cases, the court had fixed a further mention date on 24 April 2009 for this case pending disposal of striking out application of the 2001 case.

Meantime, the solicitors of the Plaintiff had filed an application for discharge from acting as solicitors of Plaintiff and the application had been fixed for hearing on 3 March 2009.

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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 13 April 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

	As at 31.12.2008
	RM'000
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
	<hr/>
	728
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A14. Significant related party transactions

There were no significant related party transactions for the financial period ended 31 December 2008 other than those disclosed as follows:-

	RM'000
* Bio-Agro Products Sdn Bhd Office rental received	9
** IBG Manufacturing Sdn Bhd Office rental received	9
*** INS Holdings Berhad Office rental paid	<u>416</u>

* A company in which Wong Seng Tong is a 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

	As at 31.12.2008 RM'000
Fixed deposits with licensed banks	6,585
Cash and bank balances	418
	<u><u>7,003</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 65% to RM10.243 million as compared to RM29.453 million in the corresponding period of the preceding year. Group's loss before tax was RM1.312 million as compared to the RM0.659 million profit before tax reported in the corresponding period of the previous year. The decrease of revenue and profit / (loss) before tax mainly due to sales generated from local market for the quarter under review were low as compared to the corresponding period of the preceding year that resulted from continued deterioration in the global economy that caused the consumers slower spending in the country.

For the 12 months' result ended 31 December 2008, the Group generated revenue of RM70.444 million and a profit before tax of RM0.929 million as compared to revenue of RM91.061 million and profit before tax of RM1.648 million in the corresponding period of the preceding year. The drop of the performance mainly due to the lower sales generated from local market since the second half year of 2008 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.

B2. Variation of results against preceding quarter

	Oct – Dec'08	July – Sept'08	Apr – June'08	Jan – Mar'08
	(4th Q)	(3rd Q)	(2nd Q)	(1st Q)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RM'000	RM'000	RM'000	RM'000
Revenue	10,243	16,615	22,289	21,297
(Loss) / Profit before tax ("L/PBT")	(1,312)	57	1,062	1,122
(Loss) / Profit after tax ("L/PAT")	(1,406)	7	953	1,052

For the current financial quarter ended 31 December 2008, the Group recorded a total revenue and LBT of RM10.243 million and RM1.312 million respectively, compared to the revenue and PBT of RM16.615 million and RM0.057 million respectively as stated in the previous financial quarter ended 30 September 2008. The lower revenue and LBT for the current quarter was mainly due to continued deterioration in the global economy that caused the consumers slower spending in the country.

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B3. Prospects

The Group will continue to increase the awareness on the Group's brands as well as to promote natural herbal products by continuing 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 65 SAPs. In view of the current consumer spending pattern, the Group will implement new marketing strategies to stimulate the consumer market. In addition, the Group will open more new physical outlets in the 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 which are healthy lifestyle series and beauty related series in the first half year of 2009 and these products are expected to further contribute to the Group's total revenue in future. The prospects of the Group are also dependent on the progress of the market penetration of the Group's products.

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

	3 months quarter ended 31.12.2008 RM'000	12 months (Cumulative) ended 31.12.2008 RM'000
Current period taxation	94	323

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

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.

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B8. Status of corporate proposals and utilization of proceed from initial public offering

There were no corporate proposals announced but not completed as at 25 February 2009.

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 20 February 2009 (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 20.02.2009 RM'000	Intended timeframe for utilization (b)	Balance unutilised RM'000	% unutilised
1	R&D Centre and Manufacturing Plant		18,000	12,000	11,202	July-09	798	6.65%
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>21,216</u>		<u>3,872</u>	<u>15.43%</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 31 December 2008 which are denominated in Ringgit Malaysia are as follows :-

	As at 31.12.2008
	RM'000
Short term borrowings:	
Secured	
- Hire purchase payables	245
- Bills payables	600
	<u>845</u>
Long term borrowings:	
Secured	
- Hire purchase payables	781
	<u>1,626</u>
Total borrowings	<u><u>1,626</u></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.

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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 24 April 2009 for this case pending disposal of striking out application of the 2001 case.

Meantime, the solicitors of the Plaintiff had filed an application for discharge from acting as solicitors of Plaintiff and the application had been fixed for hearing on 3 March 2009.

- (ii) Statement of Claim 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 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.

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B11. Material litigations (Cont'd)

(iii) Statement of claim 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 Case Management has been postponed for hearing on 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.

The Case Management has been fixed on 13 April 2009.

(v) Statement of claim 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 mention on 24 April 2009.

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B11. Material litigations (Cont'd)

(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/innuendo 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 which at all material time was a popular business magazine widely read by the Malaysian direct sales circles 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".

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.

Amicable settlement between the parties was successful. The mention date for the Discontinuance of the Suit before the judge has been fixed on 25 February 2009.

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

	Individual Quarter Current Quarter Ended 31.12.2008	Cumulative Quarter Current Year-To- date 31.12.2008
(a) Basis earnings per share attributable to equity holders of the parent		
Net (loss) / profit after tax attributable to equity holders of the parent (RM'000)	(1,406)	651
Weighted average number of ordinary shares ('000)	286,680	286,680
Earnings per share (sen)	<u>(0.49)</u>	<u>0.23</u>
(b) Fully diluted earnings per share	<u>N/A</u>	<u>N/A</u>

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B14. Change In Financial Year End

The Group had on 21 November 2008, announced to Bursa Malaysia Securities Berhad that the Group has changed its financial year end from 31 December 2008 to 31 March 2009.

B15. 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 24 February 2009.