SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS/STATEMENT OF ASSETS AND LIABILITIES OF SUNZEN BIOTECH GROUP AS AT 31 MARCH 2008

	Note	Audited as at 31 March 2008 RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	3.4	79	8,922	8,922	8,922
Product development expenditure	3.5	-	866	866	866
Quoted investment, at cost	3.6	-	4	4	4
		79	9,792	9,792	9,792
CURRENT ASSETS					
Inventories	3.7	2,276	9,888	9,888	9,888
Trade receivables	3.8	22,057	6,783	6,783	6,783
Other receivables, deposits and prepayments	3.9	586	818	818	818
Amount owing by directors	3.10	-	-	2	2
Tax refundable		472	777	777	777
Fixed deposits with licensed banks	3.11	-	2,110	2,110	2,110
Cash and bank balances	3.12	277	2,883	2,883	9,083
		25,668	23,259	23,261	29,461
TOTAL ASSETS		25,747	33,051	33,053	39,253
EQUITY AND LIABILITIES					
EQUITY					
Share capital	3.13	*	10,397	12,439	14,939
Share premium	3.14	-	-	-	3,700
Retained profits		3,897	13,075	13,075	13,075
Merger deficit	3.15	-	(8,397)	(8,397)	(8,397)
SHAREHOLDERS' EQUITY		3,897	15,075	17,117	23,317
NON-CURRENT LIABILITIES					
Deferred taxation	3.16	13	239	239	239
Hire purchase payables	3.17	-	40	40	40
Term loans	3.18	-	4,557	4,557	4,557
		13	4,836	4,836	4,836
CURRENT LIABILITIES					
Trade payables	3.19	1,117	4,668	4,668	4,668
Other payables and accruals	3.20	18,659	1,150	772	772
Amount owing to directors	3.10	-	1,662	-	-
Dividend payable		2,061	2,795	2,795	2,795
Hire purchase payables	3.17	-	25	25	25
Short-term borrowings	3.21	-	2,840	2,840	2,840
		21,837	13,140	11,100	11,100
TOTAL LIABILITIES		21,850	17,976	15,936	15,936
TOTAL EQUITY AND LIABILITIES		25,747	33,051	33,053	39,253
Number of ordinary shares of RM0.10 each ('000)		**	103,975	124,390	149,390
Net assets per ordinary share (RM)		19,485	0.14	0.14	0.16

Notes:

** - RM20*

*** - 200 ordinary shares of RM0.10 each*

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.1 Proforma I

Proforma I incorporates the effects of the Acquisition.

3.2 Proforma II

Proforma II incorporates the effects of Proforma I and the Assumption and Settlement of Advances.

3.3 Proforma III

Proforma III incorporates the effects of Proforma II and the Public Issue.

The proceeds from the Public Issue will be utilised as follows:-

	RM'000
Research and development	4,770
Overseas expansion	1,000
Working capital	430
Estimated listing expenses	1,800
	8,000

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SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.4 PROPERTY, PLANT AND EQUIPMENT

The details of property, plant and equipment are illustrated below:-

	At Cost RM'000	Accumulated Depreciation RM'000	Net Carrying Amount RM'000
Freehold land	4,380	-	4,380
Factory building	422	(19)	403
Plant and machinery	513	(255)	258
Furniture, fittings and office equipment	608	(400)	208
Motor vehicles	416	(211)	205
Capital work-in-progress	3,468	-	3,468
	9,807	(885)	8,922

Included in the net carrying amount of the property, plant and equipment are the following assets which have been pledged to licensed banks as security for banking facilities of the Group:-

	RM'000
Freehold land	4,380
Factory building	403
Capital work-in-progress	3,468
	8,250

Included in the net carrying amount of motor vehicles of the Group is an amount of approximately RM122,000 acquired under hire purchase terms.

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.5 PRODUCT DEVELOPMENT EXPENDITURE

	RM'000
At Cost	1,592
Accumulated Amortisation	(726)
	866

Expenditure capitalised include personnel costs and cost of materials consumed in research and development activities as well as fee paid to external researchers for product development purposes.

3.6 QUOTED INVESTMENT, AT COST

	RM'000
Investment in quoted shares, at cost	4
Market value as at 31 March 2008	2

3.7 INVENTORIES

The details of the inventories are as follows:-

	RM'000
At Cost:-	
Raw materials	2,077
Packing materials	285
Finished goods	7,526
	9,888

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.8 TRADE RECEIVABLES

	RM'000
Trade receivables	6,783

The Group's normal trade credit terms range from 30 to 120 days. Other credit terms are assessed and approved on a case-by-case basis.

The foreign currency exposure profile of the trade receivables is as follows:-

	RM'000
Singapore Dollar	856
United States Dollar	273

3.9 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The details of the other receivables, deposits and prepayments are as follows:-

	RM'000
Other receivables	93
Deposits	67
Prepayments	658
	818

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.10 AMOUNT OWING (BY)/TO DIRECTORS

	RM'000
As per Proforma I	1,662
Assumption and Settlement of Advances	(1,664)
As per Proforma II/III	(2)

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

3.11 FIXED DEPOSITS WITH LICENSED BANKS

The fixed deposits have been pledged to licensed banks as security for banking facilities granted to the Sunzen Biotech Group. The weighted average effective interest rate of the fixed deposits at the balance sheet date was 3.0% per annum. The fixed deposits have maturity periods ranging from 1 month to 3 months.

3.12 CASH AND BANK BALANCES

	RM'000
As at 31 March 2008	277
Acquisition	2,606
As per Proforma I/II	2,883
Proceeds from Public Issue	8,000
Less:-	
Utilisation of Proceeds:	
- estimated listing expenses paid (Note 3.14)	(1,800)
As per Proforma III	9,083

For Identification Purposes Only

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.12 CASH AND BANK BALANCES (CONT'D)

The foreign currency exposure profile of the cash and bank balances at 31 March 2008 is as follows:-

	RM'000
Singapore Dollar	253
United States Dollar	151

3.13 SHARE CAPITAL

As at 31 March 2008, the authorised share capital of Sunzen Biotech is RM2,500,000 comprising 25,000,000 ordinary shares of RM0.10 each. The issued and paid-up share capital of Sunzen Biotech as at 31 March 2008 is RM20 comprising 200 ordinary shares of RM0.10 each.

The movements in the issued and paid-up share capital of Sunzen Biotech are as follows:-

	Number of Ordinary Shares ('000)	Amount of Share Capital RM'000
As at 31 March 2008	*	#
Acquisition	103,975	10,397
As per Proforma I	103,975	10,397
Assumption and Settlement of Advances	20,415	2,042
As per Proforma II	124,390	12,439
Public Issue	25,000	2,500
As per Proforma III	149,390	14,939

Notes:
** - 200 ordinary shares*
 # - RM20

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.14 SHARE PREMIUM

The movements in the share premium account are as follows:-

	RM'000
As at 31 March 2008/Proforma I/II	-
Public Issue	5,500
Estimated listing expenses (Note 3.12)	(1,800)
As per Proforma III	3,700

The share premium is not distributable by way of cash dividends and may be utilised only in the manner set out in Section 60(3) of the Companies Act, 1965.

3.15 MERGER DEFICIT

The merger deficit arose from the difference between the carrying value of the investment and the nominal value of the shares of the subsidiaries upon consolidation using merger accounting principles.

3.16 DEFERRED TAXATION

The components of the deferred tax liabilities are as follows:-

	RM'000
Product development expenditure	225
Accelerated capital allowances	14
	239

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SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.17 HIRE PURCHASE PAYABLES

The hire purchase payables are repayable as follows:-

	RM'000
Minimum hire purchase payables:	
- not later than one year	28
- later than one year and not later than five years	41
	69
Future finance charges	(4)
Present value of hire purchase payables	65

	RM'000
Current portion:	
- not later than one year	25
Non-current portion:	
- later than one year and not later than five years	40
	65

The hire purchase payables bore interest at rates ranging from 4.94% to 5.10% per annum.

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.18 TERM LOANS

The term loans are repayable as follows:-

	RM'000
Current portion:	
- repayable within one year (Note 3.21)	289
Non-current portion:	
- repayable between one and two years	440
- repayable between two and five years	1,530
- repayable more than five years	2,587
	4,557
	4,846

Details of the term loans outstanding are as follows:-

Term loan	Monthly Instalment RM	Number of Monthly Instalments	Date of Commencement of Repayment	Amount Outstanding 31 March 2008 RM'000
Term loan 1	11,819	120	August 2002	487
Term loan 2	9,117	180	February 2006	905
Term loan 3	16,094	120	July 2006	1,294
Term loan 4	26,697	120	Upon full release of principal sum	2,160
				4,846

The weighted average effective interest rate at the balance sheet date was 6.00% (2007 - 6.00%) per annum and are secured in the same manner as the bills payable as disclosed in Note 3.21 below.

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.19 TRADE PAYABLES

The normal trade credit terms of the Group range from 30 to 120 days.

The foreign currency exposure profile of trade payables is as follows:-

	RM'000
United States Dollar	2,967

3.20 OTHER PAYABLES AND ACCRUALS

The details of other payables and accruals are as follows:-

	RM'000
Other payables	228
Advances	386
Accruals	536
As per Proforma I	1,150
Assumption and Settlement of Advances	(378)
As per Proforma II/III	772

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SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

3. PROFORMA CONSOLIDATED BALANCE SHEETS OF SUNZEN BIOTECH GROUP (CONT'D)

3.21 SHORT-TERM BORROWINGS

	RM'000
Bills payable	2,551
Term loans (Note 3.18)	289
	2,840

The weighted average effective interest rate at the balance sheet date for the bills payable was 3.65% (2007 - 3.65%) per annum.

The bills payable are secured by way of:-

(i) a pledge of the fixed deposits of Sunzen Corporation;

(ii) a subordinate of loans from the directors and shareholders of Sunzen Corporation of not less than RM0.60 million;

(iii) a joint and several guarantee by all the directors of Sunzen Corporation;

(iv) a legal charge over the properties of the Group; and

(v) a negative pledge.

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SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

4. PROFORMA CONSOLIDATED CASH FLOW STATEMENT OF SUNZEN BIOTECH GROUP

	NOTE	FPE 31 March 2008 RM'000
CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES		
Profit before taxation		1,055
Adjustments for:-		
Amortisation of product development expenditure		7
Depreciation of property, plant and equipment		53
Interest expense		77
Interest income		(17)
Income from unit trust		(1)
Operating profit before working capital changes		1,174
Increase in inventories		(1,154)
Decrease in trade and other receivables		(895)
Decrease in trade and other payables		1,316
CASH FROM OPERATIONS		441
Interest paid		(77)
Tax refunded		374
NET CASH FROM OPERATING ACTIVITIES		738
CASH (FOR)/FROM INVESTING ACTIVITIES		
Fixed deposits interest received		17
Income received from unit trust		1
Payment for product development expenditure		(76)
Purchase of property, plant and equipment		(28)
NET CASH FOR INVESTING ACTIVITIES		(86)
CASH FLOWS FOR FINANCING ACTIVITIES		
Repayment of hire purchase obligations		(6)
Repayment of term loans		(73)
Repayment to directors		(38)
NET CASH FOR FINANCING ACTIVITIES		(117)
NET INCREASE IN CASH AND CASH EQUIVALENTS		535
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD		4,458
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	4.1	4,993

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH") AND ITS SUBSIDIARIES ("SUNZEN BIOTECH GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

4. PROFORMA CONSOLIDATED CASH FLOW STATEMENT OF SUNZEN BIOTECH GROUP (CONT'D)

4.1 CASH AND CASH EQUIVALENTS

	RM'000
Fixed deposits with licensed banks	2,110
Cash and bank balances	2,883
	4,993

Note:

The Proforma Consolidated Cash Flow Statement of Sunzen Biotech Group has been prepared before taking into account the proceeds from the Public Issue and Utilisation of Proceeds.

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11.5 Capitalisation and indebtedness

The following table shows the proforma consolidated capitalisation and indebtedness of our Group :

(i) as at 31 March 2008 based on our proforma consolidated financial information after the Acquisition and Assumption and Settlement of Advances;

(ii) as adjusted for the net proceeds arising from the issue of the 25,000,000 Public Issue Shares pursuant to the Public Issue.

	Proforma as at 31 March 2008 after the Acquisition and Assumption and Settlement of Advances RM'000	After the Public Issue RM'000
Cash and bank balances	2,883	9,083
Short term debt:		
Secured/Guaranteed:		
Bills payable	2,551	2,551
Hire purchase payables	25	25
Term loans	289	289
Long term debt:		
Secured/Guaranteed:		
Hire purchase payables	40	40
Term loans	4,557	4,557
Total indebtedness	7,462	7,462
Total shareholders' equity	17,117	23,317
Total capitalisation and indebtedness	24,579	30,779

As at 31 March 2008 based on our proforma consolidated financial information after the Acquisition and Assumption and Settlement of Advances, the cash and bank balances held by the Group amounted to RM2.88 million. After the Public Issue, the cash and bank balances will increase to RM9.08 million, contributed mainly by the balance of the net proceeds from the Public Issue amounting to approximately RM6.20 million.

As the proceeds from the Public Issue have not been earmarked for the repayment of debts, the total indebtedness for both short and long term debt remain the same before and after the Public Issue.

Contingent Liabilities

As at 15 August 2008, being the latest practicable date prior to the printing of this Prospectus, our Directors are not aware of any material contingent liabilities, which upon becoming enforceable, may have a substantial impact on the financial position of our Group.

11.6 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis by our Board and management should be read in conjunction with the Reporting Accountants' Letter on the Proforma Consolidated Financial Information and Accountant's Report set out in Section 11.4 and Section 12, respectively, of this Prospectus and related notes for the past three (3) FYEs 2007 and for the three (3) months FPE 2008.

The management's discussion and analysis of financial conditions and results of operations have been made based on the proforma consolidated income statements of our Group for the past three (3) FYEs 2007 and the three (3) months FPE 31 March 2008, which have been prepared for illustrative purposes after making certain adjustments to show what the financial results of our Group for the 31 March 2008 would have been if the Group structure as of the date of the Prospectus had been in place since the beginning of the years being reported on.

11.6.1 Overview

We develop, manufacture and market animal health products for livestock and companion animals. As a BioNexus Status company, we also focus on R&D of in-feed anti bacterial products and supplements for animal health production. R&D of feed additive products constitute the most important activity in our business as it is the foundation of our mission as it helps to create sustainable earnings and ensure our long term business success. We market nutritional feed supplements, feed additives, veterinary pharmaceuticals, animal vaccines and other animal health products such as disinfectants. Although we produce various animal health products, our main focus is in the animal feed additive market. Please refer to Section 5.1 of this Prospectus for further information on the history of our Group.

Revenue

Our revenue is presently generated from the sales of nutritional feed supplements, feed additives, animal vaccines, veterinary pharmaceuticals and others as tabulated below. Our revenue is primarily dependent on the volume of animal health products that we sell and the prices at which we make the sales. Sales of Pfizer's distributorship products in respect of all the revenue components form part of our total revenue. Due to the long-standing and close relationship we have with Pfizer, we continue to be the sole and exclusive distributor of their animal vaccine products in Malaysia, Singapore and Brunei. Besides Pfizer, we also distribute other products for other manufacturers on a smaller scale. Based on our experience, Pfizer's distributorship products have no problems selling as market participants have high regard for its reputation and quality.

As at 31 March 2008, the majority of our revenue comprised of sales in the domestic market. Our animal health products have been sold in various Asian countries and territories, including Singapore, the Philippines, Vietnam, Thailand, Brunei, Taiwan, India and Pakistan. For the three (3) months FPE 31 March 2008, our export sales comprised approximately 16.84% of our revenue. In the future, we intend to develop our presence in overseas market, which aims to utilise our marketing and distribution channels while making sure that we will not be over-dependent on sales from a single country that may expose us to disease outbreaks. We have plans to export our products to Indonesia, China, USA and Europe in the near future.

Our revenue is subjected to the cyclical nature of the livestock industry, which generally affects the demand of feed additives for livestock industry. Substantially, our revenue is denominated in RM for the past three (3) FYEs 2007 and for the three (3) months FPE 31 March 2008. The segmental analysis of our revenue is disclosed in Section 11.6.3 of this Prospectus.

The summary of our revenue segments are as follows:

Nutritional feed supplements

Revenue from nutritional feed supplements segment comprises mainly of sales of products such as Pfactor, Pfi-Lyte and Vitastress. Typically, all these products were self-developed, owned manufactured and marketed by our Group.

Feed additives

Revenue from feed additives is our Group's major revenue component and is derived from the manufacturing of antibiotic feed additive and organic acid compounds feed additive. The breakthrough in our business occurred in 2003, with the introduction of Orgacids, our own non-antibiotic feed additive. Orgacids is an organic acid compound formulated from natural substances, which enhances the productivity, health and growth of livestock. Orgacids has been well received domestically, as well as in foreign markets such as in the Philippines, Taiwan, Vietnam and Thailand.

Animal vaccines

Revenue from animal vaccines is drawn primarily from our distribution products, which are mainly the distribution products from Pfizer. Respisure, Respisure One and Sunvac are some of the major products under this revenue component.

Veterinary pharmaceuticals

Revenue from veterinary pharmaceuticals is generated from the sales of Upjohn, Clamoxyl, Excede, TM/LA, Dectomax and Draxxin products.

Others

Other types of revenue include revenue generated from the distribution of companion animal products, disinfectant and income from contract manufacturing. Sales of companion animal products are made up of products such as Clavulox Tab, Visorbits and Vanguard products, which are also mainly our distribution products from Pfizer.

Cost of sales

Our cost of sales relates to expenses incurred for our manufacturing and trading business. It mainly comprises purchases of raw materials, staff cost and freight charges.

The proportion of these components as a percentage of cost of sales for the past three (3) FYE 2007 and the three (3) months FPE 31 March 2008 is as follows:

							Three (3) months FPE 31 March			
	FYE 2005		FYE 2006		FYE 2007		2007*		2008	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Purchase of raw materials	15,529	90.00	16,132	89.43	13,042	87.82	3,337	90.53	3,056	82.37
Staff costs	506	2.93	511	2.83	532	3.58	122	3.31	155	4.18
Freight charges	485	2.81	494	2.74	427	2.88	84	2.28	149	4.02
Other costs of sales	734	4.26	902	5.00	849	5.72	143	3.88	350	9.43
	17,254	100.00	18,039	100.00	14,850	100.00	3,686	100.00	3,710	100.00

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

Cost of sales accounted for approximately 65.93%, 66.26%, 64.17% and 60.30% of our Group's total revenue in respect of the FYE 2005, FYE 2006, FYE 2007 and three (3) months FPE 31 March 2008, respectively.

The major component of our cost of sales is the costs of raw materials purchased to manufacture our own animal health products. We also procure third party products mainly from Pfizer for trading purposes. Our cost of sales increased slightly from the FYE 2005 to FYE 2006, but decreased considerably in the FYE 2007 in tandem with the drop in sales during the year.

In addition, our Group's cost of sales includes staff costs which are directly attributable to the production and manufacturing of our animal health products. Our cost of sales also includes the amortisation costs of product development, which are amortised over the product's estimated economic useful life from the date of the initial product launch. We also have incidental costs such as freight charges, rental of premises and other production overheads incurred during the manufacturing process.

Operating expenses

The summary of our operating expenses for the past three (3) FYE 2007 and three (3) months FPE 31 March 2008 is as follows:

	FYE 2005		FYE 2006		FYE 2007		Three (3) months FPE 31 March 2007*		Three (3) months FPE 31 March 2008	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Marketing and distribution expenses	2,648	59.48	2,690	58.44	2,761	57.30	512	52.51	793	58.70
Administrative expenses	1,296	29.11	1,178	25.59	1,310	27.18	276	28.31	363	26.87
Other operating expenses	508	11.41	735	15.97	748	15.52	187	19.18	195	14.43
	4,452	100.00	4,603	100.00	4,819	100.00	975	100.00	1,351	100.00

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

Marketing and distribution expenses

Marketing and distribution expenses consist mainly of staff costs. Other marketing and distribution expenses include transportation and advertising expenses incurred in the course of promoting our newly launched and existing products. Marketing and distribution expenses constitute the largest component of our operating expenses for the past three (3) FYE 2007 and the three (3) months FPE 31 March 2008.

Administrative expenses

Our Group's administrative expenses consist mainly of Directors' remuneration and staff salaries and contributions. Other administrative expenses contain miscellaneous expenses incurred by our Group such as printing and stationery as well as rental of office equipment.

Other operating expenses

Other operating expenses consist mainly of depreciation of equipment, seminar and insurance expenses and loss on foreign exchange. Other operating expenses also include miscellaneous overheads incurred by us.

Amortisation

Our Group had established our own R&D team and had started developing our own animal health products after recognising the potential of the Group's technical capabilities and favourable market conditions for the non-antibiotic feed additive products.

The expenditure incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Capitalised product development expenditure is measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated under the straight-line method to write off product development expenditure over the remaining period of the product's estimated economic useful life from the date of the initial product launch.

Depreciation

Our Group's depreciation expenses consist primarily of the depreciation of plant and machinery and properties owned by our Group.

Interest expense

Interest expense mainly consist of bank charges and interest charged for bank borrowings, which consists bills payable, hire purchase and term loans. The interest cover as compared to operating profit before interest and taxation ranged between 12.23 times and 52.45 times from FYE 2005 to FPE 31 March 2008.

Interest income

Our Group also realises interest income, primarily from fixed deposits interest and income from unit trust deposits.

Income tax expenses

Income tax expenses comprised of current year provision for taxation, under or overprovision of taxation in previous year and deferred taxation. For the past three (3) FYEs 2007, our Malaysian operations were subject to corporate tax rates of 28% on our assessable profits for FYE 2005 and FYE 2006 and 27% for FYE 2007.

Sunzen Biotech was awarded the pioneer status incentive under the Promotion of Investment Act 1986 by MITI on 3 November 2006. Sunzen Biotech is granted exemption of 70% of the statutory income to produce animal feed supplement products for a period of five (5) years effective from 1 January 2006 and the balance of 30% of the statutory income will be subjected to the prevailing tax rate.

Our effective tax rates for FYE 2005, FYE 2006, FYE 2007 and the three (3) months FPE 31 March 2008 were 27.25%, 8.86%, 13.87% and 11.66%, respectively. Our effective tax rates were lower than our corporate tax rates mainly for FYE 2006 and FYE 2007 due to the pioneer status incentive as explained above.

Sufficient tax provisions have been made by the remaining subsidiary companies of our Group for all the relevant years under review.

11.6.2 Factors Affecting Financial Conditions and Results of Operations

The primary factors which have affected and are expected to continue to affect our financial performance, position and operations include but not limited to the following:

(i) Epidemics - As the feed additive market is wholly dependent on the livestock industry with poultry and swine the key livestock industries in terms of production volume and revenues in the region, and as such are the key consumers of animal feed and animal feed additives, our feed additive products are subjected to risks of disease and epidemics to livestock animals.

For example, in 2006, the poultry industry in Malaysia was hit by a deadly strain of the HPAI virus, which resulted in declining sales of poultry and poultry-related products. We are aware of the importance of adhering to strict and better animal husbandry practices to prevent any outbreak of diseases in relation thereto. The risk factors and mitigating actions relating to the risk of epidemics are further discussed in Section 4.2 of this Prospectus.

(ii) Prices of raw materials and distribution products for livestock production - Livestock production costs have been on the rise over the last few years in tandem with the increase in crude oil prices primarily due to the increase in prices of raw materials and distribution products such as soybean and corn. The cost of feed, which constitutes a large portion of the cost of production for feedmillers and livestock farmers, has also risen, adding on to the high production costs. As the feed additive market is wholly dependent on the livestock industry, the increase in the cost of feed may impact the sales demand of our Group's products. We focus on two (2) key thrusts to mitigate the global effect of rises in price to the demand of our Group's products, namely promoting the use of non-antibiotic feed additives and the pursue expansion of our Group's overseas market. For further explanations on how we mitigate the price increase effect, please refer to Section 4.6 of this Prospectus.

(iii) Competition - The feed additive market is generally characterised by the large number of manufacturers, distributors and foreign subsidiaries that supply feed additives to End-Users. Due to the large number of participants, the feed additive market in Malaysia is very competitive. Products differ through quality, price, and brand, as branded products are perceived to have a higher quality, and are thus priced higher compared to the cheaper generic products. We compete under the manufacturers cum distributors' category in which competition is quite intense due to combination of many participants in the market and all the market participants hold a small share of the market.

Accordingly, our Group is dependent on our ability to continuously develop animal health products which are efficacious, safe and cost competitive and also to hire and retain suitably skilled professionals for our operations. The risk factors and mitigating actions relating to the risk of competition, threat of substitutes and dependence on key personnel are further discussed in Sections 4.3, 4.7 and 4.12, respectively, while the industry overview relating to our competition is disclosed in Section 6.6 of this Prospectus.

(iv) Selling prices of our products – The prices of our animal health products are determined predominantly by a number of factors, namely, costs of manufacturing, targeted profit margins, availability and costs of raw materials and competitive nature of the industry. However, we could adjust our selling price upwards to respond to the global price increase. On top of this, we have managed to maintain a strong market position in the domestic animal health market, especially in the organic acid compounds segment, by focusing on delivering a wide range of consistent quality products along with our commitment and efforts in the R&D of non-antibiotic feed additives which shows growing market potential. Our market share and competitive positioning in the market are disclosed in Section 6.7 of this Prospectus.

On the other hand, we are also looking at other ways to sustain our competitiveness such as embarking on projects to reduce our costs of manufacturing. We currently have the ability to produce lactic acid while also simultaneously finding ways to prepare plant extracts internally. Further details on these projects are disclosed in Section 5.4.5 of this Prospectus.

(v) Our sales volume and our product mix – The sales volume of our products in the domestic market are primarily driven by the demand of animal health products in key livestock industries, namely the poultry and swine industries, which are in turn affected by general economic conditions in Malaysia. The sales volume for our export markets is driven by demand and supply of animal health products, our price competitiveness and the ease with which we register our products in those markets.

Our product mix is primarily affected by the demand of our products and the legislation or regulation in force in the domestic and export markets. Our Group is also affected by the changing consumer demands towards the non-antibiotic feed additives. Consumer concerns on the threat of antibiotic residues in meat are expected to drive the utilisation of non-antibiotic feed additives. The changing consumer trend will benefit our Group as we focus on the non-antibiotic segment on the animal feed additives market. In terms of the feed additives product segment, our Group's sales of antibiotic feed additives dropped from approximately 55.6% to 51.0% of total feed additives revenue, for the FYE 2007 and the three (3) months FPE 31 March 2008 respectively, while sales of non-antibiotic feed additives rose from approximately 44.4% to 49.0% for the same respective period.

For instance, the EU has placed a ban on imported livestock products, which are raised on antibiotic growth promoters. Due to Thailand and Taiwan's significant dependence on the EU as an export market for its poultry products, their respective industries will make a quick transition to alternative feed additives. One of the most effective replacements to antibiotics is organic acid compounds, in which our Group possesses the necessary experience in developing.

(vi) Government/economic/fiscal/monetary laws, regulations or guidelines - Our Group is also affected by laws, regulations and guidelines which regulate the poultry and swine livestock industries such amongst others, those in place for the issuing of license for farming purposes and prohibition of certain animal health products. In addition, some of our Group's products are subject to the impending ban on antibiotics in the near future.

The risk factors and mitigating actions relating to the risk of government/ economic/fiscal/monetary laws, regulations or guidelines are further discussed in Sections 4.15 and 4.16 of this Prospectus.

11.6.3 Segmental Analysis of our Proforma Revenue and GP Margin

(i) Analysis of Revenue by Products and Geographical Markets

	< ---------------- FYE ---------------- >			Three (3) months FPE 31 March	
Product	**2005 RM'000**	**2006 RM'000**	**2007 RM'000**	**2007* RM'000**	**2008 RM'000**
Nutritional feed supplements	1,222	1,334	1,938	381	684
Feed additives	16,596	15,846	12,371	3,233	3,507
Animal vaccines	1,953	2,294	2,295	571	467
Veterinary pharmaceuticals	4,175	5,102	4,080	1,044	902
Others	2,224	2,649	2,457	542	593
Total	26,170	27,225	23,141	5,771	6,153

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

Geographical Market	<------------ FYE ------------> 2005 RM'000	2006 RM'000	2007 RM'000	Three (3) months FPE 31 March 2007* RM'000	2008 RM'000
Export	4,492	5,190	3,146	817	1,036
Local	21,678	22,035	19,995	4,954	5,117
Total	26,170	27,225	23,141	5,771	6,153

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

(ii) Analysis of GP Margin by Products and Geographical Markets

Product	<------------ FYE ------------> 2005 %	2006 %	2007 %	Three (3) months FPE 31 March 2007* %	2008 %
Nutritional feed supplements	33.1	32.9	33.0	37.6	28.5
Feed additives	33.7	35.3	37.4	35.3	37.3
Animal vaccines	51.8	51.3	40.2	42.2	58.3
Veterinary pharmaceuticals	31.6	35.1	38.4	37.6	45.4
Others	33.9	24.6	38.6	33.8	38.7

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

Geographical Market	<------------ FYE ------------> 2005 %	2006 %	2007 %	Three (3) months FPE 31 March 2007* %	2008 %
Export	33.7	38.2	35.4	36.0	30.0
Local	34.9	34.9	35.9	36.0	41.0

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

11.6.4 Analysis of our Group's Financial Condition and Results of Operations

Review for the FYE 2005

Revenue for the FYE 2005 registered a growth of approximately RM5.79 million or 28.40% as compared to FYE 2004, largely due to the growth in sales of Orgacids, which was backed by favourable market conditions. In the FYE 2005, the poultry and other livestock prices were relatively stable in both the local and overseas market, which had resulted in a healthy market demand for our animal health products. Besides the growth in sales of Orgacids, other feed additives such as Eimeriax, Lincomix-S and OM-200 had also recorded higher sales due to the conducive animal health market prevailing at that time.

Cost of sales in FYE 2005 increased by approximately RM3.00 million or 21.05%, which is in line with the increase in our sales volume during the year. The bulk of the incremental cost was mainly due to the increase of direct labour costs incurred on our production of self-manufactured products.

Despite the increase in cost of sales, GP margin for the FYE 2005 was higher by approximately 2.80% as compared to FYE 2004, largely due to the increase in sales of our self-manufactured products, which has a better margin. Most importantly, the higher Orgacids sales had boosted our GP margin as Orgacids was our principal manufactured product.

Operating expenses increased by approximately RM0.97 million or 27.78% due to increase in marketing and distribution expenses.

Taxation increased by approximately RM0.43 million or 55.82%. The effective tax rate remains fairly constant compared to the FYE 2004, although it was marginally lower than the statutory tax rate of 28% due to the reduction in the tax rate to 20% for the first chargeable income of RM0.50 million.

The PAT for the FYE 2005 increased by approximately 56.83% despite the increase in taxation, driven by higher revenue and GP margin along with a disproportionately lower increase in operating expenses.

Review for the FYE 2006

Revenue for the FYE 2006 increased marginally by approximately RM1.05 million or 4.03% as compared to the FYE 2005 mainly due to higher sales of a feed additive product, OM-200, as well as the sales from a newly launched injectable product. In addition, export sales of other feed additive products and injectable products had also increased, which contributed to the overall growth in revenue.

Our cost of sales increased by approximately RM0.79 million or 4.58%, primarily due to the amortisation of product development expenditure, which is in line with the higher product development expenditure incurred during the year. In the FYE 2005, the amount amortised was merely RM0.05 million whereas in the FYE 2006, the amount amortised swelled to RM0.39 million.

The GP margin for the FYE 2006 of approximately 33.74% was only slightly reduced as compared to the FYE 2005.

Operating expenses increased slightly by approximately RM0.15 million or 3.39% mainly due to increase in other operating expenses.

Taxation decreased by approximately RM0.79 million or 66.44%. The effective tax rate decreased from 27% in FYE 2005 to 9% in FYE 2006, primarily due to the pioneer status incentive awarded to Sunzen Biotech under the Promotion of Investments Act, 1986 in 2006. Our Company will enjoy 70% exemption from income tax on its statutory income from pioneer activities for a further five (5) financial years.

Despite the decrease in GP margin and increase in operating expenses, PAT for the FYE 2006 increased by approximately 29.33%, caused mainly by a much lower taxation cost compared to the FYE 2005.

Review for the FYE 2007

Revenue for FYE 2007 declined by approximately RM4.08 million or 15.00% due to the following reasons:

- energy crisis during FYE 2007, which had reduced the usage of animal feed additives by the traditional users;
- sporadic reports on the bird flu epidemic in Indonesia and China as well as a localised outbreak in the Sungai Buloh area in June 2007, which had dampened the demand of poultry and thus indirectly stifled the growth of animal feed additives; and
- restriction of swine farms by the Melaka state government, together with the Beta Agonist scare in the beginning of FYE 2007, which had slowed down the demand of animal feed additives for the swine industry.

In FYE 2007, our cost of sales decreased by approximately RM3.19 million or 17.68%, which is in tandem with the drop in sales during the year. Our factory overheads decreased by RM0.31 million or 28%, since we ceased paying rental fees in early FYE 2007 as we shifted into our present factory. The labour costs incurred increased marginally despite of the drop in revenue due to certain portion of the labour costs being semi-fixed in nature.

GP margin for FYE 2007 increased marginally to approximately 35.83% despite the reduction of revenue in FYE 2007, due largely to increase in GP margin for the feed additive segment and the decline in GP margin for the animal vaccines segment. The major product segment that contributed to the higher GP margin was the feed additive segment, especially Orgacids, which generally had a high GP margin as it was our Group's principal manufactured product.

The GP margin for the feed additive segment increased from 35.3% to 37.4% in 2007 mainly due to the impact of depreciation of USD versus RM between the FYE 2006 and FYE 2007. During this period, the purchase of imported raw materials for certain manufactured products under this segment such as Orgacids and purchase of certain trading products are denominated in USD but the sales are predominantly in RM, resulting in a positive impact to the overall GP margin, despite the reduced revenue amount of the feed additive segment for the FYE 2007.

Meanwhile, the GP margin for the animal vaccines segment declined drastically from 51.3% to 40.2% when the revenue remained unchanged, largely due to lesser sales for swine vaccines, which generally command a better profit margin compared to other types of animal vaccines.

Operating expenses increased by approximately RM0.22 million or 4.67% mainly due to increase in marketing and administrative expenses.

Taxation increased by RM0.05 million, or 12.50%, while the effective tax rate increased from 9% in the FYE 2006 to 14% in the FYE 2007. The effective tax rate for the FYE 2007 was relatively lower than the statutory tax rate of 27% due to the pioneer status award as explained earlier.

Although taxation costs increased only slightly, the PAT for the FYE 2007 decreased by approximately 32.06% compared to FYE 2006, mainly due to the decline in revenue and operating expenses during the year.

Review for the three (3) months FPE 31 March 2008

Revenue for the three (3) months FPE 31 March 2008 was approximately RM6.15 million registering an improvement of RM0.38 million or 6.59% as compared to RM5.77 million recorded in three (3) months FPE 31 March 2007. The reason for the increase was mainly due to the recovery of the livestock industry from both the bird flu and beta agonist epidemic that had adversely affected the Company's performance in the corresponding three (3) months FPE 31 March 2007.

The GP margin increased marginally to 39.70% for the three (3) months FPE 31 March 2008 as compared to the GP margin of 36.13% for the corresponding three (3) months FPE 31 March 2007. This is in line with the recovery of the livestock industry which favoured the sales of our Group's principal manufactured product, Orgacids, which contributed to the higher GP margin. The sales of Orgacids contribute approximately 27.63% and 20.74% of our Group's total revenue in respect of the three (3) months FPE 31 March 2008 and the corresponding three (3) months FPE 31 March 2007 respectively.

Operating expenses increased by approximately RM0.37 million or 38.46% mainly due to increase in marketing and administrative expenses.

The effective tax rate for the three (3) month FPE 31 March 2008 is 11.66%. The lower effective tax rate enjoyed as compared to the statutory tax rate is primarily due to the pioneer status incentive awarded as explained earlier.

The PAT for the three (3) month FPE 31 March 2008 decreased by approximately 14.42% as compared to the three (3) months FPE 31 March 2007 as no tax was charged for the latter period.

11.6.5 Impact of Foreign Exchange/Interest Rates/Commodity Prices on Operating Profits

Foreign Exchange

Based on the past three (3) FYEs 2007 and the three (3) months FPE 31 March 2008, our Group's operating profits were not materially affected by movements in foreign currency exchange rates due to the de-peg against USD. Presently, we do not have any financial instrument used for hedging purposes or formal hedging policy with respect to our foreign exchange exposure. We will continue to monitor our foreign exchange exposure and may use financial instruments to manage our foreign exchange exposure, should the need arise.

Interest rates

Based on the past three (3) FYEs 2007 and the three (3) months FPE 31 March 2008, our Group's operating profits were not materially affected by changes to interest rates due to our Group's minimal outstanding trade facilities. The interest cover as compared to operating profit before interest and taxation ranged between 12.23 times and 52.45 times from FYE 2005 to three (3) months FPE 31 March 2008.

The following table sets out the interest expense and profit before interest and taxation for the past three (3) FYEs 2007 and the three (3) months FPE 31 March 2008:

				Three (3) months FPE 31 March	
FYE	**2005 RM'000**	**2006 RM'000**	**2007 RM'000**	**2007* RM'000**	**2008 RM'000**
Interest expense	85	171	289	35	77
Profit before interest and taxation	4,458	4,685	3,534	1,124	1,132
Interest coverage (times)	52.45	27.40	12.23	32.11	14.70

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

Commodity prices

Based on the past three (3) FYEs 2007 and the three (3) months FPE 31 March 2008, our Group's operating profits were not materially affected by fluctuation in global commodity prices. However, the escalating cost of corn and soybean, which are raw materials used by the End-Users, may indirectly affect the demand of our Group's products.

This is due to the end users' temporary "knee jerk" reaction to reduce the usage of animal health products, especially animal feed additives in their farms. The fluctuation in global commodity prices may be imputed into our selling price, thus avoiding a squeeze in our profit margin.

11.6.6 Impact of Inflation

Based on the past three (3) FYEs 2007 and the three (3) months FPE 31 March 2008, our Group's operating profits were not materially affected by inflation.

11.6.7 Taxation

The effective tax rate in FYE 2007 was significantly lower than the statutory tax rate, primarily due to the pioneer status incentive under the Promotion of Investment Act, 1986, awarded to Sunzen Biotech on 3 November 2006. Sunzen Biotech will enjoy 70% tax exemption from income tax on its statutory income from pioneer activities for five (5) years.

The following table sets out the comparison between the effective and statutory tax rate for the past three (3) FYEs 2007 and the three (3) months FPE 31 March 2007 and 2008:

				Three (3) months FPE 31 March	
FYE	**2005 (%)**	**2006 (%)**	**2007 (%)**	**2007* (%)**	**2008 (%)**
Effective tax rate	27.25	8.86	13.87	-	11.66
Statutory tax rate	28.00	28.00	27.00	27.00	26.00

Note:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*

11.6.8 Trends and Prospects

The following discussion about industry trends and our prospects includes forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in these forward-looking statements. See "Forward-Looking Statements" in page ix of this Prospectus.

Our Directors believe that, in addition to the good prospects for Malaysia's animal health feed additive industry, the following are among the principal considerations that will have a positive impact on our Group's business and financial prospects for the FYE 2008. In addition, see Section 11.9 for our Directors' analysis and comments on the consolidated profit forecast for the FYE 2008.

(i) Promising prospects for our Group due to there being a growing global switch towards use of alternative in feeds for animals, as the use of antibiotics in food-producing animals would cause harmful residues that may adversely affect the health of animals and consumers as well as the environment. In addition to that, the use of antibiotics has also become a controversial issue in the Western countries, especially in Europe, that has resulted in the EU banning the use of all antibiotic growth promoters with effect from 1 January 2006 amid the growing awareness among consumers pressuring the demand for "safe" food.

(ii) Increasing level of awareness among consumers in both domestic and export markets that are becoming more demanding and health conscious.

Consumer concerns on the threat of antibiotic residues in meat have fuelled the increased utilisation of non-antibiotic feed additives such as organic acid compounds, direct fed-microbials and enzymes, which have proven good alternatives to antibiotic feed additives. The market for these products is expected to expand strongly from 2006-2010 especially for organic acid compounds.

(iii) Organic acid compounds have emerged as a key market segment with revenue estimated at approximately RM16.7 million in 2006 in Malaysia and is expected to achieve a CAGR of 16.1% from 2006-2010. It also represents the most significant portion of the non-antibiotic feed additive market as it accounts for approximately 29.9% of the total revenue for the non-antibiotic feed additive market in 2006.

Our Group has a competitive advantage in this segment especially with our principal product, Orgacids, and will capitalise on the large potential markets locally and in overseas, notably Thailand, Vietnam, Taiwan, the Philippines, Indonesia, India and China.

(iv) The total combined non-antibiotic feed additive market value of Malaysia, Thailand, Vietnam, Taiwan, the Philippines and China was valued at RM858.3 million in 2006 and is forecasted to achieve a massive total combined market of RM1,283.8 million in 2010. Organic acid compounds as one of the main substitutes to antibiotics for growth promotion are expected to be a major contributor to the growth of this segment.

As at 15 August 2008, being the latest practicable date prior to the printing of this Prospectus, save as disclosed above and in Section 4 in this Prospectus, our Group is not aware of the following:

(i) any known trends, demands, commitments, events or uncertainties that have had, or that our Group reasonably expects to have, a material favourable or unfavourable impact on the financial performance, position and operations of our Group;

(ii) any known trends, demands, commitments, events or uncertainties that would cause the historical financial statements to be not necessarily indicative of future financial information;

(iii) any unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group;

(iv) any known factors that will result in or are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way;

(v) any known material factors, favourable or unfavourable, in the Group's capital resources; and

(vi) any known factors that are reasonably likely to have a material impact on revenue and profits.

11.7 Liquidity and Capital Resources

11.7.1 Working Capital

Our Group's principal sources of liquidity and capital resources are internally generated funds and various credit facilities from financial institutions.

As at 31 March 2008, our Group's cash and cash equivalents stood at approximately RM4.99 million, and we have banking facilities amounting to approximately RM8.22 million which has yet to be utilised.

Our Directors are of the opinion that after taking into consideration, *inter-alia*, our Group's existing unutilised sources of liquidity, level of existing cash and cash equivalents and net proceeds to be received from the Public Issue, we will have adequate working capital to meet our present requirements for a period of twelve (12) months from 31 March 2008.

11.7.2 Proforma Cash Flow Summary

The following is a summary of our Group proforma cash flow for the three (3) months FPE 31 March 2008 and should be read in conjunction with the Reporting Accountants' Letter on the Proforma Consolidated Financial Information set out in Section 11.4 of this Prospectus.

	Three (3) months FPE 31 March 2008 RM'000
Net cash from operating activities	738
Net cash used in investing activities	(86)
Net cash used in financing activities	(117)
Net increase in cash and cash equivalents	535
Cash and cash equivalents at beginning of year	4,458
Cash and cash equivalents at end of year	4,993

Brief commentaries on our consolidated cash flow statements for the three (3) months FPE 31 March 2008 are set out below:

Net cash used in operating activities

For the three (3) months FPE 31 March 2008, the net cash generated from operations were mainly attributable to the collection received from our customers against payments to our suppliers as well as payment of corporation tax during the period.

Net cash used in investing activities

Included in the net cash used in investing activities is an amount of approximately only RM86,000, which was attributable to the R&D expenditures paid. Main inflow during the period relate to interest received of approximately RM17,000.

Net cash used in financing activities

The net cash used in financing activities of RM117,000 were mainly attributable to repayment of term loans and repayment to directors.

11.7.3 Legal, Financial and/or Economic Restriction

Presently, save for Sunzen Corporation, our Company and our other subsidiaries do not have loan agreements or financing facilities. The loan agreements of Sunzen Corporation obtained from our principal banker, Hong Leong Bank Berhad, contain certain restrictive covenants that limit them from taking certain actions without the prior consent of the lenders. These agreements generally contain clauses that prohibit Sunzen Corporation from *inter-alia*, grant any loans or guarantee any person except for normal trade credit or trade guarantee in the ordinary course of business. The financing facilities also state that the payment of dividends by Sunzen Corporation is subject to obtaining prior written consents from the financial institutions.

To a certain extent, access to the cash flows of our subsidiaries is limited by dividend restrictions imposed by our lenders on Sunzen Corporation.

We have notified Hong Leong Bank Berhad regarding amongst others, our Group's intention to list on the MESDAQ Market and our Group's listing scheme, which includes the payment of dividends from the PAT of Sunzen Corporation for the FYE 2007, for which a written consent was obtained on 21 March 2008.

Despite the covenants stated above, our Directors believe that our Group's ability to meet our cash obligations would not be adversely affected. We are of the opinion that our prudent cash flow management will be able to generate sufficient funds for the repayment of bank borrowings and credit facilities. Please refer to Section 4.10 of this Prospectus for further information on our Group's financing facilities.

11.7.4 Borrowings

As at 31 March 2008, the total outstanding borrowings, all of which are interest bearing, amounted to approximately RM7.46 million, all of which are interest bearing. Our Group has no foreign currency borrowings.

Details of the outstanding bank borrowings as at 31 March 2008 are as follows:

Type of borrowings	Payable within 12 months RM'000	Payable after 12 months RM'000	Total RM'000
Bills Payable	2,551	-	2,551
Term Loan	289	4,557	4,846
Hire Purchase Payables	25	40	65
	2,865	4,597	7,462

Our gearing ratio is 0.32 times, which is computed based on our outstanding borrowings of RM7.46 million as at 31 March 2008 divided by our proforma shareholders' equity as at 31 March 2008 of approximately RM23.32 million.

As at 15 August 2008, our Group has not defaulted in any of our payments of either interest charges and/or principal sums in respect of any of our borrowings throughout the past one (1) financial year.

11.7.5 Breach of Terms and Conditions or Covenants Associated with a Credit Arrangement or Bank Loan, if any

As at 15 August 2008, our Group has not breached any terms and conditions or covenants associated with a credit arrangement or bank loan.

11.7.6 Financial Policies and Type of Financial Instruments

Our Group's funding and treasury policies are as follows:

Funding Policies

Our Group obtains financing through bank borrowings and hire purchase arrangements. Our policy is to obtain the most favourable interest rates available. Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

Treasury Policies

Our treasury policy is to maintain sufficient cash balances and the availability of funding through an adequate amount of committed credit facilities to meet estimated commitments arising from operational expenditure and financial liabilities.

Our Group's list of financial instruments as at 31 March 2008 is as follows:

Type of Financial Instrument*	**Range of Maturity Profile**	**Currency/ Interest Rate Structure**	**Fixed/ Floating Rate**	**Used for Hedging**
Bills payable	N/A	N/A	Floating	N/A
Term loans	Between 49 months to 56 months	Between BLR to BLR + 1%	Floating	N/A
Hire purchase payables	Between 32 to 34 months	Between 2.60% to 2.69%	Fixed	N/A

Notes:

* *Our financial instruments are denominated in RM.*
N/A *Not applicable.*

As at 15 August 2008, being the latest practicable date prior to the printing of this Prospectus, there are no other financial instruments except as disclosed in Section 11.7.4 of this Prospectus.

11.7.7 Material Commitments for Capital Expenditure

As at 15 August 2008, being the latest practicable date prior to the printing of this Prospectus, there are no material commitments for capital expenditure contracted or known to be contracted by our Company or our subsidiary companies, which may have a substantial impact on our financial position.

11.7.8 Material Litigation/Arbitration

As at 15 August 2008, being the latest practicable date prior to the printing of this Prospectus, our Company and our subsidiary companies are not engaged in any litigation or arbitration, either as plaintiff or defendant, which have a material effect on our Company or subsidiary companies' financial position and our Directors have no knowledge of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect our Company or subsidiary companies' financial position or business.

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11.7.9 Key Financial Ratios

Our key financial ratios for the past three (3) FYE 2007 and the three (3) months FPE 31 March 2008 based on our Proforma Consolidated Balance Sheets and Income Statements are as follows:

	FYE 2005	FYE 2006	FYE 2007	Three (3) months FPE 31 March	
	Days	Days	Days	2007* Days	2008 Days
Inventory turnover	122	122	215	156**	243**
Trade receivable turnover	91	92	94	99^	100^
Trade payable turnover	76	73	103	181#	115#

Notes:

* *Based on unaudited management accounts for the three (3) months FPE 31 March 2007.*
** *Computed based on inventory over annualised cost of sales.*
^ *Computed based on trade receivables over annualised revenue.*
# *Computed based on trade payables over annualised cost of sales.*

The inventory turnover has been stable at 122 days for both FYE 2005 and FYE 2006. However, in FYE 2007, the inventory turnover increased from 122 days to 215 days mainly due to the unexpected drop in sales during the year.

Due to the unexpected drop in sales in FYE 2007, payments to creditors were delayed as our Group had overstocked the inventories due to the contraction in sales. All our major suppliers had extended the credit terms to accommodate a longer payment period in line with depressed market conditions affecting the whole animal feed additive industry in FYE 2007.

11.8 Consolidated Profit Forecast

The following is the summary of our Groups profit forecast for the FYE 2008.

	FYE 2008 RM'000
Revenue	28,703
Consolidated PBT	4,510
Taxation	(512)
Consolidated PAT	3,998
Weighted average number of ordinary shares in issue ('000)*	94,227
Enlarged issued and paid-up share capital ('000)	149,390
Based on the weighted average number of ordinary shares in issue:	
Gross EPS (sen)	4.79
Net EPS (sen)	(1) 4.24
Gross PE Multiple based on the Public Issue Price (times)	6.69
Net PE Multiple based on the Public Issue Price (times)	7.55
Based on the enlarged number of ordinary shares upon Listing:	
Gross EPS (sen)	3.02
Net EPS (sen)	(2) 2.68
Gross PE Multiple based on the Public Issue Price (times)	10.60
Net PE Multiple based on the Public Issue Price (times)	11.94

Notes:

* *Computed on the basis that the Public Issue will be completed by end September 2008.*
(1) Based on the consolidated PAT and the weighted average number of ordinary shares in issue.
(2) Based on the consolidated PAT and the enlarged issued and paid-up share capital.

Please refer to Section 11.12 of this Prospectus for details of the underlying bases and assumptions used in our profit forecast.

11.9 Directors' Analysis and Comments on the Consolidated Profit Forecast

Our Board has reviewed and analysed the bases and assumptions used in arriving at the consolidated profit forecast of our Group for the FYE 2008 and is of the opinion that the consolidated profit forecast is fair and reasonable in light of the prospects of the animal health feed additives industry in which we operate and the future plans, strategies and prospects of our Group as set out in Section 5.7 of this Prospectus, the future prospects of our industry as set out in Section 6 of this Prospectus and after taking into consideration the forecasted gearing level, liquidity and working capital requirements of our Group.

Nevertheless, the profit forecast is based on subjective judgments and hypothetical assumptions, and there can be no assurance that the profit forecast will be realised. Accordingly, our Group's actual results for the FYE 2008 may differ from the forecast figure shown herein.

Our Directors do not foresee any likely change in business and operating conditions that will materially impact our forecast.

For the FYE 2008, we forecasted total revenue of RM28.70 million which represents an increase of approximately RM5.56 million or 24.04% over our Group's proforma revenue for the FYE 2007 of approximately RM23.14 million. Our Directors anticipate higher revenue contribution due to the expected recovery of the livestock industry from epidemics such as the bird flu and Beta Agonist that adversely affected the performance in FYE 2007. The hike in fuel price which adversely affected the price of animal feed caused an impact to the Group's sales in FYE 2007 due to the hurried reaction by the regional livestock industry as the industry participants struggled to keep pace with the escalating cost of animal feed. However, we believe that the price of farm produce will increase accordingly in the near future to mitigate the rising fuel price, in tandem with the overall inflationary trend triggered by the spike in fuel price. Without the repeat of FYE 2007's bird flu outbreak and Beta Agonist issues, the Group's financial performance is expected to bounce back in FYE 2008. Hence, the revenue in FYE 2008 is forecasted to increase significantly as compared to FYE 2007, to a level which would be almost in tandem with the revenue recorded in FYE 2006. In addition, our Group has also initiated an aggressive marketing campaign to consolidate its market share by penetrating developing markets especially Vietnam and Indonesia.

As a result of the expected improvement in our Group's revenue, our Group's PBT is forecasted to be approximately RM4.51 million in the FYE 2008, representing an improvement of approximately RM1.27 million in comparison to the FYE 2007. Our Group is forecasted to achieve a PAT of approximately RM3.99 million for the FYE 2008.

11.10 Dividend Forecast

It will be the policy of our Directors to recommend dividends to allow shareholders to participate in the profits of our Group as well as leaving adequate reserves for future growth of our Group.

For the FYE 2008, our Group is forecasting to achieve a PAT of approximately RM3.99 million. In view of this, our Directors anticipate that they will be in a position to propose, based on the enlarged issued share issued and paid-up share capital of 149,390,500 Shares, a gross dividend of RM2.70 million or 1.81 sen per Share for the FYE 2008.

The intended appropriation of our forecasted consolidated PAT for the FYE 2008 would be as follows:

	FYE 2008
	RM'000
Consolidated PBT	4,510
Less: Taxation	(512)
Consolidated PAT	3,998
Gross dividend per Share [(1)] (sen)	1.81
Net dividend per Share [(1)] (sen) (26%)	1.34
Gross dividend yield [(2)] (%)	5.66
Net dividend yield [(2)] (%)	4.19
Net dividend cover [(3)] (times)	2.00

Notes:

(1) Based on our enlarged issued and paid-up share capital upon Listing.
(2) Based on the Public Issue Price.
(3) Calculated using net EPS based on consolidated PAT and our enlarged issued and paid-up share capital.

Our Directors will consider the following general principles that we currently intend to apply when recommending dividends for approval by our shareholders or when declaring any interim dividends:

(a) the level of our cash and indebtedness;

(b) required and expected interest expenses, cash flows, our profits and return on equity and retained earnings;

(c) our expected results of operations and future level of operations;

(d) the availability of tax credits to frank dividends, where applicable; and

(e) our projected levels of capital expenditure and other investment plans.

Investors should note that future dividends might be waived if:

(a) our Group records losses as opposed to profits; or

(b) the payment of dividend would adversely affect our Group's cashflow and business operations.

Notwithstanding the above, our Directors have full discretion not to propose any future dividends.

11.11 Sensitivity Analysis

The following sensitivity analysis is prepared based on the forecast assumptions as set out in the Reporting Accountants' Letter on the Consolidated Profit Forecast in Section 11.12 of this Prospectus and attempts to show the impact on our consolidated profit forecast assuming all other things remain unchanged except for 5% and 10% upward and downward variation in the revenue, cost of sales and their related variables.

This sensitivity analysis is prepared by our Group and has not been independently verified by the Reporting Accountants. Notwithstanding the impact of the variations in revenue, cost of sales and operating cost, there may exists other factors which have not been taken into account, variations of which may have a significant impact, either positively or negatively, on our financials.

The sensitivity analysis is as follows:

Variations in Selling Price

Forecast for the FYE 2008

	Revenue (RM'000)	PBT (RM'000)	PAT (RM'000)	Increase/ (Decrease) in PAT (%)
As forecast	28,703	4,510	3,998	-
Up to 10%	31,573	7,380	6,542	63.63
Up to 5%	30,138	5,945	5,270	31.81
Down 5%	27,268	3,075	2,726	(31.81)
Down 10%	25,833	1,640	1,454	(63.63)

Variations in Purchase Price

Forecast for the FYE 2008

	Cost of Sales (RM'000)	PBT (RM'000)	PAT (RM'000)	Increase/ (Decrease) in PAT (%)
As forecast	18,671	4,510	3,998	-
Up to 10%	20,538	1,552	1,535	(61.61)
Up to 5%	19,604	3,110	2,868	(28.26)
Down 5%	17,737	5,910	5,128	28.26
Down 10%	16,804	7,468	6,461	61.61

Variations in Sales Volume

Forecast for the FYE 2008

	Revenue (RM'000)	PBT (RM'000)	PAT (RM'000)	Increase/ (Decrease) in PAT (%)
As forecast	28,703	4,510	3,998	-
Up to 10%	31,573	5,699	4,990	24.81
Up to 5%	30,138	5,108	4,497	12.48
Down 5%	27,268	3,912	3,499	(12.48)
Down 10%	25,833	3,321	3,006	(24.81)

Based on the above, the sensitivity analysis shows that our Group will continue to remain profitable for the forecast year despite the variations in selling price, purchase price and sales volume.

11.12 Reporting Accountants' Letter on the Consolidated Profit Forecast

Horwath

Horwath AF No 1018
Kuala Lumpur Office
Chartered Accountants

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www.horwath.com.my
info@horwathkl.com

Date: 20 August 2008

The Board of Directors
Sunzen Biotech Berhad
10th Floor, Menara Hap Seng
No. 1 & 3 Jalan P. Ramlee
50250 Kuala Lumpur

Dear Sirs,

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")
CONSOLIDATED PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008

We have reviewed the consolidated profit forecast of Sunzen Biotech and its subsidiaries ("Sunzen Biotech Group" or "the Group") for the financial year ending 31 December ("FYE") 2008, as set out in the accompanying statements (which we have initialled for the purpose of identification only) in accordance with International Standards on Assurance Engagement 3400 - The Examination of Prospective Financial Information, applicable to the review of forecasts. The forecast have been prepared solely for inclusion in this Prospectus with the listing of and quotation for the entire enlarged issued and paid-up share capital of Sunzen Biotech on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

(a) Acquisition

Acquisition by Sunzen Biotech of the entire issued and paid-up share capital of Sunzen Corporation Sdn Bhd ("Sunzen Corporation") comprising 2,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM10,397,548, to be satisfied through the issuance of 103,975,480 new ordinary shares of RM0.10 each in Sunzen Biotech ("Sunzen Biotech Shares" or "Shares") at par ("Acquisition");

(b) Assumption and Settlement of Advances

Assumption and settlement of advances amounting to RM2,041,482 owed by Sunzen Corporation to its directors and shareholders by Sunzen Biotech through the issuance of 20,414,820 Shares at par ("Assumption and Settlement of Advances");

(c) Public Issue

Public issue of 25,000,000 new Shares ("Public Issue Shares") at an indicative issue price of RM0.32 per Share, which will be allotted in the following manners:-

(i) 3,000,000 Public Issue Shares, representing 2.01% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions;

(ii) 4,000,000 Public Issue Shares, representing 2.68% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for eligible Directors, employees and persons who have contributed to the success of the Sunzen Biotech Group; and

(iii) 18,000,000 Public Issue Shares, representing 12.05% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for application by way of private placement to selected investors.

The above are collectively referred to as "Public Issue" hereinafter; and

Horwath

(d) Listing and Quotation on the MESDAQ Market of Bursa Securities

Listing of and quotation for its enlarged issued and paid-up share capital comprising 149,390,500 Shares on the MESDAQ Market of Bursa Securities ("Listing and quotation on the MESDAQ Market of Bursa Securities").

Our review has been undertaken to enable us to form an opinion as to whether the forecast, in all material respects, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by the Group in its audited financial statements for the financial period ended ("FPE") 31 March 2008. The Directors are solely responsible for the preparation and presentation of the consolidated profit forecast and the assumptions on which the consolidated profit forecast is based.

Forecast, in this context, means prospective financial information prepared on the basis of assumptions as to the future events which the Management expects to take place and the actions which the Management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which the forecast is based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation could be material.

As disclosed in the principal bases and assumptions of the consolidated profit forecast as set out in Section B of the accompanying statement to this letter,

(i) the achievability of the revenue is dependent on the Group's ability to secure the forecast sales volume anticipated for FYE 2008 as set out in Specific Assumption 1; and

(ii) the achievement of the forecast gross profit margin as set out in Specific Assumption 2.

Subject to the matters stated in the preceding paragraphs:-

(i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the consolidated profit forecast; and

(ii) the consolidated profit forecast so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by the Group in its audited financial statements for the FPE 31 March 2008.

Yours faithfully

Horwath
Firm No: AF 1018
Chartered Accountants

Onn Kien Hoe
Approval No: 1772/11/08(J/PH)
Partner

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

A. Consolidated Profit Forecast For The FYE 2008

The Directors of Sunzen Biotech forecast that, barring unforeseen circumstances and on the bases and assumptions set out below, the consolidated profit after taxation ("PAT") of Sunzen Biotech Group for the FYE 2008 will be as follows:-

	Forecast FYE 2008 RM'000
Revenue	28,703
Consolidated profit before taxation ("PBT")	4,510
Taxation	(512)
PAT	3,998
Weighted average number of ordinary shares in issue ('000)*	94,227
Enlarged issued and paid-up share capital ('000)	149,390
Based on the weighted average number of ordinary shares in issue:-	
Gross earnings per share (sen)	4.79
Net earnings per share (sen)^	4.24
Gross PE Multiple based on the Public Issue Price (times)	6.69
Net PE Multiple based on the Public Issue Price (times)	7.55
Based on the enlarged number of ordinary shares upon Listing:-	
Gross earnings per share (sen)	3.02
Net earnings per share (sen)^^	2.68
Gross PE Multiple based on the Public Issue Price (times)	10.60
Net PE Multiple based on the Public Issue Price (times)	11.94

Notes:

* - *Computed on the basis that the Public Issue will be completed by end September 2008.*
^ - *Based on the PAT and the weighted average number of ordinary shares in issue.*
^^ - *Based on the PAT and the enlarged issued and paid-up share capital.*

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast

Specific Assumptions

S.1 There will be no major changes in the expected market demand for Sunzen Biotech Group's products and services. The Group forecasts that revenue from its existing products and services for the FYE 2008 will be as follows:-

	Note	Forecast FYE 2008 RM'000
Nutritional feed supplements	(i)	2,758
Feed additive	(ii)	14,650
Animal vaccines	(iii)	2,948
Veterinary pharmaceutical	(iv)	5,316
Others	(v)	3,031
		28,703

Analysis by geographical location:-

Revenue:	
Local	23,827
Export	4,876
	28,703

(i) The revenue from the nutritional feed supplements segment is forecasted to be approximately RM2.76 million based on the following:-

	Forecast FYE 2008 RM'000
Pfactor products	1,800
Pfi-Lyte products	430
Vitastress	355
Others	173
Total	**2,758**

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast (Cont'd)

Specific Assumptions (Cont'd)

(ii) The revenue from the feed additive segment is mainly derived from the manufacturing of antibiotic feed additive and organic acid compounds feed additive. It is forecasted to be approximately RM14.65 million based on the following:-

	Forecast FYE 2008 RM'000
Antibiotic	6,475
Organic acid compound	7,400
Anti-coccidials	700
Anthelmentics	75
Total	**14,650**

Revenue growth prospect for organic acid compounds feed additive market is anticipated to be favourable both in Malaysia and in the overseas market.

(iii) The revenue from the animal vaccines segment is forecasted to be approximately RM2.95 million based on the following:-

	Forecast FYE 2008 RM'000
Respisure	900
Respisure One	750
Sunvac	802
Others	496
Total	**2,948**

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast (Cont'd)

Specific Assumptions (Cont'd)

(iv) The revenue from the veterinary pharmaceutical segment is forecasted to be approximately RM5.32 million based on the following:-

	Forecast FYE 2008 RM'000
Upjohn products	2,050
Clamoxyl LA products	700
Excede	650
TM/LA products	580
Dectomax products	385
Draxxin	300
Others	651
Total	**5,316**

(v) The revenue from the others segment is forecasted to be approximately RM3.03 million based on the following:-

	Forecast FYE 2008 RM'000
Companion animal products	1,798
Disinfectant	556
Contract manufacturing	300
Others	377
Total	**3,031**

For Identification Purposes Only Horwath (AF 1018)

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast (Cont'd)

Specific Assumptions (Cont'd)

S.2 The forecast gross profit margin is as follows:

	Sunzen Biotech %	Sunzen Corporation %	Sunzen Biotech Group %
FYE 2008	32.90	19.97	34.95

S.3 There will be no significant changes in order prices, no cancellations and no delays of forecast orders and orders secured will be executed as planned.

S.4 It is assumed that the translations of the foreign currency from Euro ("EUR") and United States Dollar ("USD") to Ringgit Malaysia ("RM") will remain constant at RM4.89 : EUR1.00 and RM3.16 : USD1.00 respectively.

S.5 There will be sufficient manpower including sub-contractors to manufacture under the purchase orders/orders secured and for future purchase orders.

S.6 The forecast capital expenditure of approximately RM1.04 million will be incurred as scheduled. Total depreciation charge of the property, plant and equipment is expected to be approximately RM0.26 million for the FYE 2008 with no material changes to the existing depreciation rates adopted by the Group.

S.7 The income tax rates for the year assessment of 2008 is as follow:-

	%
FYE 2008	26

The corporate tax rates in Malaysia on the first RM500,000 of chargeable income is at 20% and the tax rate applicable to the balance of the chargeable income remains at 26% in FYE 2008 for companies with a paid up capital of not more than RM2.50 million.

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast (Cont'd)

Specific Assumptions (Cont'd)

It is assumed that there will be no significant changes in the bases of income tax other than as disclosed below:-

(a) Sunzen Biotech was awarded the pioneer status incentive under the Promotion of Investments Act, 1986 on 3 November 2006. The Company will enjoy 70% exemption from income tax on its statutory income from pioneer activities for 5 years. It is assumed that Sunzen Biotech will enjoy this tax incentive during the forecast period without any interruption.

S.8 The details of the scheme to be undertaken in relation to the listing of Sunzen Biotech on the MESDAQ Market of Bursa Securities are as follows:-

(a) Acquisition

Acquisition by Sunzen Biotech of the entire issued and paid-up share capital of Sunzen Corporation Sdn Bhd ("Sunzen Corporation") comprising 2,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM10,397,548, to be satisfied through the issuance of 103,975,480 new ordinary shares of RM0.10 each in Sunzen Biotech ("Sunzen Biotech Shares" or "Shares") at par ("Acquisition");

(b) Assumption and Settlement of Advances

Assumption and settlement of advances amounting to RM2,041,482 owed by Sunzen Corporation to its directors and shareholders by Sunzen Biotech through the issuance of 20,414,820 Shares at par ("Assumption and Settlement of Advances");

(c) Public Issue

Public issue of 25,000,000 new Shares ("Public Issue Shares") at an indicative issue price of RM0.32 per Share, which will be allotted in the following manners:-

(i) 3,000,000 Public Issue Shares, representing 2.01% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions;

(ii) 4,000,000 Public Issue Shares, representing 2.68% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for eligible directors, employees and persons who have contributed to the success of the Sunzen Biotech Group; and

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast (Cont'd)

Specific Assumptions (Cont'd)

(iii) 18,000,000 Public Issue Shares, representing 12.05% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for application by way of private placement to selected investors.

The above are collectively referred to as "Public Issue" hereinafter; and

(d) Listing and Quotation on the MESDAQ Market of Bursa Securities

Listing of and quotation for its enlarged issued and paid-up share capital comprising 149,390,500 Shares on the MESDAQ Market of Bursa Securities ("Listing and quotation on the MESDAQ Market of Bursa Securities").

S.9 It is assumed that the proceeds from the Public Issue will be received in the FYE 2008. The estimated listing expenses of RM1.80 million to be incurred in respect of the Public Issue will be set off against the share premium account.

S.10 A gross dividend of approximately RM2.70 million is expected to be declared for the FYE 2008. The dividend is assumed to be paid in the year of declaration.

S.11 Total proceeds from the Public Issue will be utilised as follows:-

	RM'000	Estimated timeframe of utilisation from date of listing
Research and development	4,770	Within 36 months
Overseas expansion	1,000	Within 48 months
Working capital	430	Within 24 months
Estimated listing expenses	1,800	Within 3 months
	8,000	

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast (Cont'd)

General Assumptions

G.1 There will be no significant changes in the principal activities and the existing structure of the Group other than those incorporated in the forecast.

G.2 There will be no significant changes in the purchases of raw materials, labour, sub-contractor charges and other operating costs other than those as provided. Any significant increase in the cost of sales will be compensated through an equivalent increase in variation orders and/or the selling price.

G.3 There will be no significant changes in administrative expenses, selling and distribution expenses, other operating costs and finance costs other than those forecasted.

G.4 There will be no significant changes in the key management, technology and operating structure which will adversely affect the operations of the Sunzen Biotech Group.

G.5 There will be sufficient manpower and there will be no industrial disputes or disruptions in the relationship with contractors or any other abnormal factors or changes both domestic and overseas, which will adversely affect the operations of the Group.

G.6 Inflation and foreign currency exchange rates will not fluctuate significantly from the present and forecast level. Administrative and other operating expenses are forecast to increase in tandem with the level of operations of the Group and the effects of inflation, where applicable, have been incorporated in the forecast of the administrative and other operating expenses.

G.7 There will be no significant changes to the prevailing political conditions in Malaysia and the respective countries in which the Group is dealing with or operating in, that may have an adverse effect on the activities and performance of the Group.

G.8 The economies of Malaysia and the respective countries, in which the Group is dealing with or operating in, will perform in line with the forecast with minimal unfavourable global economic impact.

G.9 There will be no major proceedings against the Group which will adversely affect the activities or performance of the Group or give rise to any contingent liabilities which will materially affect the financial position or business of the Group.

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Forecast (Cont'd)

General Assumptions (Cont'd)

G.10 There will be no material financial effects on the profit forecast arising from the adoption of the new/revised Financial Reporting Standards ("FRS") which become effective after 31 December 2007.

G.11 The Group will continue to enjoy the existing credit and financing facilities and that additional credit and financing facilities will be obtained as and when required. Interest rates on the existing and additional credit and financing facilities will not vary significantly from the present and forecast levels.

G.12 Research and development expenditure will be implemented and incurred as scheduled and there will be no material acquisition or disposal of property, plant and equipment or investments other than those planned and incorporated in the profit forecast.

G.13 There will be no material incurrence of doubtful debts in the forecast year.

G.14 There will be no significant changes in the present legislation or government regulations, direct or indirect taxes and duties, which will adversely affect the activities of the Group or the markets in which the Group operates in.

G.15 There will be no major change in the pattern of progress billings and collection as planned.

G.16 There will be no major variation on the terms and conditions and business arrangements with the customers and contractors.

Horwath

Horwath AF No 1018
Kuala Lumpur Office
Chartered Accountants

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info@horwathkl.com

Date: 20 August 2008

The Board of Directors
Sunzen Biotech Berhad
10th Floor, Menara Hap Seng
No. 1 & 3 Jalan P. Ramlee
50250 Kuala Lumpur

Dear Sirs

SUNZEN BIOTECH BERHAD ("SUNZEN BIOTECH" OR "THE COMPANY") ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in this Prospectus in connection with the listing of Sunzen Biotech on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). The details of the listing scheme are disclosed in Section 2 of this report.

2. DETAILS OF THE LISTING SCHEME

2.1 THE COMPANY

Sunzen Biotech was incorporated as a public company limited by shares on 8 February 2005 under the Malaysian Companies Act, 1965. Sunzen Biotech is principally engaged in the business of investment holding and manufacturing of animal health products.

2.2 LISTING SCHEME

In conjunction with and as an integral part of the listing of Sunzen Biotech on the MESDAQ Market of Bursa Securities, the Company is undertaking the following transactions:-

2. DETAILS OF THE LISTING SCHEME (CONT'D)

2.2 LISTING SCHEME (CONT'D)

(a) Acquisition

Acquisition by Suzen Biotech of the entire issued and paid-up share capital of Sunzen Corporation Sdn. Bhd. ("Sunzen Corporation") comprising 2,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM10,397,548, to be satisfied through the issuance of 103,975,480 new ordinary shares of RM0.10 each in Sunzen Biotech ("Sunzen Biotech Shares" or "Shares") at par ("Acquisition");

(b) Assumption and Settlement of Advances

Assumption and settlement of advances amounting to RM2,041,482 owed by Sunzen Corporation to its directors and shareholders by Sunzen Biotech through the issuance of 20,414,820 Share at par ("Assumption and Settlement of Advances");

(c) Public Issue

Public issue of 25,000,000 new Shares ("Public Issue Shares") at an indicative issue price of RM0.32 per Share, which will be allotted in the following manners:-

(i) 3,000,000 Public Issue Shares, representing 2.01% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions;

(ii) 4,000,000 Public Issue Shares, representing 2.68% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for eligible Directors, employees and persons who have contributed to the success of the Sunzen Biotech Group; and

(iii) 18,000,000 Public Issue Shares, representing 12.05% of the enlarged issued and paid-up share capital of Sunzen Biotech will be made available for application by way of private placement to selected investors.

The above are collectively referred to as "Public Issue" hereinafter; and

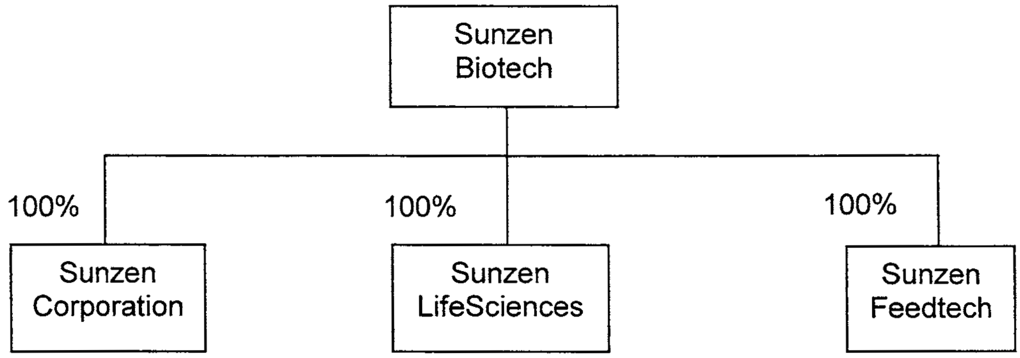
(d) Listing and Quotation on the MESDAQ Market of Bursa Securities

Listing of and quotation for its enlarged and paid-up share capital comprising 149,390,500 Shares on the MESDAQ Market of Bursa Securities ("Listing and quotation on the MESDAQ Market of Bursa Securities").

Horwath

3. SUNZEN BIOTECH GROUP STRUCTURE

The group structure of Sunzen Biotech at the date of this report is as follows:-



Sunzen Biotech and the subsidiaries as shown above are referred to as "the Group" hereinafter.

Details of the subsidiaries are as follows:-

Name of Company	Date of Incorporation	Country of Incorporation	Issued and paid-up share capital	Effective Equity Interest	Principal Activities
Sunzen Corporation	17 October 1998	Malaysia	RM2,000,000	100%	Distribution and manufacturing and marketing of animal health products.
Sunzen LifeSciences Sdn. Bhd. ("Sunzen LifeSciences")	3 January 2007	Malaysia	RM2	100%	Research & development ("R&D") and commercialization of in-feed anti bacterial products and supplements for animal health production.
Sunzen Feedtech Sdn. Bhd. ("Sunzen Feedtech")	31 July 2007	Malaysia	RM4	100%	Dormant.

Horwath

4. RELEVANT FINANCIAL PERIOD AND AUDITOR

The relevant financial period for the purpose of this report ("Relevant Financial Period") and the auditor of the respective companies for the Relevant Financial Period is as follows:-

Company	Relevant Financial Period	Auditor	Auditors' Report
Sunzen Biotech	Financial period from 8 February 2005 (date of incorporation) to 31 December 2005	Horwath	Appendix I
	Financial year ended 31 December ("FYE") 2006	Horwath	Appendix II
	FYE 2007	Horwath	Appendix III
	Financial period ended ("FPE") 31 March 2008	Horwath	Appendix IV
Sunzen Corporation	FYE 2005	Horwath	Appendix V
	FYE 2006	Horwath	Appendix VI
	FYE 2007	Horwath	Appendix VII
	FPE 31 March 2008	Horwath	Appendix VIII
Sunzen LifeSciences	Financial period from 3 January 2007 (date of incorporation) to 31 December 2007	Horwath	Appendix VIV
	FPE 31 March 2008	Horwath	Appendix VX
Sunzen Feedtech	Financial period from 31 July 2007 (date of incorporation) to 31 December 2007	Horwath	Appendix VXI
	FPE 31 March 2008	Horwath	Appendix VXII

The financial statements of all the companies within the Group for the Relevant Financial Period under review were not subject to any audit qualification.

This report covers the financial information derived from the audited financial statements of all the companies stated above.

5. ACCOUNTING STANDARDS AND POLICIES

5.1 BASIS OF PREPARATION

The financial statements of the Group and of the Company are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with applicable approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965.

At the date of this report, the Group and the Company have adopted all the new and revised Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board which are relevant to its operations.

The Group and the Company have not adopted FRS 139 - Financial Instruments: Recognition and Measurement and the consequential amendments resulting from FRS 139 as the effective date is deferred to a date to be announced by the MASB. FRS 139 establishes the principles for the recognition and measurement of financial assets and financial liabilities including circumstances under which hedge accounting is permitted. By virtue of the exemption provided under paragraph 103AB of FRS 139, the impact of applying FRS 139 on its financial statements upon first adoption of the standard as required by paragraph 30(b) of FRS 108 is not disclosed.

The following FRSs have been issued and are effective for financial periods beginning on or after 1 July 2007:-

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

The Group will apply the above FRSs in the financial year ending 31 December 2008.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

This report is prepared on a basis consistent with the accounting policies adopted by the Sunzen Biotech Group as disclosed in paragraph 5.3 below. There were no changes in the significant accounting policies adopted by the Sunzen Biotech Group during the Relevant Financial Period.

5.3 SIGNIFICANT ACCOUNTING POLICIES

(a) Critical Accounting Estimates And Judgements

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below.

(i) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the plant and equipment are based on commercial and usage factors.

The Group anticipates that the residual values of its plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

Changes in the expected level of usage and commercial factors could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(ii) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Critical Accounting Estimates And Judgements (Cont'd)

(iii) Impairment of Assets

When the recoverable amount of an asset is determined based on the estimate of the value-in-use of the cash-generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

(iv) Allowance for Doubtful Debts of Receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

(v) Fair Value Estimates for Certain Financial Assets and Liabilities

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group and the Company uses different valuation methodologies. Any changes in fair value of these assets and liabilities would affect profit and equity.

(vi) Amortisation of Development Costs

Changes in the expected level of usage and technological development could impact the economic useful lives therefore future amortisation charges could be revised.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Critical Accounting Estimates And Judgements (Cont'd)

(vii) Allowance for Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

(b) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group or the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group or Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(c) Functional and Foreign Currency

(i) Functional and Presentation Currency

The functional currency of the Company and each of the Group's entity is measured using the currency of the primary economic environment in which the Company or that entity operates.

The consolidated financial statements are presented in Ringgit Malaysia ("RM") which is the Company's functional and presentation currency.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Functional and Foreign Currency (Cont'd)

(ii) Transactions and Balances

Transactions in foreign currency are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the balances sheet date are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are taken to the income statement.

(d) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries.

A subsidiary is defined as a company in which the parent company has the power, directly or indirectly to exercise control over the financial and operating policies so as to obtain benefits from its activities.

All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interests.

Minority interests are presented in the consolidated balance sheet of the Group within equity, separately from the Company's equity holders, and are separately disclosed in the consolidated income statement of the Group.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Goodwill on Consolidation

Goodwill on consolidation represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the separable net assets of the subsidiaries at the date of acquisition.

Goodwill on consolidation is retained in the consolidated balance sheet. The carrying value of the goodwill is reviewed annually, and is written down for impairment where it is considered necessary. The impairment value of goodwill written off is taken to the income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If, after assessment, the Group's interest in the fair values of the identifiable net assets of the subsidiaries exceeds the cost of the business combinations, the excess is recognised immediately in the consolidated income statement.

(f) Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the balance sheet of the Company, and are reviewed for impairment at the end of the financial year if events or changes in circumstances indicate that their carrying values may not be recoverable.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is taken to the income statement.

(g) Other Investments

Other investments held on a long-term basis are stated at cost less allowance for diminution in value. Allowance for diminution in value is made where, in the opinion of the directors, there is a decline other than temporary in value of such investment. Where there has been a decline other than temporary in the value of an investment, such decline is recognised as an expense in the period in which the decline is identified.

On the disposal of these investments, the difference between the net disposal proceeds and the carrying amount of the investments is taken to the income statement.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation or amortisation and impairment losses, if any. Freehold land is stated at cost less impairment losses, if any, and is not depreciated.

Depreciation or amortisation is calculated under the straight line method to write off the cost of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Factory building	2%
Plant and machinery	14%
Furniture, fittings and office equipment	10% - 33.3%
Motor vehicles	20%

Capital work-in-progress represents progress payments made towards the construction of the building and related capital assets, which are not ready for commercial use at the balance sheet date. Capital work-in-progress is stated at cost, and will be transferred to the relevant category of long term assets and depreciated accordingly when the assets are completed and ready for commercial use.

The depreciation method, useful life and residual values are reviewed, and adjusted if appropriate, at each balance sheet date to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset is included in the income statement in the year the asset is derecognised.

Fully depreciated plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these plant and equipment.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Impairment of Assets

The carrying amounts of assets, other than those to which FRS 136 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(j) Assets Under Hire Purchase

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in paragraph 5.3(h) above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the period of the respective hire purchase agreements.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Product Development Expenditure

Research expenditure is recognised as an expense when it is incurred.

Development expenditure is recognised as an expense except that expenditure incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if an entity can demonstrate all of the following:-

(i) its ability to measure reliably the expenditure attributable to the asset under development;

(ii) the product or process is technically and commercially feasible;

(iii) its future economic benefits are probable;

(iv) its ability to use or sell the developed asset; and

(v) the availability of adequate technical, financial and other resources to complete the asset under development.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense is not recognised as assets in the subsequent periods.

Amortisation is calculated under the straight-line method to write off product development expenditure over the remaining period of the product's estimated economic useful life from the date of the initial product launch.

(l) Interest-bearing Borrowings

The interest-bearing borrowings are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

All the borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

Where necessary, due allowance is made for all obsolete, damaged and slow-moving items.

(n) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(q) Income Taxes

Income taxes for the year comprise current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Income Taxes (Cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

(r) Equity Instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(s) Employee Benefits

(i) Short-term Benefits

Wages, salaries, paid annual leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.