

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2008

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

A1. Basis of reporting preparation

The interim financial statements are unaudited and have been prepared in accordance with the Financial Reporting Standards 134 (FRS 134):“Interim Financial Reporting” issued by the Malaysian Accounting Standards Board (“MASB”) and Appendix 9B part A of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the MESDAQ Market (“MMLR”). This is the second interim financial report on the consolidated results for the third quarter ended 30 September 2008 announced by the Company in compliance with the MMLR and in conjunction with the admission of the Company to the MESDAQ Market of Bursa Securities and as such, there are no comparative figures for the preceding year’s corresponding period.

The accounting policies and methods of computation adopted by the Sunzen Biotech Berhad (“Sunzen Biotech” or “Company”) and its subsidiaries (“Group”) in this interim financial report are in compliance with the new and revised Financial Reporting Standards issued by the MASB.

The interim financial statements should be read in conjunction with the proforma consolidated financial information (“Proforma Consolidated Financial Information”) and the accountants’ report (“Accountants’ Report”) for the financial period ended 31 March 2008 as disclosed in the prospectus of Sunzen Biotech dated 12 September 2008 (“Prospectus”) and the accompanying explanatory notes attached to this interim financial report.

A2. Summary of significant accounting policies

The significant accounting policies adopted are consistent with the Proforma Consolidated Financial Information and the Accountants’ Report for the financial period ended 31 March 2008 as disclosed in the Prospectus.

A3. Auditors’ report

There was no qualification on the audited financial statements of the Company and its subsidiaries for the financial period ended 31 March 2008.

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A4. Seasonal or cyclical factors

The principal business operations of the Group were not significantly affected by seasonal or cyclical factors during the current quarter under review.

A5. Items of unusual nature and amount

There were no items affecting assets, liabilities, equity, net income or cashflows that were unusual because of their nature, size or incidence during the current quarter under review.

A6. Material changes in estimates

There were no changes in the estimates that had a material effect in the current quarter under review and financial year-to-date.

A7. Issuances, cancellations, repurchase, resale and repayments of debt and equity securities

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

- (a) Acquisition by Sunzen Biotech of the entire issued and paid-up share capital of Sunzen Corporation Sdn Bhd 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 amounting to RM2,041,482 owed by Sunzen Corporation Sdn Bhd to its Directors and shareholders as at 31 December 2006 by Sunzen Biotech, via the issuance of 20,414,820 Shares;
- (c) Public issue of 25,000,000 new Shares at an issue price of RM0.32 per Share, details of which are as follows:
 - (i) 3,000,000 new Sunzen Biotech Shares made available for application by Malaysian citizens, companies, societies, co-operatives and institutions;
 - (ii) 4,000,000 new Sunzen Biotech Shares reserved for the eligible Directors, employees and persons who have contributed to the success of the Sunzen Biotech Group; and
 - (iii) 18,000,000 new Sunzen Biotech Shares made available for application by way of private placement to selected investors.

The above public issue of 25,000,000 new Shares was allotted on 26 September 2008 as per the Return of Allotment of Shares.

(Collectively referred to as “Public Issue”)

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- (d) Upon completion of the Public Issue, the issued and paid-up capital of the Company will be RM14,939,050 comprising 149,390,500 Sunzen Biotech Shares and to be listed on the MESDAQ Market of Bursa Securities.

(Collectively referred to as “Initial Public Offering or “IPO”)

Save for the above, there have been no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter under review and financial year-to-date.

A8. Dividends paid

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

A9. Segmental information

Segmental information is not provided as the Group’s primary business segment is principally engaged in the manufacturing and trading in animal health products and its operations are principally located in Malaysia.

A10. Valuation of property, plant and equipment

There was no valuation of property, plant and equipment in the current quarter under review.

A11. Capital commitments

The Group has no material capital commitments in respect of property, plant and equipment in the current quarter under review.

A12. Material events subsequent to the end of period reported

There were no material events subsequent to the end of the current quarter that have not been reflected in the financial statements for the said period as at the date of issue of this quarterly report.

A13. Changes in the Composition of the Group

There were no changes in the composition of the Group in the current quarter under review and financial year-to-date save for the acquisition of a subsidiary pursuant to the IPO as disclosed in Note A7 in this quarterly report.

A14. Contingent Liabilities and Contingent Assets

There were no contingent liabilities and contingent assets, which upon becoming enforceable, may have a material effect on the net assets, profits or financial position of our Group under the quarter under review.

B. ADDITIONAL INFORMATION REQUIRED BY THE MMLR

B1. Review of performance of the Company and its principal subsidiaries

For the current quarter, the Group recorded a pre-tax profit of RM0.43 million on the back of revenue of RM6.58 million.

For the financial period to date, the Group recorded a pre-tax profit of RM2.17 million on the back of revenue of RM19.62 million.

The increasing prices of raw materials had affected the Group's profit margin in particular of the current quarter under review.

B2. Material changes in the quarterly results compared to the results of the preceding quarter

	Current Quarter ended 30 September 2008 RM'000	Preceding Quarter ended 30 June 2008 RM'000	Variance	
			RM'000	%
Revenue	6,578	6,886	(308)	(4.47)
Profit before tax	432	684	(252)	(36.84)

For the current quarter under review, the Group's profit before tax of RM0.43 million was 36.84% lower than the profit before tax recorded in the preceding quarter mainly due to the higher raw material prices exacerbated by the global increase of fuel prices leading up to the end of this quarter. The full impact of raw material price increase was felt by the Group in the current quarter under review.

B3. Current Year Prospects

The material prices increase which set in during the second quarter had affected the profitability of the Group. However, there were reductions on raw material prices of some items towards the end of the third quarter, and this had helped to improve the Group's performance in terms of profitability for subsequent quarter. In view of the current market financial crisis and weak market condition, the Board is of the opinion that the Group is unlikely to achieve its profit forecast as disclosed in the Prospectus. However, the Group will continue to strive for better results for subsequent quarter through promotional activities and sourcing of raw materials direct from alternate supplies. Nevertheless, with the decline of global fuel prices subsequently, the Board is positive that the prices of raw materials associated with the Group's business operations will drop eventually, which will in turn help to improve the Group's overall performance.

B4. Variance between Actual Profit and Forecast Profit

Save for the profit forecast stated in the Prospectus, the Group did not issue any profit forecast or profit guarantee in any public document during the current financial period. Disclosure on explanatory notes for the variance between actual and forecast results would only be provided in the final quarterly report for the current financial year ending 31 December 2008.

B5. Taxation

	Current Quarter Ended 30-Sept-08 RM'000	Current Year Ended 30-Sept-08 RM'000
Current tax expense	47	265
Deferred tax expense	<u>—</u>	<u>—</u>
	<u>47</u>	<u>265</u>

The effective tax rate of the Group for the current quarter was lower than the statutory tax rate due mainly to the exemption of 70% of its statutory income in respect of the pioneer status awarded to Sunzen Biotech for the manufacturing of its feed additive.

B6. Profit from sale of unquoted investments and or properties

There were no disposal of unquoted investment and properties for the current quarter under review and financial year-to-date.

B7. Quoted securities

During the current quarter, the Group purchased 5,000 ordinary shares at RM0.47 per share of Huat Lai Resources Berhad which is listed on the Second Board of Bursa Securities.

Total investment in quoted securities as at 30 September 2008 as follows.

Huat Lai Resources Berhad	
<u>Cost</u>	RM
At beginning of the quarter (3,000 ordinary shares at RM1.40)*	4,200
Purchase during the quarter (5,000 ordinary shares at RM0.47)	2,394
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At the end of the quarter	6,594
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<u>Market value</u>	RM
At the end of the quarter (8,000 ordinary shares at RM0.47)	3,760
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* *Quoted securities were bought prior to the Acquisition by Sunzen Biotech.*

Save for the above, there was no purchase or disposal of quoted securities for the current quarter under review and financial year-to-date.

B8. Status of Corporate Proposal

In conjunction with the IPO and pursuant to the Prospectus, the Company carried out the Public Issue and the entire issued and paid-up share capital of the Company comprising 149,390,500 Shares was listed on the MESDAQ Market of Bursa Securities on 8 October 2008.

Utilisation of IPO Proceeds

The total gross proceeds arising from the Public Issue to be utilised by the Group, as stated in the Prospectus, in the following manner:-

	Amount RM'000	Estimated Timeframe for Utilisation from the Date of Listing
(i) Research and Development	4,770	within 36 months
(ii) Overseas expansion	1,000	within 48 months
(iii) Working Capital	430	within 24 months
(iv) Estimated listing expenses	1,800	within 3 months
Total	8,000	

As at 30 September 2008, the Company has not been listed on the MESDAQ Market of Bursa Securities and henceforth there was no utilisation of IPO proceeds.

B9. Group borrowings and debt securities

The Group's borrowings as at 30 September 2008 are as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowing:-</u>			
Bills payable	3,440	-	3,440
Hire Purchases	26	-	26
Term Loan	459	-	459
	<u>3,925</u>	<u>-</u>	<u>3,925</u>
<u>Long Term borrowings:-</u>			
Hire Purchases	27	-	27
Term Loan	4,298	-	4,298
	<u>4,325</u>	<u>-</u>	<u>4,325</u>
Total	<u>8,250</u>	<u>-</u>	<u>8,250</u>

B10. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off-balance sheet risk.

B11. Material Litigation

As at the date of this announcement, neither our Company nor any of our subsidiaries is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of our Company or our subsidiaries and our Directors are not aware of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of our Company or our subsidiaries.

B12. Dividend

There was no dividend proposed or declared for the current quarter under review.

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B13. Earnings per share

The basic earning per share is calculated based on the Group's profit attributable to equity holders of the Company of RM0.39 million for the current quarter under review and RM1.91 million for current financial period to 30 September 2008 and the weighted average number of shares of 75,816,951 as at 30 September 2008.

This quarterly report for the financial period ended 30 September 2008 has been seen and approved by the Board of Directors of Sunzen Biotech for release to Bursa Securities.

By order of the Board
Mah Li Chen (MAICSA 7022751)
Lee Wai Kim (MAICSA 7036446)
Company Secretaries
Date: 11 November 2008