

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

NOTES TO THE INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 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 third interim financial report on the consolidated results for the fourth quarter ended 31 December 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 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.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

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 and financial year 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 and financial year under review.

A6. Material changes in estimates

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

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”)

SUNZEN BIOTECH BERHAD
(Company No: 680889-W)
(Incorporated in Malaysia)

A7. Issuances, cancellations, repurchase, resale and repayments of debt and equity securities (*Cont'd*)

- (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 and financial year under review.

A8. Dividends paid

No dividend was paid during the current quarter under review. During the financial year, the Company paid a tax-exempt interim dividend of RM2,061,053 in respect of the financial year ended 31 December 2007 on 14 April 2008.

A9. Segmental information

Segmental information is not provided as the Group 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 and financial year under review.

A11. Capital commitments

As at the balance sheet date, there were no outstanding capital commitments not provided for in the financial statements.

A12. Material subsequent event

There were no material events between the end of the current quarter and financial year and the date of this report, which is likely to substantially affect the current quarter and financial year results under review.

A13. Changes in the Composition of the Group

There were no changes in the composition of the Group in the current quarter and financial year under review, 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 for the current quarter and financial year under review.

B. ADDITIONAL INFORMATION REQUIRED BY THE MMLR

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

Current quarter

For the current quarter, the Group posted a loss before tax of RM14,000 on the back of revenue of RM6.643 million mainly due to the high product costs, a direct result of an increase in raw material prices.

Financial year

For the financial year, the Group recorded a profit before tax of RM2.157 million on the back of revenue of RM26.26 million.

No comparison was made with the corresponding quarter for year 2007 and corresponding financial year as Sunzen Biotech was only listed in October 2008.

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

	Current Quarter Ended 31 December 2008 RM'000	Preceding Quarter Ended 30 September 2008 RM'000	Variance	
			RM'000	%
Revenue	6,643	6,578	65	0.99
Profit/(loss) before tax ("PBT")	(14)	432	(446)	(103.24)

The Group's revenue increased slightly by 1% due to higher domestic sales of feed additive products.

However, the Group recorded a loss before tax of RM14,000, which was 103.24% lower than the profit before tax recorded in the preceding quarter mainly due to higher product costs incurred as explained in B1. In addition, the loss before tax was also due to the impact of new expenses arising during the quarter, such as depreciation on new factory building and new motor vehicles, as well as additional marketing expenses incurred in respect of sales campaigns organised by the Group.

B3. Prospects

The current global economic slowdown is likely to impact negatively on the economic growth in Malaysia and hence, presents a challenge to the Group for 2009.

The unprecedented sharp increase in raw material prices in the second half of 2008 had significantly affected key product costs and profitability of the Group despite the fact that raw material prices of certain items were subsequently reduced towards the last quarter of 2008.

A previously dormant wholly-owned subsidiary of the Group, Sunzen Lifesciences Sdn Bhd (“Sunzen Lifesciences”), will be commencing active operations in early 2009. Sunzen Lifesciences is a Bionexus status company accorded with tax incentives and tax exemption on the import of raw materials.

It is hoped that the anticipated further decline of the raw material costs coupled with its subsidiary’s tax incentives would enable the Group to enhance its profitability and performance in the next financial year.

B4. Variance between Actual 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 year. The comparison between the actual and forecast profit is as follows:

	Actual (Unaudited) Current Year To Date 31 December 2008 RM’000	Forecast Current Year To Date 31 December 2008 RM’000	Variance	
			RM’000	%
Revenue	26,260	28,703	(2,443)	(8.51)
Consolidated PBT	2,157	4,510	(2,353)	(52.17)
Taxation	(187)	(512)	325	63.48
Consolidated profit after tax (“PAT”)	1,970	3,998	(2,028)	(50.73)

The unaudited consolidated PAT for the financial year ended 31 December 2008 was RM1.970 million. The Company had in its Prospectus dated 12 September 2008 forecasted a consolidated PAT of RM3.998 million. Therefore, the unaudited PAT results for the Group represent a deviation of RM2.028 million, or 50.73% from the forecast PAT.

SUNZEN BIOTECH BERHAD

(Company No: 680889-W)

(Incorporated in Malaysia)

The Group recorded revenue was 8.51% lower than forecasted due to the general slow down in the economic environment, as well as indirect consequences of the rise in overall livestock production costs. Livestock production costs have been on the rise in tandem with the increase in crude oil price, primarily due to the increase in prices of raw materials and distribution products such as soybean and corn. The cost of feed, which constituted a large portion of the cost of production for feedmillers and livestock farmers, had also risen, adding on to the high production costs. As the feed additive market is dependent on the livestock industry, the increase in the cost of feed had the effect of declining the sales demand of the Group's products, since the feedmillers and farmers would be more reluctant to spend more in using feed additives for their livestock.

The Group recorded PBT was 52.17% lower than forecasted mainly due to the unprecedented sharp jump in raw material prices which had caused key product costs for the Group to be very much higher, a result of which had eroded the profitability of the Group. The increase of the raw material prices were initially fuelled by the surge in global fuel price in the second quarter of 2008, which caused production costs to be much higher. A major factor in the rise of production costs had been the upsurge in the price of phosphoric acid by 206% in the third quarter of 2008. Phosphoric acid was one of the raw materials used by the Group in large amounts for the production of Orgacids. This had caused a major impact on the Group's overall product costs, as Orgacids accounted for about 25% of the Group's total revenue. The Group had decided against increasing the selling price of its products in order to maintain the competitiveness of its products in comparison with its competitors, in light of the current economic environment.

Additionally, the Olympic Games that was held in China in August 2008 had triggered the shortage of raw materials in the local market due to the delayed delivery of supplies from China. Hence, the prices of raw materials remained high for the large part of the second half of 2008, before gradually declining towards the end of 2008.

However, there was a tax deduction of RM0.325 million in line with the reduction of the PBT recorded. Hence, the Group recorded PAT was 50.73% lower than forecasted mainly due to the abovementioned reasons for the deviation of PBT and the reduction in tax.

B5. Taxation

	Current Quarter Ended 31 December 2008 RM'000	Current Year Ended 31 December 2008 RM'000
Current tax expense	(78)	187
Deferred tax expense	-	-
	(78)	187

There was a tax deduction adjustment of RM78,000 in the Group's accounts in line with its loss position in the current quarter.

The effective tax rate of the Group for the current quarter and financial year 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 and financial year under review.

B7. Quoted securities

The summary of the Group's quoted securities as at the current quarter and financial year under review is as follows:

(a) Acquisition or disposal of quoted securities:

	Current quarter ended RM'000	Current year ended RM'000
Total purchases	5	11
Total disposals	-	-
Profit/(loss) or disposals	-	-

(b) Investments in quoted securities as at 31 December 2008 is as follows:

	Cost RM'000	Market Price RM'000
Quoted shares	11	7

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

SUNZEN BIOTECH BERHAD
 (Company No: 680889-W)
 (Incorporated in Malaysia)

B8. Status of Corporate Proposal

In conjunction with the IPO, 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. Save for the IPO, there is no other corporate proposal announced but not completed as at the date of this announcement.

Utilisation of IPO Proceeds

As at 31 December 2008, the status of utilisation of the gross proceeds of RM8 million raised from the public issue is as follows:

Purpose	Proposed utilisation RM'000	Actual utilisation RM'000	Intended timeframe for utilisation from the listing date (Months)	Deviation		Explanation
				RM'000	%	
Research and development	4,770	235	36	-	-	-
Overseas expansion	1,000	12	48	-	-	-
Working capital	430	221	24	-	-	-
Estimated listing expenses	1,800	1,980	3	(180)	(10.00)	N1
Total	8,000	2,448				

Note:

N1 The excess amount of listing expenses was mainly due to the additional costs incurred as a result of revision to the Public Issue Shares issued, which had caused the delay in the issuance of the Prospectus and the listing of Sunzen Biotech. The deviation of 10% will be adjusted accordingly to Sunzen Biotech's working capital requirements.

B9. Group borrowings and debt securities

The Group's borrowings as at 31 December 2008 are as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowings:-</u>			
Bills payable	3,138	-	3,138
Hire purchases	108	-	108
Term loan	450	-	450
	<u>3,696</u>	<u>-</u>	<u>3,696</u>
	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Long term borrowings:-</u>			
Hire purchases	392	-	392
Term loan	4,196	-	4,196
	<u>4,588</u>	<u>-</u>	<u>4,588</u>
Total	<u>8,284</u>	<u>-</u>	<u>8,284</u>

The above borrowings are denominated in Ringgit Malaysia.

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 the Company nor any of its subsidiaries is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiaries and the Directors are not aware of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Company or its subsidiaries.

B12. Dividend

The Board of Directors is pleased to propose a final tax-exempt dividend of 1.2 sen per ordinary share for the financial year ended 31 December 2008. The proposed final dividend is subject to shareholders' approval at the forthcoming Annual General Meeting.

Please refer to note A8 for further information on dividends paid during the year.

SUNZEN BIOTECH BERHAD
(Company No: 680889-W)
(Incorporated in Malaysia)

B13. Earnings per share

The basic earnings per share is calculated based on the Group's profit attributable to equity holders of the Company of RM0.064 million for the current quarter under review and RM1.970 million for current financial period to 31 December 2008 and the weighted average number of shares of 94,310,849 as at 31 December 2008.

This quarterly report for the financial period ended 31 December 2008 has been seen and approved by the Board of Directors of Sunzen Biotech for release to Bursa Securities.

Date: 24 February 2009