



ASX Company Announcement

30 January 2009

Investor Update

The Directors of Sun Biomedical Limited (ASX: SBN or the Company) wish to provide the following update to investors in relation to the operations of Sun Biomedical Laboratories Inc. (SBL).

1. Product Performance Issue

Since late December 2008 SBL has been working with Siyi to improve the quality of the OraLine IV units to be used in the Ministry of Public Security ("MPS") field trials. The quality issue has now been resolved. A new batch of products is currently being assembled by SBL's contract manufacturer and is expected to be shipped direct to MPS sites in early February 2009. SBL will present a Quality Control report to Siyi on the new batch and all future batches.

This has clearly been disappointing for both Siyi and SBN and will result in the commencement of the MPS field trials being delayed from late December 2008 to late February 2009. Further, the field trials have been scaled down from 20,000 to 5,000 units in order to still allow completion by the end of March 2009.

Siyi and SBL are also working on the issue of OraLine IV storage condition. The current product design requires storage conditions of between 2 and 30 degrees Celsius. In China, without air conditioning the storage condition is often higher than 30 degree Celsius, which may cause product failure. Siyi and SBL are examining the feasibility of developing a version of OraLine with an extended range of storage conditions, or alternatively, requiring air conditioning in the storage room during the summer. A solution to this issue is expected to be provided in the next few months.

2. Cash Management Initiatives

In the light of the continuing US economic downturn and the delay in the China project discussed above, the Board has decided to implement a cost reduction plan for the Company. The Board believes this is necessary in order to ensure that the Company effectively manages its existing cash reserves of AUD 0.9m (Cash of AUD 1.17m less outstanding creditors of AUD 0.25m as at 31 December 2008) and is able to focus its resources upon bringing the major initiatives to fruition. This plan will involve:

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- Reducing the headcount of the United States operation by 50% from current level of 22. These staff cuts will be predominantly in the administration and product assembly areas. Product assembly will be outsourced to certified contract manufacturers;
- Reducing SBL's day-to-day operating expenses by imposing a salary freeze and restrictions on discretionary expenditure; and
- Focusing on US and international opportunities, including OraLine VIII, that can be achieved with limited resources.

The Board expects to be able to continue with existing resources until the latter part of 2009.

In addition, the Board is currently seeking a strategic partner who could assist the Company in capitalizing on its future prospects. In the meantime, SBL will continue to focus its efforts on the following key sales initiatives:

a) China

As identified above, the MPS field trials have been delayed and reduced in scope to allow SBL to manufacture an improved version of the OraLine IV product. This delay, coupled with the Chinese New Year holidays, has moved the commencement of the field trials back to late February 2009. However, with the reduction in the size of the trial from 20,000 units to 5,000 units, final product approval is still expected by June/July 2009 provided SBL is able to resolve the storage condition issue to MPS' satisfaction.

Current OraLine storage specifications require a temperature of between 2 and 30 degrees Celsius. In China in the summer, without air conditioning, the storage condition is often higher than 30 degree Celsius, which may cause product failure.

b) Mexico

SBL is awaiting written confirmation from Mexican authorities that Oraline has been approved for importation. SBL distributor's agent in Mexico has reported that confirmation is in progress.

c) Russia

A Russian government publication "No Narcotics" <http://www.narkotiki.ru/> contained an article with an interview of SBL's Oraline Russian distributor's manager. The initial order of Oraline has cleared Russian Customs and promotion of Oraline is progressing.

d) Canada

SBL has been requested by a key US distributor to examine Health Canada approval. It is anticipated that a decision on this issue will be made in the March 2009 quarter after costs and technical requirements have been determined. If approved by Health Canada, SBL would work with this US distributor to expand sales in Canada.

e) OraLine VIII

The initial order to produce the new OraLine VIII housings has been placed for delivery in April 2009. Marketing material and prototypes have been promoted to key distributors for review and introduction to their customers. It is anticipated that assembly and customer delivery of OraLine VIII will begin in May 2009.

f) United States

1. OraLine distribution

US Oraline sales in December 2008 were reflective of a weak jobs market and expenditure pull back by companies across the US. The decline in distributor purchases has continued in January 2009. Distributors with a proactive OraLine selling strategy are doing better than other distributors but are still purchasing fewer units than projected.

2. Direct selling

SBL's plan to develop a direct sales operation to supplement its distributor network in the US has been placed on hold due to the weakening of the US jobs market. Management has evaluated the increased start-up costs of marketing and account acquisition in a weak market. The decision to suspend direct sales marketing and operations will be re-examined in late 2009 to determine if market conditions are suitable for the launch of a direct sales operation in the US.

3. ProbeLine

The Drug Free Home Kit, www.simplifiedrugtest.com has been revised to improve the conversion rate for visitors to the website. This new version is active and will be used in email campaigns starting in late January 2009. Pending the validation of this new version of the website, additional email campaigns will be launched. Previous email campaigns generated good interest in the product but the website did not deliver a sufficient sales conversion rate to justify the marketing. Changes to the website to use a "long form" sales conversion technique have been implemented and will be tested in this new version.

For further information in relation to this announcement or any aspects of SBN's operations please visit SBN website at www.sunbiomed.com or contact:

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