

13. ACCOUNTANTS' REPORT*(Prepared for inclusion in this Prospectus)***Deloitte.**

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Malaysia

ACCOUNTANTS' REPORT
(Prepared for inclusion in the Prospectus)

April 14, 2005

The Board of Directors
Equator Life Science Berhad
Lot 1039, Jalan Kampung Murni Jaya
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Dear Sirs,

1. INTRODUCTION

This Report has been prepared by Deloitte KassimChan, an approved company auditor, for the inclusion in the Prospectus of Equator Life Science Berhad (hereinafter referred to as "Equator" or "the Company") to be dated April 28, 2005, in connection with the Public Issue of 60,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.50 per ordinary share pursuant to the listing and quotation for its entire issued and paid-up share capital on the MESDAQ Market ("MESDAQ") of the Bursa Malaysia Securities Berhad ("Bursa Securities").

2. GENERAL INFORMATION**2.1 The Company – Equator Life Science Berhad ("Equator")**

The Company was incorporated on January 28, 2004 under the Companies Act, 1965 as a public company in Malaysia under the name of Equator Life Science Berhad. The principal activity of the Company is that of investment holding.

The registered office of Equator is located at Suite 6.1 A, Level 6, Menara Pelangi, Jalan Kuning, Taman Pelangi, 80400 Johor Bahru, Johor.

2.2 Authorised Share Capital

The authorised share capital of the Company since its incorporation are as follows:

| Date of creation | No. of shares created | Total authorised share capital RM |
|-------------------------|------------------------------|--|
| 28.01.2004 | 1,000,000 | 100,000 |
| 04.03.2005 | 499,000,000 | 50,000,000 |

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13. ACCOUNTANTS' REPORT (cont'd)

2.3 Issued and Fully Paid-up Share Capital

The changes in the issued and fully paid-up share capital of the Company since its incorporation are as follows:

| Date of allotment | No. of shares allotted | Par Value RM | Consideration | Total issued and paid-up share capital (cumulative) RM |
|-------------------|------------------------|--------------|--|--|
| 28.01.2004 | 20 | 0.10 | Subscribers' shares | 2 |
| 24.3.2005 | 175,007,980 | 0.10 | Issued in consideration of acquisition of EBSB Group | 17,500,798 |

The issued and fully paid-up share capital of the Company upon completion of the listing scheme will be RM23,500,800 comprising 235,008,000 ordinary shares of RM0.10 each.

2.4 The Subsidiary Company – Equator Biotech Sdn. Bhd. (“EBSB”)

EBSB was incorporated on April 8, 1997 under the Companies Act, 1965 as a private limited company in Malaysia. The principal activity of EBSB is that of bio-conversion, micro propagation, cultivation, importing and exporting of ornamental plants.

The present authorised share capital of EBSB is RM25,000,000 comprising ordinary shares of RM1.00 each and its issued and paid-up share capital is RM10,187,800 comprising ordinary shares of RM1.00 each.

The subsidiary companies of EBSB are as follows:

← Share capital →

| Name of company | Place of incorporation | Date of incorporation | Authorised RM | Issued and paid-up RM | Effective Equity interest % | Principal activities |
|------------------------------|------------------------|-----------------------|----------------------------------|---------------------------------|-----------------------------|--|
| Monstera Sdn. Bhd. (“MSB”) | Malaysia | November 23, 1994 | 5,000,000 | 1,700,000 | 100 | Trading of ornamental plants |
| Equator Plants B.V. (“EPBV”) | The Netherlands | October 13, 1998 | 90,750 (equivalent to RM402,953) | 18,151 (equivalent to RM80,595) | 100 | Cultivating, importing, exporting and trading of ornamental plants |

EBSB does not have any associated company.

13. ACCOUNTANTS' REPORT *(cont'd)***3. LISTING SCHEME**

In connection with the listing and quotation of its entire issued and paid up share capital of Equator on the MESDAQ of the Bursa Securities, the Company has implemented a listing scheme which was approved by the Foreign Investment Committee ("FIC"), Securities Commission ("SC") and Bursa Malaysia Securities Berhad ("Bursa Securities") on January 27, 2005.

The listing scheme involves the following corporate exercises:

- (i) Equator acquires the entire equity interest in EBSB Group for a total purchase consideration of RM17,500,798 based on the net tangible assets ("NTA") value of EBSB Group as of December 31, 2003 adjusted for the subsequent issuance of 454,100 and 1,100,000 new ordinary shares of RM1.00 each in EBSB for a consideration of RM1.00 per share and RM2.00 per share respectively.

The acquisition of EBSB Group is satisfied by the issuance of 175,007,980 new Equator shares at an issue price of RM0.10 per share. The purchase consideration for the acquisition of EBSB Group was arrived on a willing buyer-willing seller basis; and

- (ii) Public Issue of 60,000,000 new ordinary shares of RM0.10 each in Equator at an issue price of RM0.50 per share.

4. AUDITORS AND AUDITED FINANCIAL STATEMENTS

We were appointed to act as auditors of Equator since the date of incorporation. The financial statements of Equator for the financial period from January 28, 2004 (date of incorporation) to October 31, 2004 were audited by us.

The financial statements of EBSB and its subsidiary companies for all the financial years covered in this Report were audited by another firm of chartered accountants, with the exception of financial years/period ended December 31, 2002 and 2003 and October 31, 2004, which were audited by us.

There is no reservation or qualification in the auditors' reports in the financial statements covered in this Report.

5. DIVIDEND

No dividend was declared and paid by Equator and its subsidiary companies for the years/period under review.

13. ACCOUNTANTS' REPORT (cont'd)

6. ACCOUNTING POLICIES AND STANDARDS

This Report has been prepared based on the accounting policies consistent with those previously adopted in the preparation of the audited financial statements of Equator Group and comply with applicable approved accounting standards in Malaysia.

7. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

No significant events have arisen subsequent to the balance sheet date other than the Listing Scheme as referred in Section 3.

8. SUMMARISED PROFORMA CONSOLIDATED INCOME STATEMENTS

8.1 Proforma Consolidated Results of Equator Group

We set out below the proforma consolidated results of Equator Group based on their audited financial statements for the past five financial years ended December 31, 1999 to 2003 and financial period January 1, 2004 to October 31, 2004 on the assumption that Equator Group has been in existence since 1999. These financial results are provided for illustrative purposes only, on the assumption that the current structure of Equator Group had been in existence throughout the financial years/period under review.

| | ← Year Ended 31 December → | | | | | 10 Months Ended 31 October |
|--|----------------------------|----------------|----------------|----------------|----------------|----------------------------------|
| | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Revenue | 3,077 | 4,415 | 4,816 | 14,093 | 18,904 | 23,741 |
| Other operating income | - | 6 | 113 | 931 | 971 | 325 |
| Changes in inventories | 634 | 881 | 2,570 | (3,868) | 2,979 | 1,668 |
| Staff costs | (902) | (1,620) | (1,765) | (2,725) | (3,631) | (3,833) |
| Other operating expenses | (2,516) | (3,551) | (5,007) | (3,024) | (12,797) | (13,422) |
| Profit before depreciation, amortisation, interest and tax | 293 | 131 | 727 | 5,407 | 6,426 | 8,479 |
| Depreciation of property, plant and equipment | (106) | (121) | (157) | (178) | (409) | (542) |

13. ACCOUNTANTS' REPORT (cont'd)

| | ← Year Ended 31 December → | | | | | 10 Months Ended 31 October |
|--|----------------------------|----------------|----------------|----------------|----------------|----------------------------------|
| | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Amortisation of: | | | | | | |
| Plantation development expenditure | - | - | - | (600) | (687) | (583) |
| Deferred expenditure | (6) | (6) | (6) | (3) | - | - |
| Goodwill | (42) | (42) | (42) | (42) | (42) | (36) |
| Finance costs | (281) | (250) | (202) | (167) | (299) | (495) |
| Profit (Loss) before tax | (142) | (288) | 320 | 4,417 | 4,989 | 6,823 |
| Income tax credit (expense) | (26) | 55 | (116) | (1,019) | (1,438) | (1,327) |
| Net Profit (Loss) for the year/period | (168) | (233) | 204 | 3,398 | 3,551 | 5,496 |
| Number of ordinary shares of RM0.10 each ('000) | 175,008 | 175,008 | 175,008 | 175,008 | 175,008 | 175,008 |
| Gross earnings (loss) per share (sen) | (0.08) | (0.16) | 0.18 | 2.52 | 2.85 | 3.90 |
| Net earnings (loss) per share (sen) | (0.10) | (0.13) | 0.12 | 1.94 | 2.03 | 3.14 |
| Effective tax rate (%) | - | - | 36.25 | 23.07 | 28.82 | 19.45 |

13. ACCOUNTANTS' REPORT (cont'd)*Notes to the Proforma Consolidated Results of Equator Group:*

- (i) *The results of Equator have been included in 2004 only as its first set of audited financial statements was prepared from January 28, 2004 (date of incorporation) to October 31, 2004.*
- (ii) *It is assumed that MSB is a wholly-owned subsidiary of Equator since January 1, 1998.*
- (iii) *The proforma consolidated results of Equator Group have been prepared based on audited financial statements of EBSB Group and MSB after making relevant adjustments as we considered appropriate for the respective financial years as follows:*

| | ← Year Ended 31 December → | | | | | 10 Months Ended 31 October |
|---|----------------------------|---------|---------|--------|--------|----------------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue as stated in audited financial statements of | | | | | | |
| - EBSB Group | 2,254 | 4,561 | 7,747 | 14,093 | 18,904 | 23,741 |
| - MSB | 2,846 | 1,871 | - | - | - | - |
| Adjustments for inter-company transactions: | | | | | | |
| Eliminated between EBSB Group and MSB | (2,023) | (1,660) | - | - | - | - |
| Previously not eliminated in the financial statements | - | (357) | (2,931) | - | - | - |
| Adjusted revenue as stated in this Report | 3,077 | 4,415 | 4,816 | 14,093 | 18,904 | 23,741 |

13. ACCOUNTANTS' REPORT (cont'd)

| | ← Year Ended 31 December → | | | | | 10 Months |
|--|----------------------------|---------|---------|--------|--------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Ended 31 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | October |
| Other operating expenses as stated in audited financial statements of: | | | | | | 2004 |
| - EBSB Group | 3,742 | 4,206 | 7,938 | 3,024 | 12,797 | RM'000 |
| - MSB | 797 | 1,362 | - | - | - | - |
| - Equator | - | - | - | - | - | 4 |
| Adjustments for of inter-company transactions: | | | | | | |
| Eliminated between EBSB Group and MSB | (2,023) | (1,660) | - | - | - | - |
| Previously not eliminated in the financial statements | - | (357) | (2,931) | - | - | - |
| Adjusted other operating expenses as stated in this Report | 2,516 | 3,551 | 5,007 | 3,024 | 12,797 | 13,422 |

13. ACCOUNTANTS' REPORT (cont'd)

| | ← Year Ended 31 December → | | | | | 10 Months |
|--|----------------------------|--------|--------|---------|---------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Ended 31 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | October |
| | | | | | | 2004 |
| | | | | | | RM'000 |
| Income tax expense as stated in audited financial statements of: | | | | | | |
| - EBSB Group | - | - | (70) | (916) | (1,438) | (1,327) |
| - MSB | - | - | - | - | - | - |
| Adjustments to recognise deferred tax assets of MSB in the respective years in accordance to MASB 25, Income Taxes | (26) | 55 | (46) | (103) | - | - |
| Adjusted income tax credit (expense) as stated in this Report | (26) | 55 | (116) | (1,019) | (1,438) | (1,327) |

(iv) *The gross earnings per share and net earnings per share are calculated based on proforma profit before tax and proforma net profit respectively over the number of ordinary shares assumed to be issued pursuant to the acquisition of EBSB Group.*

(v) (a) *The increase in revenue derived from export market in European countries and Asia Pacific region was due to increase in demand for products such as "cycas" and "sansevieria". As represented by management, these products were reported to have proven therapeutic effects.*

(b) *Loss before tax was recorded for 1999 and 2000 due to cost incurred on the initial planting activities in order to achieve mass cultivation scale. Profit before tax was recorded in subsequent financial years under review due to increase in revenue.*

(c) *Income tax credit in 2000 represents deferred tax credit of MSB. In 2001, the effective tax rate was higher than the statutory income tax rate mainly due to interest expense of MSB restricted under Section 33 (2) of Income Tax Act, 1967 which were not deductible for tax purposes. The lower effective tax rate in 2002 was due to certain non-assessable income of EBSB. In 2004, the effective tax rate was lower than the statutory income tax rate mainly due to reversal of certain temporary differences which were not recognised previously.*

13. ACCOUNTANTS' REPORT (cont'd)

(vi) Segment Reporting

Geographical segments

The Proforma Group's operations are located in Malaysia and The Netherlands. The Proforma Group's cultivation activity is located in Malaysia, whereas the marketing activity is located in Malaysia and The Netherlands.

For management purposes, the Proforma Group is organised into the following geographical market based on location of customers:

- Malaysia
- Other Asia Pacific Region
- European countries

| | ← Year Ended 31 December → | | | | | 10 Months Ended 31 October |
|-----------------------------|----------------------------|----------------|----------------|----------------|-----------------|----------------------------------|
| | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Revenue | | | | | | |
| <i>External sales:</i> | | | | | | |
| Malaysia | 414 | 904 | 608 | 1,146 | 2,096 | 2,184 |
| Other Asia Pacific region | 777 | 748 | 1,035 | 7,749 | 7,547 | 11,020 |
| European countries | 1,886 | 2,763 | 3,173 | 5,198 | 9,261 | 10,537 |
| <i>Inter-segment sales:</i> | | | | | | |
| Malaysia | 1,412 | 1,017 | 1,917 | 3,088 | 1,494 | 67 |
| Other Asia Pacific region | - | - | - | - | - | - |
| European countries | 970 | 1,928 | 2,825 | 3,896 | 9,262 | 4,899 |
| Total Revenue | 5,459 | 7,360 | 9,558 | 21,077 | 29,660 | 28,707 |
| Elimination | (2,382) | (2,945) | (4,742) | (6,984) | (10,756) | (4,966) |
| Consolidated | 3,077 | 4,415 | 4,816 | 14,093 | 18,904 | 23,741 |

13. ACCOUNTANTS' REPORT (cont'd)

| | ← Year Ended 31 December → | | | | | 10 Months Ended 31 October |
|--|----------------------------|----------------|----------------|----------------|----------------|----------------------------------|
| | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 2003 RM'000 | 2004 RM'000 |
| Results | | | | | | |
| <i>Segment result:</i> | | | | | | |
| Other Asia Pacific region | 482 | 40 | 1,101 | 6,058 | 9,042 | 5,140 |
| European country | (301) | (36) | (537) | (1,062) | (1,021) | 636 |
| | 181 | 4 | 564 | 4,996 | 8,021 | 5,776 |
| <i>Elimination</i> | (42) | (42) | (42) | (412) | (2,733) | 1,542 |
| <i>Profit (Loss) from operations</i> | 139 | (38) | 522 | 4,584 | 5,288 | 7,318 |
| <i>Finance costs</i> | (281) | (250) | (202) | (167) | (299) | (495) |
| <i>Profit (Loss) before tax</i> | (142) | (288) | 320 | 4,417 | 4,989 | 6,823 |
| <i>Income tax credit(expense)</i> | (26) | 55 | (116) | (1,019) | (1,438) | (1,327) |
| <i>Profit (Loss) after tax</i> | (168) | (233) | 204 | 3,398 | 3,551 | 5,496 |
| Other information: | | | | | | |
| <i>Depreciation of property, plant and equipment</i> | | | | | | |
| Malaysia | 77 | 81 | 110 | 131 | 367 | 525 |
| European country | 29 | 40 | 47 | 47 | 42 | 17 |
| <i>Amortisation of plantation development expenditure:</i> | | | | | | |
| Malaysia | - | - | - | 600 | 687 | 583 |
| <i>Amortisation of deferred expenditure:</i> | | | | | | |
| Malaysia | 5 | 5 | 5 | - | - | - |
| European country | 1 | 1 | 1 | 3 | - | - |

There is no disclosure of business segment information as the Proforma Group operates principally within one industry.

- (vii) All significant intercompany transactions are eliminated on consolidation.
- (viii) There were no exceptional or extraordinary items in all the financial years/period under review.

13. ACCOUNTANTS' REPORT *(cont'd)*

9. INCOME STATEMENTS

9.1 Results of Equator

The results of Equator for the financial period January 28, 2004 (date of incorporation) to October 31, 2004 are set out below based on the audited financial statements.

| | 10 Months Ended 31 October 2004 RM |
|------------------------------------|---|
| Revenue | - |
| Other operating expenses | <u>(4,498)</u> |
| Net Loss for the period | <u>(4,498)</u> |
| Number of ordinary shares in issue | 20 |
| Gross loss per share (RM) | (225) |
| Net loss per share (RM) | (225) |
| Gross dividend rate (%) | - |
| Net dividend rate (%) | - |
| Effective tax rate (%) | - |

Notes to the results of Equator:

- (i) *The first set of audited financial statements of Equator was prepared from January 28, 2004 (date of incorporation) to October 31, 2004.*
- (ii) *Other operating expenses were attributable mainly to the expenses incurred for the incorporation of Equator and audit fee.*
- (iii) *Effective tax rate is calculated based on income tax expense over profit before tax. No income tax expense for the financial period as Equator incurred operating loss.*
- (iv) *There were no exceptional or extraordinary items in the financial period under review.*

13. ACCOUNTANTS' REPORT (cont'd)

9.2 Consolidated Results of EBSB Group

The consolidated results of EBSB Group for the past five (5) financial years ended December 31, 2003 and financial period January 1, 2004 to October 31, 2004 are set out below based on the audited financial statements.

| | ← Year Ended 31 December → | | | | | 10 Months |
|---|----------------------------|---------|---------|---------|----------|-----------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Ended 31 October 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 2,254 | 4,204 | 4,816 | 14,093 | 18,904 | 23,741 |
| Other operating income | - | - | 113 | 931 | 971 | 325 |
| Changes in inventories | 1,779 | 881 | 2,570 | (3,868) | 2,979 | 1,668 |
| Staff costs | (426) | (1,316) | (1,765) | (2,725) | (3,631) | (3,833) |
| Other operating expenses | (3,742) | (3,849) | (5,007) | (3,024) | (12,797) | (13,418) |
| Profit (Loss) before depreciation, amortisation, interest and tax | (135) | (80) | 727 | 5,407 | 6,426 | 8,483 |
| Depreciation of property, plant and equipment | (41) | (53) | (157) | (178) | (409) | (542) |
| Amortisation of: | | | | | | |
| Plantation development expenditure | - | - | - | (600) | (687) | (583) |
| Deferred expenditure | (6) | (6) | (6) | (3) | - | - |
| Goodwill | - | - | (33) | (33) | (33) | (29) |
| Finance costs | (6) | (6) | (202) | (167) | (299) | (495) |
| Profit (Loss) before tax | (188) | (145) | 329 | 4,426 | 4,998 | 6,834 |
| Income tax credit (expense) | - | - | 86 | (1,019) | (1,438) | (1,327) |
| Net Profit (Loss) for the year/ period | (188) | (145) | 415 | 3,407 | 3,560 | 5,507 |

13. ACCOUNTANTS' REPORT *(cont'd)*

| | ← Year Ended 31 December → | | | | | 10 Months |
|---|----------------------------|--------|--------|--------|--------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Ended 31 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | October |
| | | | | | | 2004 |
| | | | | | | RM'000 |
| Number of ordinary shares of RM1.00 ('000) | 200 | 200 | 3,000 | 6,856 | 8,634 | 10,188 |
| Weighted average number of ordinary shares ('000) | 200 | 200 | 2,533 | 3,080 | 7,449 | 9,566 |
| Gross earnings (loss) per share (RM) | (0.94) | (0.73) | 0.13 | 1.44 | 0.67 | 0.71 |
| Net earnings (loss) per share (RM) | (0.94) | (0.73) | 0.16 | 1.11 | 0.48 | 0.58 |
| Effective tax rate (%) | - | - | - | 23.02 | 28.77 | 19.42 |

Notes to the Consolidated Results of EBSB Group:

- (i) *MSB became a wholly-owned subsidiary company of EBSB in February, 2001. Accordingly, the results of MSB have not been included in the consolidated results of EBSB Group from 1998 to 2000.*

13. ACCOUNTANTS' REPORT (cont'd)

- (ii) *The consolidated results of EBSB Group have been prepared based on audited financial statements of EBSB, MSB and EPBV, after making relevant adjustments as we considered appropriate for the respective financial years/period as follows:*

| | ← Year Ended 31 December → | | | | | 10 Months |
|---|----------------------------|--------|---------|--------|--------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Ended 31 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | October |
| Revenue as stated in audited financial statements of EBSB Group | 2,254 | 4,918 | 7,747 | 14,093 | 18,904 | 23,741 |
| Adjustments for inter-company transactions: | | | | | | |
| Eliminated between EBSB Group and MSB | - | (357) | - | - | - | - |
| Previously not eliminated in the financial statements | - | (357) | (2,931) | - | - | - |
| Adjusted revenue as stated in this Report | 2,254 | 4,204 | 4,816 | 14,093 | 18,904 | 23,741 |

13. ACCOUNTANTS' REPORT *(cont'd)*

| | ← Year Ended 31 December → | | | | | 10 Months |
|--|----------------------------|--------|---------|--------|--------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Ended 31 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | October |
| | | | | | | 2004 |
| | | | | | | RM'000 |
| Other operating expenses as stated in audited financial statements of EBSB Group | 3,742 | 4,563 | 7,938 | 3,024 | 12,797 | 13,418 |
| Adjustments for inter-company transactions: | | | | | | |
| Eliminated between EBSB Group and MSB | - | (357) | - | - | - | - |
| Previously not eliminated in the financial statements | - | (357) | (2,931) | - | - | - |
| Adjusted other operating expenses as stated in this Report | 3,742 | 3,849 | 5,007 | 3,024 | 12,797 | 13,418 |

13. ACCOUNTANTS' REPORT (cont'd)

| | ← Year Ended 31 December → | | | | | 10 Months |
|--|----------------------------|--------|--------|---------|---------|-----------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Ended 31 October 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Income tax expense as stated in audited financial statements of EBSB Group | - | - | (70) | (916) | (1,438) | (1,327) |
| Adjustments to recognise deferred tax assets of MSB in the respective years in accordance to MASB 25, Income Taxes | - | - | 156 | (103) | - | - |
| Adjusted income tax credit (expense) as stated in this Report | - | - | 86 | (1,019) | (1,438) | (1,327) |

- (iii) *The gross earnings per share and net earnings per share are calculated based on profit before tax and net profit respectively over the weighted average number of ordinary shares.*
- (iv) (a) *The increase in revenue derived from export market in European countries and Asia Pacific region was due to increase in demand for products such as "cycas" and "sansevieria". As represented by management, these products were reported to have proven therapeutic effects.*
- (b) *Loss before tax was recorded for 1999 and 2000 due to cost incurred on the initial planting activities in order to achieve mass cultivation scale. Profit before tax recorded in subsequent financial years/period under review was due to increase in revenue.*
- (c) *As EBSB Group registered a loss before tax for 1999 and 2000, no income tax expense was recorded. In 2001, the EBSB Group recorded an income tax credit as a result of the deferred tax credit recognised by MSB with the adoption of MASB 25, Income Taxes. The lower effective tax rate in 2002 was due to certain non-assessable income of EBSB. In 2004, the effective tax rate was lower than the statutory income tax rate mainly due to reversal of certain temporary differences which were not recognised previously.*

13. ACCOUNTANTS' REPORT (cont'd)

- (v) All significant intercompany transactions are eliminated on consolidation.
- (vi) There were no exceptional or extraordinary items in all the financial years/period under review.

10. SUMMARISED BALANCE SHEETS

10.1 Proforma Consolidated Balance Sheet - Equator

| | ← As of December 31 → | | | | | As of |
|--|-----------------------|--------|--------|--------|--------|--------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | October 31 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Property, plant and equipment | - | - | - | - | - | 13,954 |
| Plantation development expenditure | - | - | - | - | - | 5,023 |
| Investments | - | - | - | - | - | 287 |
| Current Assets | | | | | | |
| Inventories | - | - | - | - | - | 7,724 |
| Trade receivables | - | - | - | - | - | 10,066 |
| Other receivables and prepaid expenses | - | - | - | - | - | 1,891 |
| Cash and bank balances | - | - | - | - | - | 766 |
| | - | - | - | - | - | 20,447 |
| Current Liabilities | | | | | | |
| Trade payables | - | - | - | - | - | 1,636 |
| Other payables and accrued expenses | - | - | - | - | - | 3,384 |
| Amount owing to directors | - | - | - | - | - | 218 |
| Hire-purchase payables | - | - | - | - | - | 98 |
| Borrowings | - | - | - | - | - | 7,393 |
| Tax liabilities | - | - | - | - | - | 865 |
| | - | - | - | - | - | 13,594 |
| Net Current Assets | - | - | - | - | - | 6,853 |

13. ACCOUNTANTS' REPORT (cont'd)

| | ← As of December 31 → | | | | | As of |
|--|-----------------------|--------|--------|--------|--------|------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | October 31 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | 2004 |
| | | | | | | RM'000 |
| Long-term and Deferred Liabilities | | | | | | |
| Hire-purchase payables – non-current portion | - | - | - | - | - | (107) |
| Borrowings – non-current portion | - | - | - | - | - | (2,111) |
| Deferred tax liabilities | - | - | - | - | - | (868) |
| | - | - | - | - | - | (3,086) |
| Net Assets | - | - | - | - | - | 23,031 |
| Represented by: | | | | | | |
| Issued capital | - | - | - | - | - | 17,500 |
| Reserve on consolidation | - | - | - | - | - | 5,535 |
| Accumulated loss | - | - | - | - | - | (4) |
| Shareholder's Equity | - | - | - | - | - | 23,031 |
| Net tangible assets (RM'000) | - | - | - | - | - | 23,031 |
| Net tangible assets per share (RM) | - | - | - | - | - | 0.13 |

The proforma consolidated balance sheet as of October 31, 2004 in respect of Equator is prepared based on the audited financial statements of Equator and audited consolidated financial statements of EBSB and its wholly-owned subsidiary companies, MSB and EPBV. The proforma consolidated balance sheet has been presented on the assumption that the Acquisitions had been in effect as of October 31, 2004.

13. ACCOUNTANTS' REPORT *(cont'd)*

10.2 Equator

The balance sheet of Equator as of October 31, 2004 is set out below based on the audited financial statements.

| | As of October 31 2004 RM'000 |
|---|---|
| Current Assets | |
| Prepaid expenses | 495 |
| Cash balance | * |
| | <hr/> 495 <hr/> |
| Current Liabilities | |
| Sundry payable and accrued expenses | (499) |
| | <hr/> (499) <hr/> |
| Net Current Liabilities | (4) |
| | <hr/> |
| Net Liabilities | (4) |
| | <hr/> |
| Represented by: | |
| Issued capital | ** |
| Accumulated loss | (4) |
| | <hr/> (4) <hr/> |
| Capital Deficiency | (4) |
| | <hr/> (4) <hr/> |
| Net tangible liabilities | (4) |
| Net tangible liabilities per share (RM) | (200) |

* Represented RM2

** Represented issued and fully paid up share capital of RM2 comprising 20 ordinary shares of RM0.10 each

Note:

The first set of audited financial statements of Equator was prepared from January 28, 2004 (date of incorporation) to October 31, 2004.

13. ACCOUNTANTS' REPORT *(cont'd)*

10.3 Consolidated Balance Sheets of EBSB Group

The consolidated balance sheets of EBSB Group for the past financial years/period are set out below based on the audited financial statements.

| | ← As of December 31 → | | | | | As of |
|--|-----------------------|--------|--------|--------|--------|--------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | October 31 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Property, plant and equipment | 183 | 231 | 4,571 | 6,419 | 12,882 | 13,954 |
| Plantation development expenditure | - | - | - | 5,401 | 5,587 | 5,023 |
| Goodwill | - | - | 635 | 602 | 569 | 540 |
| Investments | 12 | 29 | 56 | 93 | 208 | 287 |
| Deferred tax assets | - | - | 156 | 53 | - | - |
| Deferred expenditure | 15 | 9 | 3 | - | - | - |
| Current Assets | | | | | | |
| Inventories | 3,494 | 4,375 | 6,945 | 3,077 | 6,056 | 7,724 |
| Trade receivables | 230 | 632 | 720 | 2,402 | 3,092 | 10,066 |
| Other receivables and prepaid expenses | 74 | 95 | 108 | 376 | 1,004 | 1,896 |
| Amount owing by directors | 43 | 46 | 16 | - | - | - |
| Cash and bank balances | 109 | 198 | 449 | 364 | 104 | 766 |
| | 3,950 | 5,346 | 8,238 | 6,219 | 10,256 | 20,452 |

13. ACCOUNTANTS' REPORT (cont'd)

| | ← As of December 31 → | | | | | As of |
|--|-----------------------|--------|---------|---------|---------|--------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | October 31 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Current Liabilities | | | | | | |
| Trade payables | 3,801 | 5,793 | 560 | 1,142 | 2,237 | 1,636 |
| Other payables and accrued expenses | 614 | 219 | 1,117 | 2,404 | 4,196 | 3,384 |
| Amount owing to directors | 1 | 4 | 4,561 | 1,262 | 350 | 218 |
| Amount owing to shareholders | - | - | 1,616 | 726 | 239 | - |
| Hire-purchase payables | - | - | 22 | 66 | 86 | 98 |
| Borrowings | - | - | 2,264 | 1,743 | 4,374 | 7,393 |
| Tax liabilities | - | - | 70 | 500 | 338 | 865 |
| | 4,416 | 6,016 | 10,210 | 7,843 | 11,820 | 13,594 |
| Net Current Assets (Liabilities) | (466) | (670) | (1,972) | (1,624) | (1,564) | 6,858 |
| Long-term and Deferred Liabilities | | | | | | |
| Hire-purchase payables – non-current portion | - | - | (66) | (150) | (114) | (107) |
| Borrowings – non-current portion | - | - | (569) | (302) | (1,285) | (2,111) |
| Deferred tax liabilities | - | - | - | (415) | (868) | (868) |
| | - | - | (635) | (867) | (2,267) | (3,086) |
| Net Assets (Liabilities) | (256) | (401) | 2,814 | 10,077 | 15,415 | 23,576 |

13. ACCOUNTANTS' REPORT *(cont'd)*

| | ← As of December 31 → | | | | | As of |
|--|-----------------------|--------------|--------------|---------------|---------------|---------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | October 31 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | 2004 |
| | | | | | | RM'000 |
| Represented by: | | | | | | |
| Issued capital | 200 | 200 | 3,000 | 6,856 | 8,634 | 10,188 |
| Reserves | (456) | (601) | (186) | 3,221 | 6,781 | 13,388 |
| Shareholders' Equity (Capital Deficiency) | (256) | (401) | 2,814 | 10,077 | 15,415 | 23,576 |
| Net tangible assets (liabilities) (RM'000) | (271) | (410) | 2,176 | 9,475 | 14,846 | 23,036 |
| Net tangible assets (liabilities) per share (RM) | (1.36) | (2.05) | 0.73 | 1.38 | 1.72 | 2.26 |

13. ACCOUNTANTS' REPORT *(cont'd)*

11. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES

The proforma statements of assets and liabilities of Proforma Group set out below are prepared for illustrative purposes only and are based on the audited financial statements of Equator and of its subsidiary companies as of October 31, 2004, incorporating the effects of the listing scheme as mentioned in Section 3 of this Report, except for the effect of the public issue, as though it was effected on October 31, 2004. The statements of assets and liabilities of the Proforma Group are to be read in conjunction with the notes thereto.

| ASSETS | Notes | The Company RM | Proforma Group RM'000 |
|--|-------|----------------------|-----------------------------|
| Property, plant and equipment | C | - | 13,954 |
| Plantation development expenditure | D | - | 5,023 |
| Other investments | E | - | 287 |
| Current Assets | | | |
| Inventories | F | - | 7,724 |
| Trade receivables | G & J | - | 10,066 |
| Other receivables, deposits and prepaid expenses | G & J | 494,245 | 1,891 |
| Cash and bank balances | H | 2 | 766 |
| | | 494,247 | 20,447 |
| Current Liabilities | | | |
| Trade payables | I & J | 498,743 | 1,636 |
| Other payables and accrued expenses | I & J | - | 3,384 |
| Amount owing to directors | J | - | 218 |
| Hire-purchase payables | K | - | 98 |
| Borrowings | L | - | 7,393 |
| Tax liabilities | | - | 865 |
| | | 498,743 | 13,594 |
| Net Current Assets (Liabilities) | | (4,496) | 6,853 |
| Long-term and Deferred Liabilities | | | |
| Hire-purchase payables – non-current portion | K | - | (107) |
| Borrowings – non-current portion | L | - | (2,111) |
| Deferred tax liabilities | M | - | (868) |
| | | - | (3,086) |
| Net Assets (Liabilities) | | (4,496) | 23,031 |

13. ACCOUNTANTS' REPORT *(cont'd)*

| | Note | The Company RM | Proforma Group RM'000 |
|--|------|----------------------|-----------------------------|
| Represented by: | | | |
| Issued capital | N | 2 | 17,500 |
| Reserve on consolidation | | - | 5,535 |
| Accumulated loss | | <u>(4,498)</u> | <u>(4)</u> |
| Shareholders' Equity (Capital Deficiency) | | <u>(4,496)</u> | <u>23,031</u> |
| Net tangible assets (liabilities) | | (4,496) | 23,031 |
| Net tangible assets (liabilities) per share of RM0.10 each (RM) | | (224.80) | 0.13 |

The proforma statements of assets and liabilities are prepared in accordance with the applicable approved accounting standards in Malaysia.

A. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Proforma Group and of the Company have been prepared under the historical-cost convention.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and of the subsidiary companies controlled by the Company made up to October 31, 2004.

Subsidiary companies are consolidated using the acquisition method of accounting. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiary companies acquired or disposed of during the financial period are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal.

All significant intercompany transactions, balances and resulting unrealised gains are eliminated on consolidation. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

13. ACCOUNTANTS' REPORT *(cont'd)***Reserve on Consolidation**

Reserve on consolidation represents the excess of the share of the fair value of the identified net assets of subsidiary companies as of October 31, 2004 over the purchase consideration and is taken directly to capital reserve.

Revenue

Sales of goods are recognised upon delivery of products and when the risks and rewards of ownership has passed to customers. Sales represent gross invoiced value of goods sold and services provided net of sales tax, trade discounts and allowances.

Foreign Currency Conversions

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing at the transaction dates, or where settlement has not yet been made at the end of the financial period, the assets and liabilities are converted at the approximate exchange rates prevailing at that date. All foreign exchange gains or losses are taken up in the income statements.

For the purposes of consolidation, the financial statements of a foreign incorporated subsidiary company have been translated into Ringgit Malaysia as follows:

Assets and liabilities - at closing rate
 Issued capital - at historical rate
 Revenue and expenses - at average rate

The closing rates per unit of Ringgit Malaysia used in the translation of foreign incorporated subsidiary company's financial statements are as follows:

| Currency | RM |
|-------------|--------|
| Euro Dollar | 4.8431 |

Differences in exchange arising from the translation of the opening net investments in the foreign subsidiary company, and from the translation of the results of the subsidiary company at the average rate, are taken up in the income statements.

Income Tax

Income tax in the income statements comprises current and/or deferred tax. Current tax is expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally 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 deferred tax assets can be utilised.

13. ACCOUNTANTS' REPORT (cont'd)

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Gains or losses arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

Freehold land is not depreciated. Long leasehold land and buildings is amortised evenly over the remaining period of the lease of 90 years upon occupancy of the premises. All other property, plant and equipment are depreciated on a straight-line method to their residual values at rates based on the estimated useful lives of the various assets.

The annual depreciation rates are as follows:

| | Rates |
|--|--------------|
| | % |
| Buildings | 5 - 20 |
| Plant and machinery | 10 |
| Office equipment, furniture and fittings | 10 - 25 |
| Motor vehicles | 20 |
| Electrical installations | 10 |

Property, Plant and Equipment Under Hire-Purchase Arrangements

Property, plant and equipment acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

Plantation Development Expenditure

Plantation development expenditure represents planting expenditure incurred from the commencement of development to the date of maturity of the plants. Plantation development expenditure is capitalised at cost and amortised over a period of 10 years commencing from the date of maturity of the plants.

Where an indication of impairment exists, the carrying amount of plantation development expenditure is assessed and written down immediately to its recoverable amount.

13. ACCOUNTANTS' REPORT *(cont'd)*

Investments

Investment in proposed subsidiary companies is stated in the Company's financial statements at cost less accumulated impairment losses.

Investment in auction markets membership is stated at cost less allowance for diminution in value of investment to recognise any decline, other than a temporary decline, in the value of the investments.

Impairment of Assets

At each balance sheet date, the Proforma Group and the Company review the carrying amounts of assets (other than inventories and financial assets, which are dealt with in their respective policies) to determine if there is any indication that those assets may be impaired. If any such indication exists, the asset's recoverable amount, which is the higher of net selling price and value in use, is estimated.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statements.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal is recognised in the income statements.

Inventories

Inventories are valued at lower of cost and net realisable value. Cost is determined on "first-in-first-out" method. The cost of trading merchandise, consumables and nursery represents the original purchase price plus cost incurred in bringing the inventories to their present location. The cost of finished goods comprises the cost of raw materials, direct labour and a proportion of plantation overheads. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

Receivables

Receivables are reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

Cash Flow Statements

The Proforma Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

13. ACCOUNTANTS' REPORT (cont'd)

B. SEGMENT REPORTING*Geographical segments*

The Proforma Group's operations are located in Malaysia and The Netherlands. The Proforma Group's cultivation activity is located in Malaysia, whereas the marketing activity is located in Malaysia and The Netherlands.

For management purposes, the Proforma Group is organised into the following geographical market based on location of the assets:

- Malaysia
- Other Asia Pacific Region
- European countries

Proforma Group

| | Malaysia RM'000 | European Countries RM'000 | Elimination RM'000 | Consolidated RM'000 |
|---------------------------------------|--------------------|---------------------------------|-----------------------|------------------------|
| Capital additions | 1,764 | - | - | 1,764 |
| Depreciation and amortisation | 1,144 | 17 | - | 1,161 |
| Consolidated Balance Sheet | | | | |
| Assets | | | | |
| Segment assets | 36,515 | 3,196 | - | <u>39,711</u> |
| Liabilities | | | | |
| Segment liabilities | 16,296 | 384 | - | <u>16,680</u> |

There is no disclosure of business segment information as the Proforma Group operates principally within one industry.

13. ACCOUNTANTS' REPORT (cont'd)

C. PROPERTY, PLANT AND EQUIPMENT

| | ← At Cost → | | | |
|--|----------------------------------|------------------------------------|---------------------|----------------------------|
| | Beginning of period RM'000 | Additions RM'000 | Disposals RM'000 | End of period RM'000 |
| Proforma Group | | | | |
| Freehold land | 7,104 | 739 | - | 7,843 |
| Long leasehold land | 126 | - | - | 126 |
| Buildings | 3,393 | 498 | - | 3,891 |
| Plant and machinery | 2,052 | 288 | (161) | 2,179 |
| Plant and machinery under hire-purchase | 83 | - | - | 83 |
| Office equipment, furniture and fitting | 282 | 72 | (1) | 353 |
| Motor vehicles | 291 | 13 | - | 304 |
| Motor vehicles under hire- purchase | 287 | 103 | - | 390 |
| Electrical installation | 28 | 51 | - | 79 |
| Total | <u>13,646</u> | <u>1,764</u> | <u>(162)</u> | <u>15,248</u> |
| | ← Accumulated Depreciation → | | | |
| | Beginning of period RM'000 | Charge for the period RM'000 | Disposals RM'000 | End Of period RM'000 |
| Long leasehold land | 10 | 1 | - | 11 |
| Buildings | 161 | 248 | - | 409 |
| Plant and machinery | 176 | 169 | (12) | 333 |
| Plant and machinery under hire-purchase | 12 | 8 | - | 20 |
| Office equipment, furniture and fitting | 88 | 28 | - | 116 |
| Motor vehicles | 216 | 13 | - | 229 |
| Motor vehicles under hire- purchase | 97 | 70 | - | 167 |
| Electrical installation | 4 | 5 | - | 9 |
| Total | <u>764</u> | <u>542</u> | <u>(12)</u> | <u>1,294</u> |

13. ACCOUNTANTS' REPORT *(cont'd)*

| | ← Net Book Value → | |
|---|----------------------------------|----------------------------|
| | Beginning of period RM'000 | End of period RM'000 |
| Freehold land | 7,104 | 7,843 |
| Long leasehold land | 116 | 115 |
| Buildings | 3,232 | 3,482 |
| Plant and machinery | 1,876 | 1,846 |
| Plant and machinery under hire-purchase | 71 | 63 |
| Office equipment, furniture and fitting | 194 | 237 |
| Motor vehicles | 75 | 75 |
| Motor vehicles under hire-purchase | 190 | 223 |
| Electrical installation | 24 | 70 |
| | <hr/> | <hr/> |
| Total | <u>12,882</u> | <u>13,954</u> |

Freehold land and buildings of Proforma Group with carrying amount of RM 9,484,787 are pledged to banks for borrowings granted to a subsidiary company as disclosed in Note L.

D. PLANTATION DEVELOPMENT EXPENDITURE

| | Proforma Group RM'000 |
|-------------------------------------|-----------------------------|
| Plantation development expenditure: | |
| At beginning of period | 6,874 |
| Addition during the period | <u>19</u> |
| At end of period | 6,893 |
| Cumulative amortisation: | |
| At beginning of period | 1,287 |
| Charge for the period | <u>583</u> |
| At end of period | <u>1,870</u> |
| | <u>5,023</u> |

E. OTHER INVESTMENTS

| | Proforma Group RM'000 |
|--|-----------------------------|
| Investment in auction markets membership | <u>287</u> |

13. ACCOUNTANTS' REPORT *(cont'd)*

F. INVENTORIES

| | Proforma Group RM'000 |
|----------------------|--------------------------------------|
| At costs: | |
| Trading merchandise | 1,164 |
| Inventory-in-transit | 291 |
| Finished goods | 3,751 |
| Consumables | 1,876 |
| Nursery | 642 |
| | <u>7,724</u> |

G. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

| | Proforma Group RM'000 |
|-----------------------------------|--------------------------------------|
| Other receivables | 1,013 |
| Refundable deposits | 61 |
| Deposit paid for purchase of land | 172 |
| Prepaid expenses | 645 |
| | <u>1,891</u> |

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

| | Proforma Group 2004 RM'000 |
|----------------------|---|
| United States Dollar | 5,143 |
| Japanese Yen | 37 |
| | <u>5,180</u> |

Trade receivables comprise amounts receivables for the sales of goods. Other receivables comprise mainly proceeds receivable from sales of palm oil and advances to third parties.

The credit period granted on sales of goods is 30 days.

13. ACCOUNTANTS' REPORT *(cont'd)***H. CASH AND BANK BALANCES**

| | The Company RM | Proforma Group RM'000 |
|---------------------------|---------------------------|--------------------------------------|
| Cash on hand and at banks | 2 | 761 |
| Fixed deposit | - | 5 |
| | <u>2</u> | <u>766</u> |

Fixed deposit of the Proforma Group (all pertaining to a subsidiary company) is pledged to a local licensed bank as security for bank guarantees granted.

The average effective interest rate for fixed deposit is 4% per annum.

Deposit of the Proforma Group (all pertaining to a subsidiary company) has an average maturity of 365 days.

I. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The credit period granted to the Proforma Group for trade purchases ranges from 45 to 60 days.

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

| | Proforma Group RM'000 |
|----------------------|--------------------------------------|
| Euro Dollar | 182 |
| United States Dollar | 334 |
| | <u>334</u> |

Other payables and accrued expenses consist of:

| | Proforma Group RM'000 |
|------------------|--------------------------------------|
| Other payables | 2,474 |
| Accrued expenses | 848 |
| Deposit received | 62 |
| | <u>3,384</u> |

The amounts owing mainly arose from trade transactions and payments on behalf. The amounts owing are interest free and have no fixed terms of repayment. Transactions with related parties are disclosed in note J.

13. ACCOUNTANTS' REPORT *(cont'd)***J. RELATED PARTIES TRANSACTIONS**

The amount owing to directors of subsidiary companies arose mainly from advances and expenses paid on behalf which is unsecured, interest free and has no fixed terms of repayment.

Related parties are entities, excluding related companies, which have common directors / shareholders and persons connected to them, with the Proforma Group.

Other than as disclosed elsewhere in the financial statements, the related parties and their relationship with the Proforma Group are as follows:

| Name of Related Parties | Relationship |
|------------------------------|---|
| Jeo Jeo Plantation Sdn. Bhd. | A company in which a close member of the family of Mr. Koh Ah Keng, Koh Yueh Lai and Koh Yueh Leong, directors of the Proforma Group, has substantial financial statements. |
| Jeo Tech Trading | |
| Le Tech Engineering | |
| Jeo Jeo Plantation | |

Included in the following accounts and balances owe by/to the related parties of the Proforma Group:

| | Proforma Group RM'000 |
|-------------------|--------------------------------------|
| Trade receivables | 1,345 |
| Other receivables | 2 |
| Trade payables | 1,130 |
| Other payables | <u>127</u> |

During the financial period, significant related party transactions are as follows:

| | Proforma Group RM'000 |
|---------------------------------------|--------------------------------------|
| Corporate shareholder | |
| Purchase of materials and consumables | <u>93</u> |
| Other related parties | |
| Jeo Jeo Plantation | |
| Sales of finished goods | 2 |
| Purchases of raw materials | 823 |
| Sub-contract wages | <u>12</u> |
| Jeo Jeo Plantation Sdn. Bhd. | |
| Sales of finished goods | 1,572 |
| Purchases of raw materials | <u>950</u> |
| Jeo Tech Trading | |
| Purchases of finished goods | <u>376</u> |

13. ACCOUNTANTS' REPORT *(cont'd)*

| | Proforma Group RM'000 |
|--|--------------------------------------|
| Other related parties | |
| Le Tech Engineering | |
| Purchases of property, plant and equipment | <u>355</u> |

The directors of the Proforma Group and the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

K. HIRE-PURCHASE PAYABLES

| | Proforma Group RM'000 |
|---|--------------------------------------|
| Total outstanding | 248 |
| Less: Interest-in-suspense outstanding | <u>(43)</u> |
| Principal outstanding | 205 |
| Less: Amount due within 12 months (shown under current liabilities) | <u>(98)</u> |
| Non-current portion | <u>107</u> |

The non-current portion is repayable as follows:

| | Proforma Group RM'000 |
|--|--------------------------------------|
| For financial years ending October 31: | |
| 2006 | 56 |
| 2007 | 27 |
| 2008 | 17 |
| 2009 | <u>7</u> |
| | <u>107</u> |

It is the Proforma Group's policy to acquire certain of its property, plant and equipment under hire-purchase arrangements. The average term for hire-purchase is about four years. For the financial period ended October 31, 2004, the average effective borrowing rate was 9.69% per annum. Interest rates are fixed at the inception of the hire-purchase arrangements.

The Proforma Group's hire-purchase payables are secured by the financial institutions' charge over the assets under hire-purchase.

13. ACCOUNTANTS' REPORT *(cont'd)*

L. BORROWINGS

| | Proforma Group RM'000 |
|---|--------------------------------------|
| Secured: | |
| Bank overdrafts | 1,281 |
| Term loans | 2,443 |
| Other bank borrowings | 5,780 |
| | <u>9,504</u> |
| Less: Amount due within 12 months (shown under current liabilities) | <u>(7,393)</u> |
| Non-current portion | <u><u>2,111</u></u> |

The non-current portion is repayable as follows:

| | Proforma Group RM'000 |
|------------------------------------|--------------------------------------|
| Financial years ending October 31: | |
| 2006 | 361 |
| 2007 | 389 |
| 2008 | 419 |
| 2009 | 267 |
| 2010 and thereafter | 675 |
| Non-current portion | <u><u>2,111</u></u> |

The average effective interest rates are as follows:

| | Proforma Group % |
|-----------------------|---------------------------------|
| Bank overdrafts | 7.95 |
| Term loans | 7.96 |
| Other bank borrowings | 7.9 |

The borrowings of the Proforma Group are secured by a charge over freehold land and buildings as disclosed in Note C.

M. DEFERRED TAX LIABILITIES

| | Proforma Group RM'000 |
|------------------------------|--------------------------------------|
| At beginning / end of period | <u><u>868</u></u> |

13. ACCOUNTANTS' REPORT *(cont'd)*

The net deferred tax liability of the Proforma Group is in respect of:

| | RM'000 |
|-------------------------------------|-------------------|
| Tax effects of: | |
| Temporary differences arising from: | |
| Property, plant and equipment | 809 |
| Others | 82 |
| Unutilised tax losses | <u>(23)</u> |
| Net Deferred Tax Liability | <u><u>868</u></u> |

The amount of estimated deferred tax asset of a subsidiary company calculated at applicable tax rate which is not recognised in the financial statements arising from unutilised tax losses, amounted to about RM567,000.

The unutilised tax losses are subject to the agreement of the tax authorities and available to offset against future taxable profit.

N. SHARE CAPITAL

| | The Company RM | Proforma Group RM'000 |
|--------------------------------|-------------------------------|--------------------------------------|
| Authorised: | | |
| Ordinary shares of RM0.10 each | <u>50,000,000</u> | <u>50,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of RM0.10 each | <u>2</u> | <u>17,500</u> |

O. ACQUISITION OF SUBSIDIARY COMPANIES

The wholly-owned subsidiary companies are as follows:

| Name of Company | Place of Incorporation | Principal Activities |
|---------------------------------------|-----------------------------------|--|
| Equator Biotech Sdn. Bhd. ("EBSB") | Malaysia | Bio-conversion, micro propagation, cultivation, importing and exporting of ornamental plants |
| Monstera Sdn. Bhd. ("MSB") # | Malaysia | Trading of ornamental plants |
| Equator Plants B.V. # | The Netherlands | Cultivating, importing, exporting and trading of ornamental plants |

These investments are held through EBSB.

13. ACCOUNTANTS' REPORT (cont'd)

The effect of acquisitions of EBSB Group on the financial position of the Proforma Group as of 31 October 2004 is as follows:

| | RM'000 |
|--|---------------|
| Property, plant and equipment | 13,954 |
| Plantation development expenditure | 5,023 |
| Other investments | 287 |
| Inventories | 7,724 |
| Trade and other receivables | 11,957 |
| Cash and bank balances | 766 |
| Trade and other payables | (5,020) |
| Amount owing to directors | (218) |
| Hire-purchase payables | (205) |
| Bank borrowings | (9,504) |
| Tax liabilities | (865) |
| Deferred tax liabilities | (868) |
| | <hr/> |
| Net assets acquired | 23,031 |
| Add: Cash and cash equivalents | 520 |
| | <hr/> |
| Cash flow on acquisition, net of cash acquired | 23,551 |
| | <hr/> |

P. FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial Risk Management Objectives and Policies

The operations of the Proforma Group are subject to a variety of financial risks, including foreign currency risk, interest risk, market risk, credit risk, liquidity risk and cash flow risk. The Proforma Group has formulated a financial risk management framework whose principal objective is to minimise the Proforma Group's exposure to risks and/or costs associated with the financing, investing and operating activities of the Proforma Group.

Various risk management policies are approved by the Board for observation in the day-to-day operations for the controlling and management of the risks associated with financial instruments.

Foreign currency risk

The Proforma Group is not exposed to any significant foreign currency risk other than in the normal course of business for the foreign currency fluctuations on sales and purchases denominated in foreign currencies. Exposure to foreign currency risks are managed as far as possible by natural hedges of assets and liabilities.

13. ACCOUNTANTS' REPORT *(cont'd)*

The Proforma Group's existing revenue is generated from both the local and export markets, and is mainly denominated in EURO, JPY and USD. Hence, any future fluctuations in the exchange rates may have a significant impact on the revenue and earnings of Proforma Group. However, there can be no assurance that any future significant fluctuations in exchange rates and financial crisis will not have an impact on the revenue, cost of sales and earnings of Proforma Group.

Interest rate risk

The Proforma Group enters into various interest rate risk management transactions for the purpose of reducing net interest costs and to achieve interest rates within predictable, desired ranges.

Market risk

The Proforma Group manages its exposure to fluctuation in prices of key materials used in operations by way of negotiation for the purchasing terms to achieve efficiency and pricing objective.

Credit risk

The Proforma Group is exposed to credit risk mainly from trade receivables and bank balances. The Proforma Group extends credit to its customers based upon careful evaluation of the customer's financial condition and credit history.

Management believes that the Proforma Group's exposure on credit risk of bank balances is limited as it is placed with credit worthy financial institutions.

Liquidity risk

The Proforma Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

Cash flow risk

The Proforma Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Financial Assets

The Proforma Group's principal financial assets are cash and bank balances and trade and other receivables.

The accounting policies applicable to the major financial assets are as disclosed in Note A.

Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of contractual arrangement.

13. ACCOUNTANTS' REPORT *(cont'd)*

Significant financial liabilities of the Proforma Group include trade and other payables, amount owing to directors, term loans, overdrafts, hire-purchase and other bank borrowings.

Term loans, bank overdrafts and other bank borrowings are recorded at the proceeds received net of direct issue costs. Finance charges, including premium payable on settlement or redemption, are accounted for on accrual basis.

Equity instruments are recorded at the proceeds received net of direct issue costs.

Fair Value

The carrying amounts and the estimated fair values of the Proforma Group's financial instruments as of October 31, 2004 are as follows:

| | Note | Proforma Group Carrying Amount RM'000 | Fair Value RM'000 |
|-------------------------------------|------|--|-------------------------|
| <i>Financial Assets</i> | | | |
| Other investments | E | <u>287</u> | <u>387</u> |
| <i>Financial Liabilities</i> | | | |
| Borrowings - term loans | L | <u>2,443</u> | <u>1,795</u> |

Cash and Cash Equivalents, Trade and Other Receivables, Amount Owing To Directors, Trade and Other Payables and Other Bank Borrowings

The fair values of these financial instruments approximate their carrying amounts due to the short maturity of these instruments.

Other investments

The market value of auction markets as at balance sheet date approximates the fair value.

Term loans

The fair value of term loans are estimated using discounted cash flow analysis based on current borrowing rates for similar types of borrowings arrangements.

Q. CAPITAL COMMITMENT

As of October 31, 2004, the Proforma Group (all pertaining to a subsidiary company) has the following commitment:

| | Proforma Group RM'000 |
|----------------------------------|--------------------------|
| Contracted but not provided for: | |
| Acquisition of land | <u>107</u> |

13. ACCOUNTANTS' REPORT *(cont'd)***R. SIGNIFICANT SUBSEQUENT EVENTS**

No events have occurred subsequent to October 31, 2004 that would require adjustment to, or disclosure in this Report, other than the corporate exercise as mentioned in Section 3.

12. PROFORMA CONSOLIDATED CASHFLOW STATEMENT

The Proforma consolidated cash flow statement of Equator Group for the financial period January 1, 2004 to October 31, 2004 has been prepared for illustrative purposes only based on their audited financial statements for the period January 1, 2004 to October 31, 2004 on the assumption that the Equator Group had been in existence throughout the year under review.

| | RM'000 |
|---|---------------|
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | |
| Profit before tax | 6,823 |
| Adjustments for: | |
| Amortisation of: | |
| Plantation development expenditure | 583 |
| Goodwill | 36 |
| Depreciation of property, plant and equipment | 542 |
| Interest expense | 495 |
| Loss (Gain) on: | |
| Unrealised foreign exchange | 60 |
| Disposal of property, plant and equipment | (11) |
| Bad debts written off | 80 |
| | <hr/> |
| Operating Profit before Working Capital Changes | 8,608 |
| Increase in: | |
| Inventories | (1,668) |
| Receivables | (8,500) |
| | |
| Decrease in payables | (1,286) |
| | <hr/> |
| Cash Used In Operations | (2,846) |
| Interest paid | (495) |
| Income tax paid | (800) |
| | <hr/> |
| Net Cash Used In Operating Activities | (4,141) |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | |
| Additions to: | |
| Property, plant and equipment | (1,684) |
| Plantation development expenditure | (19) |
| Other investments | (79) |
| Proceeds from disposal of property, plant and equipment | 161 |
| | <hr/> |
| Net Cash Used In Investing Activities | (1,621) |

13. ACCOUNTANTS' REPORT *(cont'd)*

| | RM'000 |
|---|---------------------|
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | |
| Proceeds from: | |
| Other borrowings | 17,587 |
| Term loans | 1,364 |
| Issuance of shares | 2,654 |
| Repayments of: | |
| Hire-purchase payables | (75) |
| Term loans | (326) |
| Other borrowings | (14,625) |
| Net Cash From Financing Activities | <u>6,579</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 817 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>(1,337)</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u><u>(520)</u></u> |

During the period, the Proforma Group's additions to property, plant and equipment amounted to RM1,764,175 of which RM80,000 was made under hire-purchase arrangements. The remaining additions of RM1,684,175 was made by way of cash payments.

Cash and cash equivalents comprise the following:

| | Proforma Group RM'000 |
|--|--------------------------------------|
| Cash on hand and at banks | 761 |
| Fixed deposit | 5 |
| Bank overdraft | <u>(1,281)</u> |
| | (515) |
| Less: Fixed deposit pledged to bank | <u>(5)</u> |
| Cash and cash equivalents as of October 31, 2004 | <u><u>(520)</u></u> |

13. ACCOUNTANTS' REPORT *(cont'd)*

13. PROFORMA NET TANGIBLE ASSETS ("NTA")

Based on the consolidated statement of assets and liabilities of the Proforma Group as of October 31, 2004, the NTA per ordinary share is calculated as follows:

| | Proforma Group RM'000 |
|--|----------------------------------|
| Proforma net assets of Equator Group as of October 31, 2004 | <u>23,031</u> |
| Number of ordinary shares of RM0.10 each as of October 31, 2004 ('000) | <u>175,008</u> |
| | RM |
| Proforma NTA per ordinary share of RM0.10 each | <u>0.13</u> |

14. FINANCIAL STATEMENTS

No audited financial statements have been drawn up for any period subsequent to October 31, 2004.

Yours faithfully



DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants



TAN THENG HOOI
1479/1/07(J)
Partner

14. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

EQUATOR LIFE SCIENCE BERHAD (640850-U)

Suite 6.1.A, Level 6, Menara Pelangi, Jalan Kuning, Taman Pelangi,

80400 Johor Bahru, Johor Darul Takzim, Malaysia.

Tel: 607-332 3536

Fax: 607-332 4536



Date : 20 April 2005

The Shareholders of Equator Life Science Berhad

Dear Sir/Madam,

On behalf of the Board of Equator, I report after due inquiry that during the period from 31 October 2004, being a date to which the last audited accounts of the Company and its subsidiary companies have been made up, to 15 April 2005, being a date not earlier than 14 days before the issue of this Prospectus, that:

- (i) the business of the Company and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or its subsidiary companies;
- (iii) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary companies;
- (v) since the last audited accounts of the Company and its subsidiary companies, there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and
- (vi) since the last audited accounts of the Company and its subsidiary companies, save as disclosed in the Accountants' Report as set out in Section 13 of this Prospectus, there have been no material changes in the published reserves nor any unusual factors affecting the profits of the Company and its subsidiary companies.

Yours faithfully

For and on behalf of the Board of Directors

EQUATOR LIFE SCIENCE BERHAD


Koh Yuch Leong
Managing Director