

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY

(Prepared for inclusion in this Prospectus)

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

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To: Equator Life Science Berhad
Attn. The Board of Directors
Lot 1039, Jalan Kampung Murni,
81850 Layang-Layang
Johor
Malaysia

Date: April 19, 2005

Dear Sirs,

Expert Report /Legal Opinion on

- (A) **Ownership and Title to Securities /Assets in the Netherlands;**
- (B) **Enforceability of Agreements, Representations and Undertakings under the Laws of Netherlands;**
- (C) **Dividend Policies; and**
- (D) **Policies on Foreign Investments and Repatriation of Profits**

We have acted as special Netherlands legal counsel in relation to Equator Plants B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands with registered office at Rozenburg (municipality of Haarlemmermeer) the Netherlands, and its principal offices at Grote Poellaan 9A (1435GA) Rijnsenhout, the Netherlands (the "Company"), in connection with the proposed listing on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Proposed Listing") of Equator Life Science Berhad ("Equator"). We understand that as an integral part of the Proposed Listing, Equator has implemented a restructuring which involves, inter alia, the acquisition by Equator of the entire issued and paid-up share capital of Equator Biotech Sdn Bhd, the Company's sole shareholder.

In such capacity, we have exclusively reviewed and relied upon the following documents:

- a) a facsimile copy of the articles of association (*statuten*) of the Company, which, pursuant to the Extract (as defined below), are the articles of association of the Company as on file with the Commercial Register at the date hereof (the "Articles of Association");

■ All services and (other) work and all instructions are solely accepted and carried out by Holland Van Gijzen Attorneys at Law and Civil Law Notaries, a partnership consisting of legal entities, subject to general terms and conditions, which stipulate that liability is limited to the amount paid under our professional indemnity insurance. The general terms and conditions, which have been filed at the registry of the Rotterdam District Court, are available upon request, free of charge.

■ Holland Van Gijzen Attorneys at Law and Civil Law Notaries has a strategic alliance with the tax advisors of Ernst & Young and is a participant in EY Law.
■ Amsterdam Eindhoven Rotterdam The Hague Utrecht London Chicago New York

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY (*cont'd*)

HOLLAND VAN GIJZEN

page 2 of 9

ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

- b) a facsimile extract from the Commercial Register of the Chamber of Commerce for Amsterdam (the "**Commercial Register**") regarding the registration of the Company with the Chamber of Commerce under number 34104087 dated April 13, 2004, as confirmed by telephone by the Commercial Register to be correct at the date hereof (the "**Extract**");
- c) an executed copy of that certain tenancy agreement dated June 30, 2000, by and between Mr. H. van Elderen as landlord and the Company as tenant regarding the premises recorded in the land register under number AM 199 and situated on the Rijnshornstraat 98 in Rijsenhout (municipality of Haarlemmermeer), the Netherlands (the "**Tenancy Agreement**");
- d) an executed copy of that certain agreement dated August 1, 1998 by and between Coöperatieve Vereniging Verenigde Bloemenveilingen Aalsmeer (V.B.A.) B.A. (the "**Auction**") and the Company regarding the sale through the Auction of all products grown by the Company; and
- e) a signed copy of that certain letter of Coöperatieve Bloemenveilingen B.A., which we assume to have changed its name and legal status into Coöperatieve Bloemenveiling FloraHolland U.A., dated September 17, 1999, confirming the registration of the Company as guest supplier ('*gastzender*') of Bloemenveiling Holland under administration number 201397 in force subject to timely dispensation of the Auction ('*lid veiling*').

The documents listed under a) and b) above are hereinafter collectively referred to as the "**Corporate Documents**" and each individually as a "**Corporate Document**". The documents listed under c) through e) above are hereinafter collectively referred to as the "**Agreements**". The documents listed above under a) through e) are hereinafter collectively referred to as the "**Documents**".

In examining the Documents and in rendering the opinion stated below, we have assumed:

- (i) the genuineness of all signatures on all Documents or on the originals thereof, to be the signature by the person(s) whose names are printed / stated or otherwise indicated opposite such signatures;
- (ii) the accuracy and completeness, and the authenticity of all documents submitted to us as originals and the conformity with the originals of any copy of documents submitted to us for review in photostatic, electronic transmission ("e-mail"), or facsimile form;
- (iii) the due and requisite power, capacity (corporate and otherwise) and authority (*beschikkingsbevoegdheid*) of each of the parties and/or signatories to enter into, execute and perform its respective obligations under the Agreements to which each of them is a party, and the factual capacity ('*het ontbreken van geestelijke stoornis*') of all individuals acting on behalf of any of the parties (including those individuals acting on behalf of the Company);

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY *(cont'd)*

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

page 3 of 9

that each party (other than the Company) to any of the Agreements has been duly incorporated and organized and is validly existing;

- (v) that the Agreements have been duly authorized and have been duly and validly executed and delivered (where such concept is legally relevant) by all parties thereto, under any applicable law, including the laws by which the Agreements are expressed to be governed;

that nothing in this opinion is affected by the provisions of any foreign law (i.e. any laws not being the laws of the Netherlands);

that (a) the Company has not adopted a resolution to voluntarily dissolve (*ontbinden*), merge (*fuseren*) or de-merge (*splitsen*) the Company; (b) no petition first or secondary has been presented nor order first or secondary made by any applicable court for the bankruptcy (*faillissement*) or moratorium of payment (*surséance van betaling*) of and no receiver (*bewindvoerder*), trustee (*curator*), or similar officer has been appointed with respect to the Company or its assets and (c) no decision has been taken to dissolve (*ontbinden*) the Company by (i) the Chamber of Commerce by virtue of article 2:19a of the Dutch Civil Code (*burgerlijk wetboek*) or (ii) the relevant Court (*rechtbank*) by virtue of article 2:21 of the Dutch Civil Code.

- (viii) that the execution of the Agreements and the performance of the transactions contemplated thereby are in the best corporate interest of the Company and not prejudicial to its creditors (present and future);

that the managing director of the Company did not have a conflict of interest with the Company with respect to any of the Agreements or the transactions contemplated thereby within the meaning of article 17 paragraph 2 of the Articles of Association and/or article 2:256 of the Netherlands Civil Code, that would preclude any such managing director from validly representing the Company (or granting a power of attorney with respect to the execution of such Agreements on behalf of the Company);

- (x) that the company does not hold nor is obliged to hold a permit, license, authorization or other approval that restricts the holding and/or transfer of its shares or tangible or intangible assets, such as a license as credit institution (*'kredietinstelling'*) pursuant to the Netherlands Act on Supervision of the Credit System 1992, or an authorization as securities institution (*'effecteninstelling'*) pursuant to the Act on Supervision of the Securities Trade 1995.

that the Company is not in default under any of the Agreements and that all agreements have been executed and where necessary, are valid and in force at the date hereof.

Holland Van Gijzen is an independent partnership comprising of Netherlands companies with limited liability, consisting of lawyers fully qualified to practice under the laws of the Netherlands. We have not investigated the laws of any jurisdiction other than The Netherlands – meaning the part of the Kingdom of the Netherlands in Europe – and do not express an opinion

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY *(cont'd)*

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

page 4 of 9

on (a) the laws of any jurisdiction other than of the Netherlands as it stands and has been made public in printed form and has been interpreted in published case law of the courts of the Netherlands at the date hereof, (b) any international law, including, without limitation, the laws of the European Union, except to the extent that any of the foregoing is explicitly set forth in any of the opinions stated below and except to the extent that the laws of the European Union have as a matter of law direct force and effect in the Netherlands, and (c) anti-trust law.

We do not express an opinion on any representations or warranties made by the parties in the Agreements, or any matters of fact. We do not express any opinion on tax issues or tax laws.

As Netherlands lawyers we are not qualified or able to assess the true meaning and purport of the terms of the Agreements under applicable law (not being the laws of the Netherlands) and the obligations of the parties thereto under such Agreements and we have not made any investigation of such meaning and purport. Our review of the Agreements and of any other documents subject to any laws other than the laws of the Netherlands is explicitly limited to the face-value of any such terms of such underlying documents.

Terms and expressions of law and of legal concepts as used in this opinion have the meaning in this opinion attributed to them under the laws of the Netherlands and this opinion should be read and understood accordingly.

Based solely upon and subject to the foregoing and subject to the qualifications and limitations and exceptions set forth herein as well as any fact, circumstance, event or document not disclosed to us and/ or inconsistent with the information revealed by the documents reviewed by us by our examination referred to above and having regard to such legal considerations as we deem relevant, in order to render this opinion, we are of the opinion that at the date hereof:

Objects and Power

1. The Company is a company duly incorporated and validly existing under the laws of the Netherlands as a private company with limited liability (*'besloten vennootschap met beperkte aansprakelijkheid'*). The Company has full corporate power and authority to conduct its business, all within the limits of its object clause set forth in article 2 of the Articles of Association.

Ownership and title to the securities or assets of the Company

2. Subject to qualifications (xv) and (xvi) below, there are generally no restrictions under the laws of the Netherlands that would prohibit the transfer of ownership of shares in the capital of the Company unless such shares are subject to a right of pledge, usufruct (*'vruchtgebruik'*), other encumbrance, lien, charge or other limited right (*'beperkt recht'*), or if certificates for shares have been issued restricting the transfer of such shares.

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY *(cont'd)*

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

page 5 of 9

3. Under the Netherlands civil law there are generally no restrictions that would prohibit the transfer of full ownership of any tangible assets and/or Intellectual Property Rights (as defined in qualification (xvii) below) in the Netherlands (provided these are transferable), unless such assets are subject to a right of pledge, usufruct ('*vruchtgebruik*'), other limited right ('*beperkt recht*') or other encumbrance, lien, charge, license agreement or (other) contractual limitations.

Enforceability of agreements, representations and undertakings given by the Company

4. Generally, agreements entered into by a private limited liability company ('*besloten vennootschap*') incorporated in the Netherlands, such as the Company, are enforceable in the courts of the Netherlands if the execution, and performance of the agreement by all parties thereto including such company: (i) is duly authorized by all requisite corporate action required by the articles of association and / or by the laws of the Netherlands, (ii) is validly executed by and on behalf of the Company by a person authorized to represent the company, (iii) does not violate or contravene (a) any existing provision of, or rule or regulation, under the laws of the Netherlands, and / or (b) any provision of such Company's articles of association, and (iv) the agreement has not been entered into by a party with invalidated consent ('*wilsgebrek*').

Dividend Policies

5. Generally, a private limited liability company ('*besloten vennootschap*') incorporated in the Netherlands, such as the Company, can declare distributions from its profits to its shareholders after it has fulfilled all obligations prescribed in the laws and regulations of the Netherlands, subject to qualifications (iii), (xvii) and (xviii) below.

Policies on foreign investments and repatriation of profits

6. Under the laws of the Netherlands there are generally no restriction to transfer or repatriate funds to and from the Netherlands, subject to qualifications (xiii) and (xviii) below.

This opinion is subject to the following qualifications and limitations:

- (i) The opinions expressed herein are limited by the provisions of any applicable bankruptcy (*faillissement*), insolvency, moratorium of payments (*surséance van betaling*), reorganization, liquidation or suretyship or other similar laws or regulations affecting the rights of creditors in general, including rights of set-off.
- (ii) It should be noted that, under article 2:7 of the Netherlands Civil Code a transaction entered into by a legal entity can be annulled if the objects of that entity are thereby exceeded and the other party to the transaction was or should, without making its own

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY (*cont'd*)

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

page 6 of 9

inquiries, have been aware thereof. Only the legal entity can invoke this ground for annulment.

Article 3:45 of the Netherlands Civil Code provides that where a debtor who enters into a transaction or performs an obligation without being legally obliged to do so (which includes the performance of an obligation which is not (as yet) exigible (*opeisbaar*), knew or should have known that the possibilities for one or more of its creditors to seek recourse against its assets would be negatively affected thereby, any creditor whose claim has been prejudiced has the right to nullify such transaction or performance if certain conditions are met ("*Actio Pauliana*").

Dutch courts may give effect to the mandatory rules of the laws of (i) the Netherlands irrespective of the law otherwise applicable to an agreement, and (ii) any other country with which the situation has a close connection, if and insofar as, under the law of the latter country, those rules must be applied whatever the law applicable to the contract.

- (v) The application of a rule of the chosen laws of any country under the Agreements or any other laws that otherwise would govern any obligation thereunder may be refused by the courts of the Netherlands if such application is manifestly incompatible with the public policy (*ordre public*) of the Netherlands.

The enforcement of obligations may be limited by the competent Dutch courts to the extent that, as a result of general principles of Dutch civil law and dependent upon all relevant circumstances of the particular case, such a court deems enforcement unacceptable with a view to the general applicable Dutch standards of reasonableness and fairness (*redelijkheid en billijkheid*), and such courts may amend the (effects of a) contractual obligation at the request of any one of the parties thereto, or terminate the whole or any part of such contractual obligations on the ground that unforeseen circumstances (*onvoorziene omstandigheden*) have occurred of such a nature that the other party or parties may, according to standards of reasonableness and fairness, not expect an unamended performance of the obligation under such contractual obligation; such an amendment or termination may be given retroactive force, and such courts may amend the effects of a contractual obligation on the basis of abuse of authority (*misbruik van bevoegdheid*).

Any enforcement of any agreements and of any foreign judgments in the Netherlands will be subject to the rules of Dutch civil procedure, judgements may be rendered in a foreign currency; enforcement is executed, however, in Euros at the applicable rate of exchange.

- (viii) Enforcement of obligations in the Netherlands will be subject to the nature of the remedies available in the courts of the Netherlands and the availability of defences such as set off and counter-claim.

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY *(cont'd)*

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

page 7 of 9

The terms "legal", "valid", "binding", "obligation" and "enforceable" mean that the obligations to which those terms relate are of a type which under the laws of the Netherlands are generally recognised or are generally enforceable, although specific performance may not always be available or be granted by Dutch courts.

Agreements may be amended orally by the parties thereto notwithstanding provisions therein to the contrary.

Any transfer of ownership of assets or rights (including but not limited to Intellectual Property Rights) vested in the Netherlands is subject to the Netherlands rules and regulations regarding transfer of ownership of such asset or right.

- (xii) Under the laws of the Netherlands a competent court has the discretion to decrease the amount of the agreed upon damages, indemnities or penalties provided for in the Agreements which are deemed as manifestly excessive.
- (xiii) It should be noted that natural persons and legal entities residing or established in the Netherlands can be designated by De Nederlandsche Bank N.V. (the Dutch Central Bank, "DNB") to report financial information to DNB in accordance with the provisions of the Balance of Payment Reporting Instructions 2003 (*Rapportagevoorschriften Betalingsbalansrapportages 2003*) issued by DNB pursuant to article 7 of the External Financial Relations Act 1994 (*Wet Financiële Betrekkingen Buitenland 1994*).
- (xiv) The information contained in the Extract does not constitute conclusive evidence of the facts reflected therein.
- (xv) It should be noted that pursuant to article 3 of the Act on Supervision of the Securities Trade 1995 (*Wet toezicht effectenverkeer 1995* "Wte 1995") it is generally prohibited to offer securities, that have not been available in the Netherlands beyond a restricted circle since their issue, in or from the Netherlands beyond a restricted circle or to announce such an offer by means of advertisements or other documents unless a prospectus that complies with detailed requirements is made publicly available. Pursuant to article 4a of the Exemption Regulation pursuant to the Wte 1995 (the "Exemption Regulation") an exemption from the prospectus requirement shall be granted if the following cumulative criteria are met: (i) the securities offered can only be acquired as a package with a value of at least EUR 50,000 or the equivalent thereof in foreign currency; and (ii) in the offer, the information memorandum in which the offer is made and in advertisements and documents in which the offer is announced, is stated that the securities are offered only as a package with a value of at least EUR 50,000.-; and (iii) a copy of the information memorandum in which the offer is made is filed with the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten* "AFM") prior to the offer.

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY (cont'd)

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

page 8 of 9

- (xvi) Pursuant to article 2:195 of the Netherlands Civil Code and article 14.1 of the Articles of Association, each transfer of shares in the Company can only be effectuated after the shares have been offered to the other shareholders in accordance with the procedure and pricing mechanism described in paragraphs 2 through 15 of article 14 of the Articles of Association. In addition article 15 of the Articles of Association contains an obligation for shareholders in the Company to offer shares to the other shareholders in accordance with a different procedure and pricing mechanism in case one of the following event occurs with respect to such shareholder: death, granting of a moratorium of payments ('*verlening van surseance van betaling*'), bankruptcy ('*faillissement*'), placement under guardianship ('*onder curatelestelling*') and dissolution of the community property ('*ontbinding van de huwelijksgemeenschap*') of a shareholder other than through death, as well as at the dissolution of a shareholder that is a legal entity and if a shareholder that is a legal entity ceases to exist as a result of a legal merger ('*juridische fusie*').
- (xvii) It should be noted that pursuant to article 2:216 paragraph 2 of the Netherlands Civil Code a private limited liability company ('*besloten vennootschap*') such as the Company can only make distributions to its shareholders to the extent that its capital exceeds the paid up and called upon part of such company's capital increased with the statutory reserves and the reserves required by such companies articles of association.
- (xviii) Pursuant to article 2:216 paragraph 4 of the Netherlands Civil Code a private limited liability company ('*besloten vennootschap*') such as the Company can only declare an interim distribution (i.e. before the companies annual accounts have been adopted ('*vastgesteld*') by the general meeting of shareholders) if the articles of association allow for the distribution of interim dividend and the restrictions of qualification (xvii) above are complied with. The Articles of Association do not allow for the distribution of interim dividend;
- (xiv) Intellectual Property Rights are: copyrights, neighboring rights, trademark rights, trade name rights, design rights, patent rights, breeding rights, semi-conductor rights and database rights, valid in the Netherlands. Please note that intangible assets which are not protected by Intellectual Property Rights are not considered a property right and therefore such intangible assets cannot be legally owned or transferred.

We undertake no, and so hereby disclaim any, obligation to advise you of any change in any matter set forth herein occurring after the date hereof. This opinion is strictly limited to the matters stated herein and may not be read as extending by implication to any matters not specifically referred to herein. Nothing in this opinion should be taken as expressing an opinion in respect of any representations or warranties, or other information contained in the Agreements or any other document in connection therewith or with this opinion except as expressly confirmed herein. Our liability shall at all times be limited to the amount which is paid out under our partnership's professional liability insurance policy.

15. EXPERT'S REPORT AND LEGAL OPINION PERTAINING TO POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS AND ON THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS RESPECTIVELY *(cont'd)*

HOLLAND VAN GIJZEN
ATTORNEYS AT LAW AND CIVIL LAW NOTARIES

page 9 of 9

This opinion is governed by the laws of the Netherlands. Any legal action or proceeding with respect to this opinion shall be brought before the District Court of Amsterdam, The Netherlands only. By accepting this opinion letter or reliance thereon, any person explicitly consents with the above and irrevocably waives its rights, if any, to commence proceedings as to the contents of this opinion letter in any other jurisdiction or venue.

This opinion is addressed to, and may be relied upon only by, you (and your Malaysian legal counsel, Mazlan & Associates and your advisor, Avenue Securities Sdn Bhd). Without our prior written consent, this opinion letter may not be transmitted to, filed with, quoted, summarized or referred to in any publication or otherwise, in whole or in part, or relied upon by, any other person, firm, company or institution.

HOLLAND VAN GIJZEN


A.R. Eijus

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in this Prospectus)

Infocredit 

Creating value...building trust

Date **20 APR 2005**

Infocredit D&B (Malaysia) Sdn Bhd (527570-M)

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Website: www.icdnb.com.my

Board of Directors
Equator Life Science Berhad
Suite 6.1A, Aras 6, Menara Pelangi
Jalan Kuning, Taman Pelangi
80400 Johor Bahru
Johor

RE: INDEPENDENT MARKET RESEARCHERS' REPORT - EXECUTIVE SUMMARY FOR EQUATOR LIFE SCIENCE BERHAD ("EQUATOR")

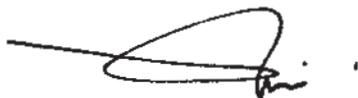
This Report has been prepared for inclusion in the Prospectus dated **20 APR 2005** pursuant to the listing of Equator on the MESDAQ market of Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad).

This research is undertaken with the purpose of providing an overview of the Horticulture Industry in Malaysia. The research methodology includes primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house corporate databases, Internet research as well as online databases.

Infocredit D&B (Malaysia) Sdn Bhd ("Independent Market Researchers or "IMR") has prepared this Report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Report. The Report was completed on 9 July 2004 and updated in March 2005. In addition, the IMR acknowledges that if there are significant changes affecting the content of the IMR's Report after the issue of the Prospectus and before the issue of securities, then the IMR has an on-going obligation to either cause the Report to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Report in the Prospectus.

An Executive Summary is highlighted in the following sections.

For and on behalf
INFOCREDIT D&B (MALAYSIA) SDN BHD



Tan Sze Chong
Managing Director

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

EXECUTIVE SUMMARY

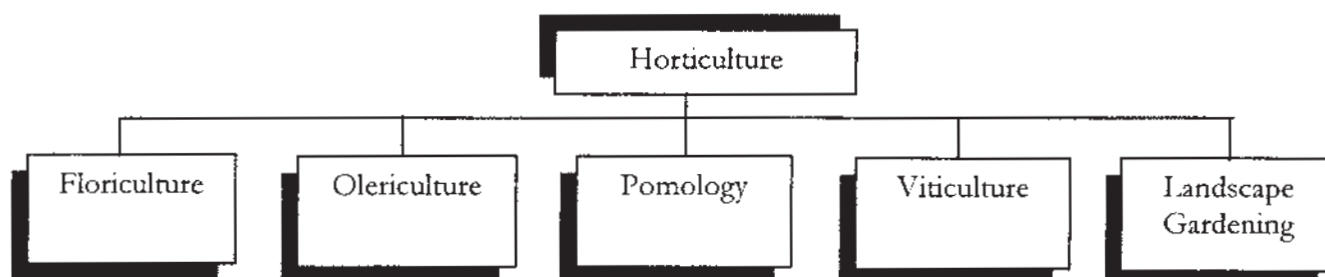
1 HORTICULTURE & FLORICULTURE

1.1 INDUSTRY BACKGROUND

Horticulture is a sub-sector of agriculture. The word is formed from two Latin words "hortus" meaning garden and "cultura" meaning cultivation. In summary, it is the science and art of gardening and cultivating of fruits, vegetables, flowers and ornamental plants. Unlike agriculture, which commonly refers to the growing of field crops, usually on a large scale, horticulture generally relates to small-scale gardening.

Among the sub-categories of horticulture are floriculture (growing flowers), olericulture (growing vegetables), pomology (growing fruits), viticulture (growing grapes for wine) and landscape gardening.

Figure 1: Sub-categories of Horticulture Industry



Source: Infocredit D&B

In Malaysia, Johor has the most agriculture land approved for development of the horticulture industry followed by Kelantan and Sarawak. The following table demonstrates the main growing areas of fruits, flowers and vegetables.

Table 1: Malaysia: Main Growing Areas of Fruits, Flowers and Vegetables, 2000

State	Fruits (Hectare)	Flowers (Hectare)	Vegetables (Hectare)
Johor	83,829.5	738.66	15,098.4
Kelantan	55,515.7	8.15	3,173.5
Sarawak	37,297.2	14.52	2,726.8
Perak	23,094.6	85.77	2,726.8
Terengganu	22,447.7	n.a.	1,402.6
Pahang	21,073.9	483.67	7,050.0
Sabah	17,229.0	23.49	2,012.2
Kedah	16,825.4	6.10	1,410.2
Selangor / Kuala Lumpur	10,945.2	81.63	1,070.3
Negeri Sembilan	8,961.9	4.00	915.2
Melaka	8,876.6	2.53	1,023.9
P. Pinang	7,297.2	n.a.	1,574.1
Perlis	1,572.4	n.a.	135.7

Source: Ministry of Agriculture and Agro-based Industry, Malaysia

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

1.1.1 HORTICULTURE

Horticulture is the combination of art and science in producing, marketing, using and improving fruits, vegetables, flowers, and ornamental plants. It is a diverse industry with commercial enterprises providing a wide variety of products and services. It has provided a large portion of our daily diet, and an endless source of beauty and enrichment in our homes, communities and leisure activities.

Generally, horticulture can be divided into two categories; namely, edible plants and aesthetic plants (those grown for their beauty). The production, storage, processing, and marketing of vegetables (such as sweet potatoes, lettuce, peppers, and sweet corn) is called olericulture while the science and practice of fruit production is called pomology. As for the cultivation and management of cut flowers, flowering plants, and foliage plants, this activity is known as floriculture.

Products from horticulture are inevitably rich and diverse. Plants like chrysanthemums, roses, carnations, and orchids are used as cut flowers. Easter lilies, poinsettias, and begonias are grown as flowering potted plants while philodendron, ferns, and ficus are grown as foliage plants. There is also the nursery crop culture, which essentially deals with the propagation and production of young trees, shrubs, grown covers, and vines for exterior landscaping. The landscape horticulture encompasses the design, construction and maintenance of landscapes for homes, businesses and public areas (such as municipal buildings, highway right-of-way, rest areas, golf courses, parks and athletic fields).

In Malaysia, horticulture plays an increasingly important role in the development of the agriculture sector. Emerging in the mid-eighties, attention is now more focused on further development of the horticulture sub-sectors. The boost is expected to come from the Third National Agricultural Policy ("NAP3"), which aims to ensure adequate and reliable supply of high quality and safe food products for domestic consumption and processing industries. Malaysia have included the food sub-sector as a promoted sector in the Promotion of Investment Acts 1986 and also to leverage on its competitive advantage of an abundant source of selected commodities to capitalise on opportunities in the international markets for fresh horticultural products. Inadvertently, horticulture is in for the long haul.

1.1.2 FLORICULTURE

Floriculture includes the production and marketing of blooming potted plants, foliage potted plants, garden bedding plants, and cut flowers and foliage. Unlike other agricultural commodities, floriculture encompasses thousands of different plant species. For example, "Dracaena" is a member of the Lily family and is related to the Ti, Aloe and Yucca. There are over 150 varieties of Dracaena. The floriculture industry is mostly represented by cut flowers, which is cultivated under controlled conditions mainly for export. The industry is estimated to grow at between 6.0% and 10.0% per annum globally. This is mainly attributed to the growing demand from developed countries such as Europe, USA, Australia, Japan and Singapore.

The major importing countries of cut flowers are the Netherlands, USA, Germany, France, United Kingdom (UK), Switzerland, Italy and Japan while major exporting countries include the Netherlands, Columbia, Ecuador, Israel, Spain and Kenya. Being a major market for floriculture, the Netherlands both imports and re-exports the flowers. The rose remains the most important flower traded in the international flower market. However, other plants like chrysanthemum, carnation, gerbera, dahlia, poinsettia, orchids, and lily are also marketed in large quantities globally.

Holidays and special events are still the primary buying occasions for floral products. Major holidays for cut flowers and blooming plants are Christmas, Mother's Day, Valentine and Easter. Most significant non-holiday occasions are funerals, illnesses, weddings, graduations and birthdays or anniversaries. As the global economy becomes more urbanised and people are more affluent, the taste

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

and preference for floriculture products in garden landscaping and home decor art would also be increasing.

Realising the potential of floriculture industry worldwide, the Malaysian Government through the Ministry of Agriculture and Agro-based Industry has set out a few measures to further expand the potential of this industry. The Government is targeting to increase floriculture production from a cumulative 402.5 million cuttings in 2000-2003 to a cumulative of 507 million cuttings in 2000-2005, with emphasis given to the cultivation of orchids.

1.2 MARKET PERFORMANCE & GROWTH TRENDS

Production of fruits, vegetables and flowers grew 18.5% annually during the period 2000-2003. Specifically, production of vegetables grew 21.1% from 458,300 tonnes in 2000 to 813,000 tonnes in 2003 while production of fruits grew 18.8% from 885,500 tonnes to 1,485,200 tonnes. This was mainly attributed to intensive cultivation as well as the use of recommended technologies and good agricultural practices.

Table 2: Malaysia: Production of Selected Agricultural Commodities, 2000-2003

Commodity	2000 (^{'000})	2003 (^{'000})	2001-2003 Average Annual Growth Rate (%)
Flowers ¹	120.4	137.7	4.6
Fruits ²	885.5	1,485.2	18.8
Vegetables ³	458.3	813.0	21.1
TOTAL	1,464.2	2,435.9	18.5

¹ Measured in thousand stalks

² Refers to commercial cultivation

³ Tonnes

Source: Mid-Term Review of the Eighth Malaysia Plan

Table 3: Malaysia: Number of Flower Plants Planted, 2001-2004

Number of Flower Plants Planted	2001	2002	2003p	2004e
Orchid Plants	7,667,343	9,463,816	8,565,580	9,444,804
Non-Orchid Plants	12,556,046	14,643,290	13,599,670	14,915,262
Foliage	3,427,546	4,549,044	3,988,290	3,473,431
Ornamental Plants	833,728	2,114,932	1,474,330	2,895,029
Total Plants	24,484,663	30,771,082	27,627,870	30,728,526

Note:

p- provisional

e - estimates

Source: Agriculture Statistical Handbook 2004.

There were total of 27,627,870 plants cultivated in Malaysia as of 2003. From this total, 31.0% are orchids, 49.2% are non-orchids plants, 14.4% foliage and 5.3% ornamental plants. It was estimated that the share of orchids to remain almost unchanged with 30.7% in 2004 while foliage decline to 11.3%. In terms of production, there were total of 117,624,020 flower plants produced in 2003. However, according to Ministry of Agriculture and Agro-based Industry estimates, total production for 2004 was expected to decline around 3.2% to 113,844,817.

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

Table 4: Malaysia: Production of Flower Plants, 2001-2004e

Number of Flower Plants Produced (cuttings/pot)	2001	2002	2003p	2004e
<i>Orchid Cut Flowers</i>	21,738,199	23,000,587	22,369,390	24,918,286
<i>Non Orchid Cut Flowers</i>	86,669,270	88,482,624	87,575,950	79,225,861
<i>Foliage</i>	4,047,112	4,564,371	4,305,740	5,102,470
<i>Ornamental Plants</i>	4,259,702	2,486,178	3,372,940	4,598,200
Total Production	116,714,283	118,533,760	117,624,020	113,844,817

Note:

p - provisional

e - estimates

Sources: Agriculture Statistical Handbook 2004

The main orchid species grown in Malaysia are *Aranda*, *Vanda*, *Mokara*, *Aranchis* and *Dendrobium*. Orchids grown in Malaysia are mostly exported to Japan, Singapore, Taiwan and EU countries namely Italy and the Netherlands. The main non-orchid flowers are chrysanthemum and roses. Both of these flowers constituted around 84.3% of the non-orchid plants produced in 2001 with Chrysanthemum contributing to 53,927,176 cuttings and Aster to 19,124,348 cuttings.

1.3 MARKET SUPPLY AND DEMAND

At the forefront, cultivation of cut flowers, pot plants and ornamental plants are widely spread throughout the world. In Malaysia, floriculture industry is an export-based industry whereby local growers/suppliers are competing with international players. This is supported by the demand in developed countries of Europe, USA, Australia and Japan. The climate in most of these countries does not favour year around cultivation of these flowers and many of them import flowers from other countries. As such, it is more appropriate to look at the supply and demand of the global exporting and importing countries.

(I) MAJOR IMPORTING COUNTRIES

The major importing countries of cut flowers are the Netherlands, USA, Germany, France, UK, Switzerland, Italy and Japan. Being a major market for floriculture, the Netherlands both imports and re-exports flowers. The most important flower traded in the international market is still Rose; however, others like Chrysanthemum, Carnation, Gerbera, Dahlia, Poinsettia, Orchids, Lily and many others are also marketed in large quantities in these countries.

The 2003 import statistics reported to the United Nations ("UN") showed world trade value in dollars of floriculture was USD10.3 billion, an increase of 15.7% as compared to 2002. Of this amount, USD4.9 billion was attributed to cut flowers, USD4.6 billion to live plants and USD0.8 billion cut foliage greens.

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

Table 5: Import Value of Cut Flowers in 2002 and 2003 (USD'000)

Importing Country	Value 2002	Value 2003
UK	816,692	910,105
Germany	803,761	850,520
USA	684,016	768,509
France	408,150	482,461
The Netherlands	440,309	477,514
Italy	154,083	175,383
Japan	150,737	171,258
Switzerland	141,423	157,554
Belgium	105,887	119,625
Austria	84,946	90,505

Source: United Nations (UN), Comtrade

Trade in cut flowers rose 11% in value between 2002 and 2003 amongst the top ten (10) import countries. Many country markets experienced double digits growth except for Germany which recorded growth rate of 5.8%. The Danish market expanded aggressively while France overtook the Netherlands and rose to become the world's fourth largest cut flower import market. Import value increased substantially in France, Italy, Japan and Belgium which recorded growth rate of above 13%.

Table 6: Import Value of Live Plants (Other) in 2002 and 2003 (USD'000)

Importing Country	Value 2002	Value 2003
Germany	769,450	941,195
France	405,128	522,931
UK	349,664	406,055
USA	354,008	380,863
The Netherlands	238,720	319,876

Source: UN, Comtrade

Table 7: Import Value of Cut Foliage Greens in 2002 and 2003 (USD'000)

Importing Country	Value 2002	Value 2003
The Netherlands	187,419	203,991
Germany	140,870	147,997
USA	96,573	107,979
UK	38,417	45,250
Japan	40,457	44,222

Source: UN, Comtrade

The import value of live plants recorded double digits growth among the top five (5) import markets between 2002 and 2003 with the exception of USA whereas the imports of cut foliage greens registered an increase of 9.1% among the top five (5) import markets for the same year. Germany, France and UK remained as the biggest importers for live plants in 2003. Meanwhile, the Netherlands, Germany and the USA continued to be the biggest importers for cut foliage greens.

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

(II) MAJOR EXPORTING COUNTRIES

Table 8: Export Value of Cut Flowers in 2002 and 2003 (USD'000)

Exporting Country	Value 2002	Value 2003
The Netherlands	2,152,626	2,815,519
Colombia	672,555	682,283
Ecuador	290,223	295,223
Kenya	99,550	176,014
Israel	129,943	131,220

Source: UN, Comtrade

The major five (5) exporting countries for cut flowers include the Netherlands, Columbia, Ecuador, Kenya and Israel. Essentially, the top five (5) exporting countries exports cut flowers were on the increasing trend. The Netherlands, being the largest exporter for cut flowers in the world experienced a 30.8% increased in value in 2003 as compared to the previous year. The biggest country that was experiencing a soar in export value for the same year was Kenya with growth rate exceeding 70%. Kenya export value stood at USD176.0 million in 2002 as compared to USD99.6 million in 2003.

Table 9: Export Value of Live Plants (Other) in 2002 and 2003 (USD'000)

Exporting Country	Value 2002	Value 2003
The Netherlands	1,575,112	2,203,015
Denmark	383,450	446,228
Belgium	334,459	429,771
Italy	326,783	384,282
Germany	223,341	289,548

Source: UN, Comtrade

In 2003, the global export statistics of live plants reported to UN was valued at approximately USD4.9 billion. The top five (5) exporting countries of live plants with aggregate value of around USD3.8 billion accounted for 77.6% of the global export. The Netherlands with USD2.2 billion worth of export value was the top exporter for live plants in 2003 with market share of 44.9%. All of the top five (5) exporters of live plants also registered double digits growth.

Table 10: Export Value of Cut Foliage Greens in 2002 and 2003 (USD'000)

Exporting Country	Value 2002	Value 2003
The Netherlands	122,029	146,420
Italy	89,883	104,104
Denmark	87,776	101,530
USA	83,796	92,389
Costa Rica	n.a.	55,401

Source: UN, Comtrade

The top five (5) export countries for cut foliage greens in 2002 continued to be the major exporters in 2003. Total export value for cut foliage greens rose 26.6% from USD631 million in 2002 to USD799 million in 2003. The Netherlands, Italy, Denmark and the US recorded double digits growth in 2003. In the same year, the Netherlands controlled 18.3% of the total export market.

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

1.4 INDUSTRY LIFE CYCLE

By and large, the agriculture sector within Malaysia is enjoying a resurgence, riding high on the growth phase of the new S-curve of the industry, with the advent of horticulture and its seemingly and potentially limitless range of produce.

Prior to the dominance of the manufacturing and services sectors in the economy, Malaysia was relying on the agriculture and mining sectors. Nonetheless, the primary sectors continue to play pivotal roles in the economy despite its lower contribution. The agriculture sector, in particular, remains crucial to the economy – as a means for exports as well as domestic consumption.

In the sub-sector of horticulture, domestic consumption continues to be robust, especially for fruits and vegetables. Malaysia remains a net importer of both commodities, running a combined deficit of RM1.0 billion in 2003. Although, productions were at various stages of advancement, output continues to fall short of demand. In essence, growth in this area continues to be favourable. In terms of ornamental plants and foliage, the growing number of house-owners coupled with rising affluence will continue to assure the demand for ornamental plants and foliage.

In the orchids segment, the degree of hybridising continues to be encouraging, while the hobby of orchids collection has been promising. While the demand for “easy-to-maintain” orchids remains favourable, the demand for hobbyist plants is also rapidly picking up. While hobbyist plants can be expensive, to the serious hobbyist it does not pose a problem, to maintain the exclusivity of the particular specie or hybrid. Therefore, the orchid segment remains an area with growth potential, with strong domestic and external demand. In the non-orchid segment, its cut flower potentials is particularly encouraging, especially for roses and chrysanthemum. The cut flower industry is a lucrative industry, as most of the cut flowers are either packed or used as gifts, decorations or for prayers. Overall, the demand for cut flowers remains strong.

Overall, the agriculture sector has advanced fairly rapidly in the area of Research & Development (R&D) in recent decades, due to the thrusts of national policies. The sector has matured with better line of commodities, which are higher yielding. Despite the higher output, demand continues to be strong, both domestically and internationally.

1.5 DEPENDENCY ON OTHER INDUSTRIES

Like the broad agriculture sector, the horticulture business is dependent on critical ancillary services and input for its well being. The supply of external inputs such as fertilisers, agricultural chemicals, seeds, planting materials, feeds and agricultural machinery and equipment will profoundly affect the competitiveness of agricultural production.

Based on recent agriculture-related data, the prices of the inputs have been increasing steadily and this has influenced the competitiveness of the Malaysian agriculture sector. While strategic considerations are important to improve the efficiency of these inputs to minimise the increase in the input prices are appropriate, the Government is expected to play a pivotal role by providing an attractive environment and incentives for the development, expansion and modernisation.

To buttress efficiency and strengthening the competitiveness of the agricultural sector, the capacity and quality of support services are also important influencing factors. Towards this ends, support services like agricultural marketing, extension, advisory and consultancy, credit, insurance, information and logistic services such as warehousing, distribution and transportation are critical success factors as well.

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)**1.6 BARRIERS TO ENTRY**

The local horticulture industry is populated by mainly small and medium size operators as they normally falls under the conventional growers group. As such, the barrier to entry for the industry is average to fairly low. The technology/know-how can normally be acquired via the Malaysian Agricultural Research & Development Institute (MARDI) and other relevant associations. However, due to the industry is experiencing evolution over the last two decades, would-be entrepreneurs need to conduct extensive R&D on developing new techniques and better breeds to compete in this industry. For instance, with the advanced development in the biotechnology area, a lot of horticulture producers in most developed countries have been adopting these techniques. It is a new aspect of biological and agricultural science which provides new tools and strategies in the overall production process by providing new strains of plants, supply of planting material, more efficient and selective pesticides and improved fertilisers.

Notwithstanding that, horticulture is a mature industry in certain parts of the world, especially Europe and the US. It is vital that the horticulture entrepreneurs know how this market works and the latest biotechnology development in the horticulture industry, to open up the boundaries. Without understanding the need of the consumers and the strengths of the competitors, these factors would prove to be a major stumbling block.

1.7 CAPITAL/LABOUR INTENSIVENESS

While the agriculture sector remains a labour intensive sector, its employment declined marginally from 1.41 million in 2003 to 1.40 million in 2004. During this period, the agriculture sector's share in total employment continued to decrease from 13.8% to 13.3%. The decline was mainly attributed to out-migration of workers from the agriculture sector to the other sectors in the economy, as well as the adoption of labour-saving technologies and farming practices. However, efforts to utilise mechanical harvesting technology in the plantation sector was met with limited success. Consequently, the sector continued to experience tight labour situation and was dependent on 327,490 registered foreign workers, which constituted approximately 23.0% of the total agriculture sector workforce in 2003.

Table 11: Malaysia: Agriculture Employment & Value Added Per Worker

MAIN INDICATORS		2000	2001	2002	2003	2004f	2005f
(%)							
Agricultural Employment ('000)		1,407.5	1,406.5	1,405.6	1,404.8	1,396.8	1,403.0
Percentage to Total Employment		15.2	14.8	14.3	13.8	13.3	12.9
Value Added per Worker (RM in 1987 prices)		12,833	12,274	13,118	13,432	13,827	14,185

Note: f = forecast

Source: Mid-Term Review of the Eighth Malaysia Plan

Under the NAP3, it is envisaged that the total workforce in the agriculture sector will be reduced to 0.9 million workers by 2010. This will be achieved through:

- Reduction in labour intensive agricultural enterprises, in particular rubber, coconut, cocoa and pepper;
- Promotion and cultivation of new crops that require less labour inputs including timer species, bamboo and rattan;
- Promoting controlled environment, automated and mechanised intensive production systems such as aeroponics and hydroponics for high value crops; and

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT *(cont'd)*

- Intensifying R&D and technology transfer efforts in labour saving technologies, especially in the harvesting operations of oil palm, fruits, flowers, vegetables and tapping of rubber.

In short, the horticulture industry generally relies heavily on an optimum combination of labour input and technical know-how, with technology playing an increasingly important role within the industry.

1.8 RAW MATERIAL SOURCING/SUPPLIES

Generally, sourcing of supplies is not a major concern in the agriculture sector or the horticulture sub-sector. Machinery are mostly imported while raw materials are domestically sourced. Where new clones are concerned, producers will still need to work with the respective Government departments and/ its own internal R&D department in harnessing and enhancing the effectiveness of their R&D activities.

Total fertilisers consumption in the agriculture sector in Malaysia was on the increasing trend during the period 1989 to 1999. There were basically three most common groups of fertilisers used in Malaysia – Nitrogen (N), Phosphorus (P) and Potassium (K). Magnesium (Mg) is new and mostly used in oil palm plantation.

During the period of 1989 to 1999, total fertilisers consumed in the agriculture sector increased 5.9% annually. Among the three most common used fertilisers, phosphorus enjoyed the highest annual growth rate at 6.6%, followed by potassium and nitrogen. With Malaysia endeavouring to reduce the consumption of non-organic fertilisers in agriculture sector, there will be shift towards the usage of organic fertilisers. This is in line with the Sanitary and Phyto-sanitary (SPS) Agreement under the World Trade Organisation (WTO) Agreement.

1.9 GOVERNMENT LEGISLATIONS, POLICIES AND INCENTIVES

Policy measures directed at the broad agriculture sector will inadvertently impact on the horticulture sub-sector. To this extent, the recent shift of development attention towards agriculture-based activities will have positive spillover on the horticulture sub-sector. Listed below are some of the promulgated measures that will benefit the agriculture sector in general and the horticulture in particular.

1.9.1 POLICIES

While Malaysia continues to chart its course towards industrialisation, the overall agriculture sector continues to be an emphasis of the Government, as evident from the continuing policy embraced in the NAP3, which outlined the path for agricultural and forestry sectors for the period from 1998-2010. Under the NAP3, the objectives are:

- To enhance food security;
- To increase productivity and competitiveness of the sector;
- To deepen linkages with other sectors;
- To create new sources of growth for the sector; and
- To conserve and utilise natural resources on a sustainable basis.

In line with these policy objectives, two approaches are employed. The first is the agroforestry approach, whereby this approach is aimed at addressing the increasingly scarce resources including land and raw material availability. Within this approach, agriculture and forestry are viewed as mutually compatible and complementary, thereby providing a scope for joint development. In

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

essence, the integration of agriculture and forestry is also aimed to create a larger productive base for both sectors.

The second new strategic approach outlined in the NAP3 is the product-based approach. This approach is adopted to strengthen both inter and intra-sectoral linkages including the development and expansion of intermediate and supporting industries. This approach focuses in satisfying the specific needs of niche markets and consumers worldwide who are increasingly demanding products that are more specific to their needs and preferences. Furthermore, key products and markets are identified based on market demand, preferences and potential; these market demand and preferences are translated into strategies for upstream primary agricultural production so as to enhance production and marketing of the agricultural produce.

1.9.2 INCENTIVES

To further encourage the development of this sector the government is providing various incentives to the private sector. The incentives are pitched at private sector's R&D, provisioning of warehouse facilities, human resource development and commercialisation of R&D outputs. In addition to that, incentives will also be given for the export of consultancy services, provision of quality and safety testing services, and usage of information technology system in agriculture. The existing incentives given in the promotion of investments in food production and new and emerging areas of agriculture and agriculture related activities would be maintained.

Current promotional activities and products will be reviewed so as to ensure that they are aligned with the new developmental direction of the agricultural sector. Other complementary policy measures on credit facilities, soft loans given to food production, mechanisation and automation, commercialisation of agricultural R&D output and Bumiputra participation in commercial agriculture shall be continued. A detailed guideline to promote foreign investment in the agriculture sector will also be formulated.

1.9.3 TAXATION

According to the Income Tax Act 1967, companies which export fruits, fresh and dried cut flowers, ornamental plants and ornamental fish will be given tax exemption on statutory income equivalent to 10% of the value of increased exports.

There are also provisions for tax deductions on capital expenditure on approved agricultural projects. The capital expenditure eligible for deduction purposes for these incentives are as follows:

- The clearing and preparation of land;
- The planting (but not replanting) of a crop relating to an approved agricultural project;
- The construction on a farm of a road or bridge;
- The construction on a farm of a building used for the purposes of an approved agricultural project which is carried out on that farm or the construction on that farm of building provided for the welfare and accommodation of persons employed in that project and which, if that project ceased to be carried out, is likely to be little or no value to any person except in connection with the working of another farm; and
- The construction of a pond or the installation of an irrigation or drainage system, which is used for the purposed of an approved agricultural project.

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

The deduction is applicable to expenditure incurred within a specific time frame and in respect of farm cultivation that utilises the minimum hectareage specified for each approved project (as per stipulation of the Minister of Finance).

Table 12: Malaysia: List of Projects Approved By Ministry of Finance

Project	Period	Minimum Hectareage
Cultivation of Crops:		
<i>Papaya</i>	<i>1 year</i>	<i>40 hectares</i>
<i>Bananas</i>	<i>1 year</i>	<i>40 hectares</i>
<i>Passion Fruit</i>	<i>1 year</i>	<i>40 hectares</i>
<i>Star Fruit</i>	<i>2 years</i>	<i>8 hectares</i>
<i>Guava (Jambu)</i>	<i>2 years</i>	<i>8 hectares</i>
<i>Mangosteen</i>	<i>7 years</i>	<i>8 hectares</i>
Floriculture (Plants, bulbs, tubers and roots with or without flowerbuds, of the kind specified in Custom Duties Order 1988, which are suitable for planting of ornamental use, excluding mushroom spawn, budded or seedling rubber stamp and rubber budwood)	<i>2 years</i>	<i>8 hectares</i>
Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feeds and hydroponics based products.	<i>3 years</i>	<i>40 hectares</i>

Source: Economic Report 2003/2004; Ministry of Finance

1.10 MALAYSIA'S MAJOR IMPORT AND EXPORT COUNTRIES OF HORTICULTURE/FLORICULTURE

As the floriculture industry is exports based and 90% of Equator's revenue derived from exports, it is appropriate to look at the major import and export conditions of the country. Information is extracted from MATRADE based on the list of horticulture/floriculture produce under the four HS codes for Equator mentioned in the IMR. In terms of value, China was the largest exporter to Malaysia in 2003 (RM2.9 mil) followed by the Netherlands and Taiwan, which exported RM2.3 mil and RM2.1 mil worth of horticultural produce respectively to Malaysia in 2003.

Meanwhile, the major export countries of Malaysia's horticultural produce in 2003 were Singapore, the largest importer with RM34.7 mil worth of produce purchased, followed by Japan and the Netherlands, which purchased RM26.9 mil and RM12.9 mil worth of horticultural produce from Malaysia respectively.

Based on Equator's revenue in 2002 of RM14.1 mil, it accounted for approximately 18% of the total exports value of the same year. In 2003, the figure increased to 23% based on RM19 mil of the total exports value of RM82 mil.

1.11 CRITICAL SUCCESS FACTORS IN THE INDUSTRY

Like any industry, the horticulture industry hinges on several critical success factors not only to ensure sustainable growth, but to stay ahead of the competition as well. Some of these critical success factors are:

- **Competitive pricing** – Ornamental plants are viewed as decorative items. As such, the pricing is very much dependant on the ornamental value attached to it and how consumer perceived the value from the point of physical uniqueness and attractiveness, colours, sizes and rarity of the

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

products.

- **Quality products** - Generally, plants are perishable items that are subject to long transportation period, be it for local consumption or exports. In order to ensure optimal condition of the plants to be able to sustain long transportation period, a company must have acquired the knowledge and know-how of different variation of plants. This is due to different species may have different characteristics of shelves life, tolerance to humidity level and temperature.
- **Variety and complete range of products** – Ornamental plants are very much dependant on the market trends hence, consumers' preferences. As such, a company must be able to follow the changing trends and cultivate more variety of products to cater for different market segments.
- **Knowledgeable staff to cater to customers' needs and problems** – It is imperative for a company to have a well informed team to be able to meet its customers' needs and solve problems in order to maintain customer satisfaction.
- **Understanding market needs thus ensuring customers' satisfaction** - It is also because of the nature of decorative the items, consumer tends to constantly look out for new variety of plants that suit their personal preference. A company that is able to understand and react fast to these factors will be able to remain competitive at the international level.
- **Reliable delivery** – Products must be delivered on time at the optimal condition.
- **Marketing and networking** – A company that have built a wide distributing channel will be able to market its product to other countries in particular to the European region as it contributed to the biggest consumption for floriculture products.
- **Research and development** – The industry has been experiencing an evolution on biotechnology for the past few years. Non-conventional growers are able to nurture different varieties of plants and culture it at a faster period.

1.12 PROSPECTS OF FLORICULTURE INDUSTRY

The prospects of the floriculture industry are dependant on the global consumption as the main characteristics of this industry is its global competitiveness. Malaysia growers not only compete locally but with the rest of the world as well. As for Equator, they are already competing internationally with one of its subsidiary being set up in the Netherlands, being a major floriculture trading country. In view of these factors, it is worthwhile to look at the prospect in the Netherlands.

THE NETHERLANDS

BACKGROUND

Flower production is burgeoning across the globe and trading of flowers internationally is rising. The trading of flowers is more concentrated in markets with strong purchasing power; these included Europe, USA and Japan. Among them, the Netherlands is a major player both in production and distribution of floriculture products. Dutch flower auctions play an intermediary role between the Dutch growers and the wholesale trade. In addition, foreign flowers and plants are increasingly sold at auction in the Netherlands.

The cultivation of flowers and plants accounts for only around 4.0% of horticultural land use in Netherlands. However, floriculture under glass is extremely intensive. Thus, its floriculture industry generates over EURO3.0 billion annually, which represents half of the total production value of Dutch horticulture. The rapid expansion in the market for flowers and plants has induced many vegetable growers to switch to floriculture and in particular, growing flowers for the cut flower market. This in turn encourages cut flowers growers to venture into production of potted plants. This ever-changing trend has led to a further increase in the share of Dutch floriculture sector in the total production value of Dutch horticulture.

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

PRODUCTION OF FLORICULTURE CROPS

The main centres of production for floriculture crops are situated in the west of the Netherlands located in the area around Schiphol airport and in the greenhouse district, Westland, between the cities of the Hague and Rotterdam. Flowers and plants are largely produced by family firms where the owner themselves play an active role. The growers do not sell their products themselves but are affiliated to one of the flower auctions. The auctions will concentrate on supply and demand in the same location to ensure problem-free sales. As such, the growers are entirely free to concentrate solely on production and this has led to far-reaching specialisation at the nurseries themselves. By growing only one crop, or sometimes just one variety, growers can optimise their production.

Table 13: Netherlands: Production Area Of Floriculture, 2002-2003

Production Area (in hectares)	2002	2003	% Change
Ornamental plants under glass consists of:			
• Floricultural products	5,824	5,756	-1.2
• Arboreal products	390	379	-2.8
	6,214	6,135	
Ornamental plants outdoor consists of:			
• Floricultural products	2,684	2,607	-2.9
• Flower bulbs	24,221	24,538	+1.3
• Arboreal products	13,401	13,151	-1.9
	40,306	40,296	

Source: Flower Council of Holland

Table 14: Netherlands: Production Of Ornamental Plants In EUR1,000,000, 2002-2003

Production	2002	2003	% Change
Ornamental plants total:			
• Floricultural products	3,450	3,545	+2.8
• Flower bulbs	613	575	-6.2
• Arboreal products	553	570	+3.1
	4,616	4,690	

Source: Flower Council of Holland

Table 15: Netherlands: Number Of Cut Flowers And Plant Nurseries, 2003

Number Of Cut Flowers And Plant Nurseries	2003
Ornamental plants under glass	6,745
Ornamental plants outdoors	8,386

Source: Flower Council of Holland

16. SUMMARY ON INDEPENDENT MARKET RESEARCH REPORT (cont'd)

AUCTION MARKET

The auction market forms the main link between the grower and the trade in flowers and plants in Netherlands. As mentioned earlier, most growers in Netherlands do not sell their products direct but instead are affiliated to one of the flower auctions. Only 8.0% of Dutch floriculture products are sold directly by growers to the trade.

Structurally, the auctions are growers' cooperatives; in other words, the growers are co-owners of the auctions. Membership of an auction obliges growers to sell all their production through the auction. As a result, the auctions concentrate on the supply and demand of flowers and plants in the same area. Once the auction is done, the wholesalers and exporters will redistribute the products.

There are four main auction markets in Netherlands. They are FloraHolland, Aalsmeer, Oost Nederland and Vleuten. They are governed by the Association of Dutch Flower Auctions (VBN).

Table 16: Netherlands: Turnover VBN Auctions (Including Auctioned Import), 2001-2003

Auction Market (in EURO1,000,000)	2001	2002	2003
FloraHolland	1,828.4	1,917.9	1,919.5
Aalsmeer	1,487.6	1,583.5	1,597.6
Oost Nederland	50.4	57.4	62.4
Vleuten	23.6	22.9	23.5
TOTAL	3,390.0	3,581.7	3,603.0

Source: Association of Dutch Flower Auctions (VBN)

In 2003, the four Dutch cooperative flower auctions realised a turnover of EURO3.6 billion, a 0.6% increase compared to the previous year. The Oost Nederland auction market recorded the highest increase in turnover, with a value of EURO62.4 million in 2003 (compared to EURO57.4 million in the previous year). However, FloraHolland remained the largest auction market in Netherlands with a turnover of EURO1.9 billion in 2003, up 0.1% compared to 2002. Aalsmeer auction market is the second largest auction market.

TRADE FAIRS**International Horticulture Fair**

The most important international trade fair in horticulture and horticultural supplies industries is the International Horticulture Fair, held annually in November at the RAI in Amsterdam. The fair came about through the fusion of the Dutch Horticulture Trade Fair (NTV) and the International Floriculture Trade Fair.

The International Horticulture Fair offers everything in the field of growing techniques and it sets the tone for floriculture products, starting material, ornamental horticulture techniques and trade. It is indeed offers a very useful platform for business networking.