EQUATOR LIFE SCIENCE BERHAD
(Company No.: 640850-U)
Incorporated in Malaysia

Notes on the quarterly report – 31 December 2006

A. EXPLANATORY NOTES AS PER FRS134-INTERIM FINANCIAL REPORTING

A1. Basis of preparation

These interim financial statements are unaudited and have been prepared in accordance with FRS134: Interim Financial Reporting, and the requirements of Chapter 9 Paragraph 9.22 (Appendix 9B) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ market.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the last audited financial statements for the financial year ended 31 December 2005, except for the accounting policies changes that are expected to be reflected in the 2006 annual financial statements. The principal effects of the changes in accounting policies resulting from the adoption of the new/revised Financial Reporting Standards ("FRSs") are discussed below:

(a) FRS 3 : Business Combinations;
FRS 136 : Impairment of Assets; and
FRS 138 : Intangible Assets

The adoption of FRS : 3 Business Combinations and the consequential changes to FRS 136 : Impairment of Assets and FRS 138 : Intangible Assets, has resulted in a change in the accounting policy relating to purchased goodwill.

Goodwill acquired in a business combination is now stated at cost less any accumulated impairment losses. The adoption of these new FRSs has resulted in the Group ceasing annual amortisation of goodwill. Instead, goodwill is allocated to cash-generating units and the carrying amount is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill impairment is determined by comparing its carrying amount against its recoverable amount in accordance with FRS 136. Any impairment loss is recognised in the income statement and subsequent reversal is not allowed.

This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006. For business combinations entered into prior to that date, the transitional provisions of FRS 3 requires the Group to eliminate the carrying accumulated amortisation as at 1 January 2006 of RM167,120 against the carrying amount of goodwill. The carrying amount of goodwill for the Group as at 1 January 2006 of RM668,474 ceased to be amortised. This has the effect of reducing the amortisation charge of the Group by RM33,424 for the year ended 31 December 2006. No impairment loss on goodwill has been recognised in the 4th quarter ended 31 December 2006.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as "negative goodwill"), after reassessment, is now recognised immediately in profit or loss. Prior to 1 January 2006, negative goodwill was amortised over the weighted average useful life of the non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases, it was recognised in profit or loss as those expected losses were incurred. In accordance with the transitional provisions of FRS 3, the negative goodwill (reserves on consolidation) as at 1 January 2006 of RM9,087,432 was derecognised with a corresponding increase in retained earnings.

(b) FRS 101 : Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interests.

The presentation of the Group's financial statements for the current year is based on the revised requirements of FRS 101. There were no minority interests for the quarter ended 31 December 2005.

A2. Audit report

The preceding year annual audited financial statements were not subject to any qualification.

A3. Seasonal or cyclical factors

The Group’s interim operations were not affected by seasonal or cyclical factors.

A4. Unusual items

During the current quarter under review, there were no items or events that arose, which affected assets, liabilities, equity, net income or cash flows, that are unusual by reason of their nature, size or incidence.

A5. Changes in estimates

There were no changes in the estimates of amounts reported that have a material effect on the results in the current quarter under review.

A6. Issuance, cancellations, repurchases, resale and repayments of debts and equity securities

There were no issuances, cancellations, repurchases, resale or repayment of debt and equity securities for the financial period under review.

A7. Dividends paid

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

A8. Segmental information

The Group operates predominantly in one industry and accordingly, there is only geographical and business segmental information to be presented.

For the individual quarter ended 31 December 2006

Analysis by Geographical Segments	**Malaysia RM ('000)**	**European Countries RM ('000)**	**Other Asia Pacific region RM ('000)**	**Elimination RM ('000)**	**Consolidated RM ('000)**
Revenue					
Revenue	229	2,296	-	-	2,525
Inter-segment sales	1,698	26	20	(1,744)	-
Total revenue	1,927	2,322	20	(1,744)	2,525
Results					
Segment result	(9,529)	(1,122)	(156)	-	(10,807)
Finance costs	(270)	(3)	-	-	(273)
Loss before tax	(9,799)	(1,125)	(156)	-	(11,080)
Income tax expense	1,181	-	-	-	1,181
Loss for the period	(8,618)	(1,125)	(156)	-	(9,899)

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

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Segmental information ***(Cont'd)***

For the cumulative quarter ended 31 December 2006

Analysis by Geographical Segments	**Malaysia RM ('000)**	**European Countries RM ('000)**	**Other Asia Pacific region RM ('000)**	**Elimination RM ('000)**	**Consolidated RM ('000)**
Revenue					
Revenue	5,729	9,424	49	-	15,202
Inter-segment sales	6,198	213	633	(7,044)	-
Total revenue	11,927	9,637	682	(7,044)	15,202
Results					
Segment result	(12,078)	(1,800)	(98)	-	(13,976)
Finance costs	(591)	(25)	-	-	(616)
Loss before tax	(12,669)	(1,825)	(98)	-	(14,592)
Income tax expense	1,189	-	-	-	1,189
Loss for the year	(11,480)	(1,825)	(98)	-	(13,403)

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

A9. Valuation of Property, Plant and Equipment

The property, plant and equipment of the Group have not been revalued for the current quarter under review.

A10. Materials events subsequent to the balance sheet date

There were no material events subsequent to the end of the current quarter under review that has not been reflected in the financial statements.

A11. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter except that: -

(i) Equator Europe B.V. ("EEBV"), a 70%-owned subsidiary of Equator, had on 25 October 2006 established a subsidiary, namely, Equator Flowers & Plants CZ, s.r.o. ("ECZ") with Mr Martin Matous in Czech Republic. The issued and paid-up share capital of ECZ is 200,000 Czech Koruna (approximately RM33,000), comprising 200,000 ordinary shares of Czech Koruna 1.00 each, of which EEBV and Martin Matous are substantial shareholders with shareholdings of 72% and 28%, respectively. The intended principal activities of ECZ will be wholesale and retail in flowers and plants.

The incorporation of ECZ is part of the Company's expansion plan to penetrate into European market as the Company has identified it as one of the potential markets considering the uniqueness of the market which has increasing annual consumption power of horticulture products.

(ii) Equator Europe B.V. ("EEBV"), a 70%-owned subsidiary of Equator, had on 10 November 2006 submitted an application to establish a subsidiary, namely, EQUATOR-HUNGARIA Viràgkereskedelmi Kft. ("EHU") in Hungary, subject to the approval to be obtained from the Registration Court of Hungary. On 27 November 2006, the Registration Court of Hungary had approved the establishment of EHU.

The primary capital of EHU is 3,000,000 Hungarian Forints (equivalent to approximately RM 52,000), of which EEBV and Moshe Benyounes own 72% and 28% primary stake in EHU, respectively. The intended principal activities of EHU will be wholesale and retail in flowers and plants.

The incorporation of EHU is part of the Company's expansion plan to penetrate into European market as the Company has identified it as one of the potential markets considering the uniqueness of the market which has increasing annual consumption power of horticulture products.

(iii) On 6 June 2006, Equator announced a joint venture agreement entered into between Equator, Biosmart Co Limited ("BCL") and Probio Co Limited ("PCL") though a joint participation in the equity interest in Biosmart Sdn Bhd (“BSSB”) for the purpose of commercialising instant compost system in Malaysia. Pursuant to the joint venture, Equator, BCL and PCL shall increase the authorised share capital of BSSB to RM500,000 comprising 500,000 ordinary shares of RM1.00 each in BSSB and shall increase the issued and paid-up share capital of BSSB to RM100,000 comprising 100,000 ordinary shares of RM1.00 each in BSSB, wherein, Equator, BCL and PCL shall pay in cash and subscribe to the issued and paid-up share capital of BSSB in the following proportions and maintain their shareholdings in such proportions:

Equator -^55% of the issued and paid up share capital of BSSB;
BCL - ^35% of the issued and paid up share capital of BSSB; and
PCL - ^10% of the issued and paid up share capital of BSSB.

The Equator had on 8 January 2007, subscribed for 137,498 new ordinary shares of RM1.00 each in BSSB ("New Shares"), a wholly-owned subsidiary of Equator, at par (“Share Subscription”). The Share Subscription will be satisfied by way of cash.

On the same date, BCL and PCL had subscribed for 87,500 and 25,000 New Shares in BSSB.

The share subscription by Equator, BCL and PCL, which involved the issuance of 249,998 New Shares, has enlarged the existing issued and paid-up share capital of BSSB of RM2 comprising 2 ordinary shares of RM1.00 each ("BSSB Shares") to RM250,000 comprising of 250,000 BSSB Shares.

After the Share Subscription, BSSB remains as a 55%-owned subsidiary of Equator.

A12. Changes in contingent liabilities or contingent assets

There are no changes in the contingent liabilities as at the date of this announcement since the preceding financial year ended 31 December 2005 except as disclosed for the following:

Description of contingent liabilities	RM('000)
Corporate guarantee given to the financial institution for term loan and other bank facilities granted to a subsidiary company	5,100
Corporate guarantee given to the financial institution for hire purchase granted to a subsidiary company	1,663
Corporate guarantee given by a subsidiary company to the financial institution for term loan granted to subsidiary companies	2,910
	9,673

A13. Capital commitments

The amount of commitments for the purchase of land and building not provided for in the interim financial report as at 31 December 2006 were as follows:

	RM('000)
Approved and contracted for:	
- Acquisition of land and building	1,080

A14. Significant Related Party Transactions

Significant related party transactions of the Group for the quarter ended 31 December 2006 are as follows:

	Individual Quarter 31 Dec 2006 RM ('000)	**Cumulative Quarter 31 Dec 2006 RM ('000)**
Corporate Shareholder		
@ Chiap Hup Agriculture Development Sdn Bhd *Purchase of raw materials and consumables*	22	31
Other Related Parties		
* Jeo Jeo Plantation Sdn Bhd *Purchase of young plants materials and consumables*	151	2,126
* Zizen Plas Trading *(Formerly know as Joe Tech Trading)* *Purchase of pots and consumables*	49	300
* Le Tech Engineering Works *Purchase of property, plant and equipment*	-	1
** R.H. Van Leeuwen Beheer B.V. *Management fee*	194	603
Goh King Joua *Purchase of nurtured plants*	7	7

Notes:

@ A substantial shareholder of the Company

* The companies in which a close member of the family of Koh Ah Keng, Koh Yueh Lai and Koh Yueh Leong, directors of the company, has substantial financial interest.

** The company has entered into a joint venture agreement and management agreement with Equator on 1 August 2005 for the incorporation of a joint venture company, namely, EEBV and provision of management and consultancy services to EEBV respectively.

The Directors of the Company are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are no less favorable than those arranged with independent third parties.

A15. Cash and Cash Equivalents

Cash and cash equivalents included in the consolidated cash flow statement consist of:

	As of 31 Dec 2006
	RM('000)
Cash and bank balances	3,631
Fixed deposit with a licensed bank	3,604
Bank overdraft facilities	(1,142)
	6,093
Less: Fixed deposits pledged to banks	(2,000)
Cash and cash equivalents	4,093

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Group results for the current quarter ended 31 December 2006

For the current quarter ended 31 December 2006, the Group achieved unaudited revenue of approximately RM2.53 million and unaudited loss after tax of approximately RM9.90 million. The increase in loss after tax as compared to the previous quarter is mainly due to decrease in sales of a main product, Sansevieria, as a result of intensive competition from China growers and decrease in demand in Korea and Japan market. Further, during the current quarter, the Company wrote off obsolete stocks of approximately RM1 million, made additional provision for doubtful debts of approximately RM1.5 million and recorded impairment loss of approximately RM4.7 million on plantation development expenditure.

B2. Material changes in profit after taxation for the current quarter compared to the immediate preceding quarter

The Group recorded a loss after tax for the current quarter of RM9.90 million, as compare to loss after tax of RM2.23 million in the immediate preceding quarter. This is mainly due to decrease in sales of Sansevieria as compared to immediate preceding quarter and obsolete stocks written off, provision for doubtful debts and impairment loss recorded during the current quarter as mentioned in B1.

B3. Current year prospects

With the aggressive marketing expansion into China and Eastern Europe, as well as the successful commercialization and launched of Instant Composting Technology (the technology that convert oil palm bio-waste into organic fertilizer in one (1) day), the directors are of the opinion that barring any unforeseen circumstances, these are expected to contribute future earnings of the Group in the long run.

B4. Profit forecast

The Company did not provide any profit forecast in any public document for the current quarter ended 31 December 2006.

B5. Tax Expense

Income tax expense comprises the following:

	Individual quarter ended		Cumulative quarter ended	
	31 Dec 2006 RM('000)	31 Dec 2005 RM('000)	31 Dec 2006 RM('000)	31 Dec 2005 RM('000)
In respect of the current period:				
Income tax	39	232	31	535
Deferred tax	(1,220)	(120)	(1,220)	167
	(1,181)	112	(1,189)	702

The effective taxation rates were disproportionate to its financial results principally due to reversal of deferred tax liabilities.

B6. Sale of unquoted investments and/or properties

There was no disposal of unquoted investments or properties during the current quarter under review.

B7. Quoted and marketable securities

There was no purchase or disposal of quoted and marketable securities during the current quarter under review.

B8. Status of corporate proposal announced

There are no corporate proposals announced but not completed as at 26 February 2007.

Listing and quotation

The gross proceeds of RM30.0 million raised from the Public Issue of 60,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.50 per share were utilised in the following manner as at 31 December 2006:

Purpose	Proposed Utilisation RM('000)	Actual Utilisation RM('000)	Intended time frame for utilization	Unutilised Balance RM('000)
Setting-up of corporate office	1,500	97	Within two (2) years from date of listing	1,403
Upgrading of information systems	900	153	Within two (2) years from date of listing	747
Marketing campaigns in promoting products	2,000	1,921	Within three (3) years from date of listing	79
Expansion of R&D activities and facilities	6,500	5,396	Within three (3) years from date of listing	1,104
Working capital	7,800	7,800	Within three (3) years from date of listing	-^
Repayment of loans	4,500	4,500	Within six (6) months from date of listing	-
Acquisition of land	5,000	258	Within three (3) years from date of	4,742

Purpose	Proposed Utilisation RM('000)	Actual Utilisation RM('000)	Intended time frame for utilization	Unutilised Balance RM('000)
			listing	
Estimated listing expenses	1,800	1,800	Within six (6) months from date of listing	-*
	30,000	21,925		8,075

^ This amount excluded RM1.7 million of overdraft facilities to be drawn down.
* The estimated listing expenses was under-estimated by approximately RM173,000 which was financed by internally generated fund.

B9. Borrowings

The Group's borrowings are as follows:

	RM('000)
Current	
Secured:	
Trade facilities	9,000
Term loans	379
Overdrafts	1,142
Non current	
Secured:	
Term loans	5,079
	15,600

B10. Off balance sheet financial instruments

There were no off balance sheet financial instruments as at the date of this report.

B11. Material litigation

As at the date of this report, the Group was not engaged in any material litigation either as plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against the Group.

B12. Dividends

There was no dividend declared during the quarter under review.

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Notes on the quarterly report – 31 December 2006

B13. Earnings per share (“EPS”)

	Individual quarter ended		Cumulative year ended	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Basic earnings per share				
Net loss (RM’000)	(9,888)	(1,594)	(13,390)	(94)
Weighted average number shares in issue (‘000)	235,008	235,008	235,008	235,008
Basic loss per share (sen)	(4.21)	(0.68)	(5.70)	(0.04)

BY ORDER OF THE BOARD

LEONG SIEW FOONG
MAICSA 7007572
Company Secretary
Johor Bahru