
14. ACCOUNTANTS' REPORT



■ Chartered Accountants
16th Floor, Wisma Khoo Siak Chiew
Jalan Buli Sim Sim, 90000 Sandakan
Sabah, Malaysia.
Mailing Address:
P. O. Box 648
90707 Sandakan
Sabah, Malaysia.

■ Phone : 089-217266
089-211455
Fax : 089-272002
089-271299
www.ey.com

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The Board of Directors
Borneo Aqua Harvest Berhad
84E/16, Kampung Sungai Kayu
Mile 7, Jalan Airport
P. O. Box 2112
90724 Sandakan
Sabah

Dear Sirs,

1. INTRODUCTION

This report has been prepared by Ernst & Young, approved company auditors, for inclusion in the Prospectus of Borneo Aqua Harvest Berhad ("Borneo Aqua") to be dated 6 August 2005 in connection with the following:

- a) Public Issue of 25,000,000 new ordinary share of RM0.10 each in Borneo Aqua at an issue price of RM0.99 per share ("Public Issue").
- b) Bonus issue of 200,000,000 new ordinary share of RM0.10 each in Borneo Aqua on the basis of 2 new ordinary share of RM0.10 each in Borneo Aqua for every 1 ordinary share of RM0.10 each in Borneo Aqua held after the Public Issue ("Bonus Issue").
- c) Listing of and quotation for the entire enlarged issued and paid-up share capital of Borneo Aqua comprising 300,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

The abovementioned shall hereinafter be referred to as "the Listing Exercise".

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***2. GENERAL INFORMATION****2.1 Borneo Aqua*****2.1.1 Incorporation and Principal Activities***

Borneo Aqua was incorporated in Malaysia as a private limited company under the Companies Act, 1965 on 16 April 2004 as Borneo Aqua Harvest Sdn Bhd. It was converted into a public company on 20 May 2004 and assumed its present name since then.

The principal activity of the company is investment holding. The principal activities of its subsidiary companies are stated in section 2.3 of this report.

2.1.2 Issued and Paid-up Share Capital

The present authorised share capital of Borneo Aqua Harvest is RM50,000,000 divided into 500,000,000 ordinary shares of RM0.10 each and the issued and fully paid-up share capital is RM7,500,000 comprising 75,000,000 ordinary shares of RM0.10 each.

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

Date of allotment	No. of ordinary shares of RM0.10 each	Consideration	Amount RM	Cumulative RM
Date of incorporation	20	Subscribers' shares	2	2
6 May 2005	1,052,040	Acquisition of subsidiary companies	105,204	105,206
6 May 2005	68,442,520	Capitalisation of debts	6,844,252	6,949,458
6 May 2005	5,505,420	Rights issue	550,542	7,500,000

The issued and fully paid-up share capital of Borneo Aqua will be increased to RM30,000,000 upon completion of the Public Issue and Bonus Issue.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***2. GENERAL INFORMATION (Contd.)****2.2 Listing Scheme**

In connection with and as an integral part of the Listing Exercise, Borneo Aqua has undertaken a Listing Scheme, which was approved by Bursa Malaysia Securities Berhad, the Securities Commission, and Foreign Investment Committee on the dates set out below:

Authority	Date of Approval
Bursa Malaysia Securities Berhad Securities Commission	25 January 2005 25 January 2005, 23 March 2005 and 27 April 2005
Foreign Investment Committee	25 January 2005

The details of the Listing Scheme are as follows:

a) Acquisitions

- i) Acquisition of the entire issued and fully paid-up share capital of Plentiful Harvest Sdn Bhd comprising 500,000 ordinary shares of RM1.00 each for a purchase consideration of RM101,707 satisfied by the issuance of 1,017,070 new ordinary shares of RM0.10 each in Borneo Aqua ("Borneo Aqua Share") at par credited as fully paid-up.
- ii) Acquisition of the entire issued and fully paid-up share capital of Marine Terrace Sdn Bhd comprising 100,000 ordinary shares of RM1.00 each for a purchase consideration of RM3,497 satisfied by the issuance of 34,970 new Borneo Aqua Shares at par credited as fully paid-up.

The above acquisitions (i) and (ii) shall hereinafter be collectively referred to as "the Acquisitions" and were completed on 6 May 2005.

b) Capitalisation of Debts

Capitalisation of the amount owing by Plentiful Harvest Sdn Bhd and Marine Terrace Sdn Bhd of RM5,299,918 and RM1,544,334 respectively to certain shareholders of the two companies by the issuance of 68,442,520 new Borneo Aqua Shares at par credited as fully paid-up ("Capitalisation of Debts").

The Capitalisation of Debts was completed on 6 May 2005.

14. ACCOUNTANTS' REPORT (CONT'D)

2. GENERAL INFORMATION (Contd.)

2.2 Listing Scheme (Contd.)

c) Rights Issue

Rights issue of 5,505,420 new Borneo Aqua Shares to the shareholders of Borneo Aqua at par on the basis of approximately 7.92 new ordinary shares for every 100 Borneo Aqua Shares held after the Acquisitions and Capitalisation of Debts ("Rights Issue").

The Rights Issue was completed on 6 May 2005.

d) Public Issue

Public issue of 25,000,000 new Borneo Aqua Shares at an issue price of RM0.99 per share.

e) Bonus Issue

Bonus issue of 200,000,000 new Borneo Aqua Shares on the basis of 2 new Borneo Aqua Shares for every 1 Borneo Aqua Share held after the Public Issue.

f) Listing

Listing of and quotation for the entire enlarged issued and paid-up share capital of Borneo Aqua comprising 300,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

14. ACCOUNTANTS' REPORT (CONT'D)**2. GENERAL INFORMATION (Contd.)****2.3 Subsidiary Companies****2.3.1 Incorporation and Principal Activities**

The information on the subsidiary companies, all of which are private limited companies incorporated in Malaysia, are as follows:

Company	Date of incorporation	Effective equity interest	Principal activities
Plentiful Harvest Sdn Bhd ("Plentiful")	24.04.2001	100%	Fish breeding, operation of a fish hatchery, and fish rearing
Marine Terrace Sdn Bhd ("Marine")	18.06.2002	100%	Fish rearing

2.3.2 Issued and Paid-up Share Capital

The movement of the issued and paid-up share capital in the subsidiary companies since the incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each	Consideration	Amount RM	Cumulative RM
Plentiful				
As at the date of incorporation	2	Subscribers' shares	2	2
05.06.2002	1	Allotment for cash to provide working capital	1	3
19.06.2002	499,997	Allotment for cash to provide working capital	499,997	500,000
Marine				
As at the date of incorporation	2	Subscribers' shares	2	2
25.07.2002	2	Allotment for cash to provide working capital	2	4
17.11.2003	96	Allotment for cash to provide working capital	96	100
09.02.2004	99,900	Allotment for cash to provide working capital	99,900	100,000

14. ACCOUNTANTS' REPORT (CONT'D)

2. GENERAL INFORMATION (Contd.)

2.4 Dividends

No dividends were declared by Borneo Aqua in respect of the financial years/period covered in this report.

On 28 February 2005, Plentiful and Marine paid an interim tax exempt dividend of 120% and 100% amounting to RM600,000 and RM100,000 respectively in respect of the financial year ended 31 March 2005.

In June 2005, Plentiful and Marine paid a final tax exempt dividend of 100% and 300% amounting to RM500,000 and RM300,000 respectively in respect of the financial year ended 31 March 2005.

Other than the aforementioned, no dividends were declared by any of the subsidiary companies of Borneo Aqua in respect of the financial years/periods under review.

3. AUDITORS AND AUDITED FINANCIAL STATEMENTS

Except for the financial statements for the period ended 30 June 2002 of Plentiful which were audited by another firm of accountants, Ernst & Young have been the statutory auditors of Borneo Aqua and its subsidiary companies for the financial years/periods covered in this report.

The audited financial statements of these companies were reported upon without any audit qualification during the period under review.

4. ACCOUNTING POLICIES AND STANDARDS

This report is prepared on bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements of Borneo Aqua and its subsidiary companies, and in accordance with applicable Approved Accounting Standards in Malaysia in those relevant financial years/periods under review.

14. ACCOUNTANTS' REPORT (CONT'D)

Accountants' Report

5. SUMMARISED INCOME STATEMENTS**5.1 Proforma Borneo Aqua Group**

The summarised proforma consolidated income statements of Borneo Aqua and its subsidiary companies ("Borneo Aqua Group") for the past four financial periods/years ended 31 March 2005 are set out below and should be read in conjunction with the notes thereto:

	Period ended 30 June 2002 RM	Period ended 31 March 2003 RM	Year ended 31 March 2004 RM	Year ended 31 March 2005 RM
Revenue	-	-	1,649,098	6,029,552
(Loss)/profit before research and development expenditure, amortisation, depreciation, finance costs and taxation	(46,050)	(437,598)	739,650	3,746,956
Research and development expenditure	-	(316,740)	(89,262)	-
Amortisation of broodstocks and development expenditure	-	-	(21,240)	(36,509)
Depreciation	(24,152)	(55,892)	(202,040)	(350,084)
Finance costs	-	(7,961)	(15,739)	(22,289)
(Loss)/profit before taxation	(70,202)	(818,191)	411,369	3,338,074
Taxation	-	351,487	(136,738)	(3,233)
(Loss)/profit after taxation	(70,202)	(466,704)	274,631	3,334,841
Number of ordinary shares assumed in issue ¹	75,000,000	75,000,000	75,000,000	75,000,000
Gross (loss)/earnings per share (sen)	(0.08) ²	(1.45) ²	0.55	4.45
Net (loss)/earnings per share (sen)	(0.08) ²	(0.83) ²	0.37	4.45

¹ The assumed enlarged issued and paid-up share capital of 75,000,000 ordinary shares of RM0.10 each in Borneo Aqua after the Acquisitions, Capitalisation of Debts and Rights Issue.

² Annualised.

Notes:

- i) The proforma consolidated income statements are prepared based on the audited financial statements of Borneo Aqua and its subsidiary companies for the relevant financial periods/years and are provided for illustrative purposes only on the assumption that the Borneo Aqua Group had been in existence throughout the period under review, after making adjustments considered necessary.

14. ACCOUNTANTS' REPORT (CONT'D)

*Accountants' Report***5. SUMMARISED INCOME STATEMENTS (Contd.)****5.1 Proforma Borneo Aqua Group (Contd.)**

- ii) The proforma consolidated income statements have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of Borneo Aqua and its subsidiary companies.
- iii) For the financial period ended 30 June 2002, the Borneo Aqua Group commenced activities in fish breeding, operation of a fish hatchery and fish rearing. The loss before taxation for the financial period ended 30 June 2002 represented operating costs incurred.
- iv) For the financial period ended 31 March 2003, the loss before taxation represented operating costs incurred which were mainly in respect of research and development expenditure, purchase of fish fry, depreciation of plant and equipment, labour costs, maintenance and other administrative expenses.
- v) For the financial year ended 31 March 2004, revenue mainly represented sale of fish fry and adult fish. The profit before taxation was attributed to the sale of fish fry and adult fish upon the successful breeding of Malabar Red Snapper and Marble Grouper which have been brought into commercial production.
- vi) For the financial year ended 31 March 2005, the increase in revenue and profit before taxation was mainly due to the increase in sales volume of fish fry and adult fish. The increase in sales volume was in line with the increase in the number of broodstocks becoming breedable.
- vii) For the financial period ended 30 June 2002, the Borneo Aqua Group was not liable for tax due to losses incurred
- viii) Taxation for the financial period ended 31 March 2003 was relating to the recognition of deferred tax benefits in respect of losses incurred.
- ix) Taxation for the financial year ended 31 March 2004 was relating to the reversal of deferred tax asset upon utilisation of brought forward tax losses to offset against profit for the year.

14. ACCOUNTANTS' REPORT (CONT'D)

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.1 Proforma Borneo Aqua Group (Contd.)

- x) Taxation for the financial year ended 31 March 2005 was relating to interest income received. The statutory income derived from fish breeding, fish fry hatchery and fish rearing activities of the Borneo Aqua Group was not liable for tax as the subsidiary companies of Borneo Aqua, Plentiful and Marine, were granted tax incentive under Section 127 of the Income Tax Act, 1967, whereby the two companies will be given 100% exemption from tax on statutory income derived from fish breeding, fish fry hatchery and fish rearing activities.

- xi) There were no exceptional or extraordinary items for the relevant financial period/year under review.

- xii) The gross and net (loss)/earnings per share have been calculated based on (loss)/profit before taxation and (loss)/profit after taxation respectively divided by the number of ordinary shares assumed in issue for each of the financial period/year under review.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***5. SUMMARISED INCOME STATEMENTS (Contd.)****5.2 Borneo Aqua**

	Period ended 31 March 2005 RM
Revenue	-
Loss before taxation	(13,478)
Taxation	-
Loss after taxation	(13,478)
Number of ordinary shares in issue	20
Gross loss per share (RM)	(702.78) ¹
Net loss per share (RM)	(702.78) ¹

*1 Annualised.***Notes:**

- i) Borneo Aqua was dormant during the financial period ended 31 March 2005. The loss before taxation was in respect of administrative expenses incurred.
- ii) There were no exceptional or extraordinary items for the financial period under review.
- iii) The gross and net loss per share have been calculated based on loss before taxation and loss after taxation respectively divided by the number of ordinary shares in issue for the financial period under review.

14. ACCOUNTANTS' REPORT (CONT'D)

Accountants' Report

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.3 Plentiful**

	Period ended 30 June 2002 RM	Period ended 31 March 2003 RM	Year ended 31 March 2004 RM	Year ended 31 March 2005 RM
Revenue	-	-	1,640,228	5,805,161
(Loss)/profit before research and development expenditure, amortisation, depreciation, finance costs and taxation	(46,050)	(243,484)	659,558	3,014,265
Research and development expenditure	-	(316,740)	(89,262)	-
Amortisation of broodstocks and development expenditure	-	-	(21,240)	(36,509)
Depreciation	(24,152)	(47,104)	(160,587)	(300,377)
Finance costs	-	(7,961)	(15,739)	(22,289)
(Loss)/profit before taxation	(70,202)	(615,289)	372,730	2,655,090
Taxation	-	282,415	(122,018)	(1,933)
(Loss)/profit after taxation	(70,202)	(332,874)	250,712	2,653,157
Number of ordinary shares in issue	500,000	500,000	500,000	500,000
Gross (loss)/earnings per share (RM)	(4.27) ^{1,2}	(1.64) ¹	0.75	5.31
Net (loss)/earnings per share (RM)	(4.27) ^{1,2}	(0.89) ¹	0.50	5.31

1 Annualised.

2 Computed based on weighted average number of ordinary shares in issue.

Notes:

- i) For the financial period ended 30 June 2002, Plentiful commenced activities in fish breeding, operation of a fish hatchery and fish rearing. The loss before taxation for the financial period ended 30 June 2002 represented operating costs incurred.
- ii) For the financial period ended 31 March 2003, the loss before taxation represented operating costs incurred which were mainly in respect of research and development expenditure, purchase of fish fry, depreciation of plant and equipment, labour costs, maintenance and other administrative expenses.

14. ACCOUNTANTS' REPORT (CONT'D)

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.3 Plentiful (Contd.)**

- iii) For the financial year ended 31 March 2004, revenue mainly represented sale of fish fry and adult fish. The profit before taxation was attributed to the sale of fish fry and adult fish upon the successful breeding of Malabar Red Snapper and Marble Grouper which have been brought into commercial production.
- iv) For the financial year ended 31 March 2005, the increase in revenue and profit before taxation was mainly due to the increase in sales volume of fish fry (which mainly comprised Malabar Red Snapper, Marble Grouper and Coral Trout Grouper), and adult fish (which mainly comprised Malabar Red Snapper, Marble Grouper and Giant Grouper). The increase in sales volume was in line with the increase in the number of broodstocks becoming breedable.
- v) For the financial period ended 30 June 2002, Plentiful was not liable for tax due to losses incurred.
- vi) Taxation for the financial period ended 31 March 2003 was relating to the recognition of deferred tax benefits in respect of losses incurred.
- vii) Taxation for the financial year ended 31 March 2004 was relating to the reversal of deferred tax asset upon utilisation of brought forward tax losses to offset against profit for the year.
- viii) Taxation for the financial year ended 31 March 2005 was relating to interest income received. The statutory income derived from fish breeding, fish fry hatchery and fish rearing activities of Plentiful was not liable for tax as the company was granted tax incentive under Section 127 of the Income Tax Act, 1967, whereby the company will be given 100% exemption from tax on statutory income derived from fish breeding, fish fry hatchery and fish rearing.
- ix) There were no exceptional or extraordinary items for the relevant financial period/year under review.
- x) The gross and net (loss)/earnings per share have been calculated based on (loss)/profit before taxation and (loss)/profit after taxation respectively divided by the weighted average number of ordinary shares assumed in issue for each of the financial period/year under review.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***5. SUMMARISED INCOME STATEMENTS (Contd.)****5.4 Marine**

	Period ended 31 March 2003 RM	Year ended 31 March 2004 RM	Year ended 31 March 2005 RM
Revenue	-	224,457	1,939,943
(Loss)/profit before depreciation, finance costs and taxation	(194,114)	93,500	1,024,226
Depreciation	(8,788)	(41,453)	(49,707)
Finance costs	-	-	-
(Loss)/profit before taxation	(202,902)	52,047	974,519
Taxation	69,072	(14,720)	(1,300)
(Loss)/profit after taxation	(133,830)	37,327	973,219
Number of ordinary shares in issue	4	100,000	100,000
Gross (loss)/earnings per share (RM)	(68,956.45) ^{1,2}	3.66 ²	9.75
Net (loss)/earnings per share (RM)	(45,482.26) ^{1,2}	2.62 ²	9.73

1 Annualised.

2 Computed based on weighted average number of ordinary shares in issue.

Notes:

- i) For the financial period ended 31 March 2003, Marine commenced activities in fish rearing. The loss before taxation for the financial period ended 31 March 2003 represented operating costs incurred which were mainly in respect of purchase of fish fry, directors' remuneration, labour costs, maintenance and other administrative expenses.
- ii) For the financial year ended 31 March 2004, revenue mainly represented sale of adult fish, which comprised Marble Grouper, Malabar Red Snapper and other species of fish.
- iii) For the financial year ended 31 March 2005, the increase in revenue and profit before taxation was mainly due to the increase in sales volume of adult fish. This was in line with the increase in fish fry purchased from Plentiful as more broodstocks of Plentiful was becoming breedable.

14. ACCOUNTANTS' REPORT (CONT'D)

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.4 Marine (Contd.)**

- iv) Taxation for the financial period ended 31 March 2003 was relating to the recognition of deferred tax benefit in respect of losses incurred.
- v) Taxation for the financial year ended 31 March 2004 was relating to the reversal of deferred tax asset upon utilisation of brought forward tax losses to offset against profit for the year.
- vi) Taxation for the financial year ended 31 March 2005 was relating to interest income received. The statutory income derived from fish rearing activity of Marine was not liable for tax as the company was granted tax incentive under Section 127 of the Income Tax Act, 1967, whereby the company will be given 100% exemption from tax on statutory income derived from fish rearing activity.
- vii) There were no exceptional or extraordinary items for the relevant financial period/year under review.
- viii) The gross and net (loss)/earnings per share have been calculated based on (loss)/profit before taxation and (loss)/profit after taxation respectively divided by the weighted average number of ordinary shares assumed in issue for each of the financial period/year under review.

6. SUMMARISED BALANCE SHEETS

The proforma consolidated balance sheet of Borneo Aqua Group prepared using the acquisition method of accounting for the consolidation of Plentiful and Marine resulted a negative goodwill on consolidation of RM2,372,305 as shown in section 8 below. The negative goodwill on consolidation would be different for each of the financial period/year covered in this report as the net tangible assets/(net liabilities) of Plentiful and Marine were different at each balance sheet date. As such, the proforma consolidated balance sheets for Borneo Aqua Group for each of the financial period/year covered under this report were not presented as the information would not be comparable. Accordingly, the proforma consolidated balance sheet of Borneo Aqua Group has been presented by way of proforma statement of assets and liabilities as at 31 March 2005 as shown in section 8 below. The proforma statement of assets and liabilities has been prepared based on the audited balance sheets of Borneo Aqua, Plentiful and Marine as at 31 March 2005 after incorporating the effects of the Acquisitions, Capitalisation of Debt, Rights Issue, Public Issue and Bonus Issue.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***6. SUMMARISED BALANCE SHEETS (Contd.)****6.1 Borneo Aqua Harvest**

	As at 31.03.2005 RM
Current assets	617,821
Current liabilities	<u>(631,297)</u>
	<u>(13,476)</u>
Share capital	2
Accumulated losses	<u>(13,478)</u>
	<u>(13,476)</u>
Net liabilities per share	(6,738.00)

6.2 Plentiful

	As at			
	30.06.2002 RM	31.03.2003 RM	31.03.2004 RM	31.03.2005 RM
Property, plant and equipment	175,365	1,451,779	2,367,216	3,295,505
Broodstocks	-	213,808	549,295	867,094
Deferred tax assets	-	282,415	160,397	160,397
Development expenditure	-	77,927	245,929	349,686
Current assets	422,500	777,193	2,907,591	4,309,025
Current liabilities	<u>(146,092)</u>	<u>(2,616,972)</u>	<u>(5,724,468)</u>	<u>(6,457,741)</u>
	276,408	(1,839,779)	(2,816,877)	(2,148,716)
Long term liabilities	<u>(21,975)</u>	<u>(89,226)</u>	<u>(158,324)</u>	<u>(123,173)</u>
	<u>429,798</u>	<u>96,924</u>	<u>347,636</u>	<u>2,400,793</u>
Share capital	500,000	500,000	500,000	500,000
(Accumulated losses)/retained profits	<u>(70,202)</u>	<u>(403,076)</u>	<u>(152,364)</u>	<u>1,900,793</u>
	<u>429,798</u>	<u>96,924</u>	<u>347,636</u>	<u>2,400,793</u>
Net tangible assets per share	0.86	0.04	0.20	4.10

Borneo Aqua Harvest Berhad

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***6. SUMMARISED BALANCE SHEETS (Contd.)****6.3 Marine**

	As at		
	31.03.2003 RM	31.03.2004 RM	31.03.2005 RM
Plant and equipment	254,855	364,294	501,302
Deferred tax assets	69,072	54,352	54,352
Current assets	264,568	1,159,822	1,940,739
Current liabilities	(722,321)	(1,574,971)	(1,619,677)
	(457,753)	(415,149)	321,062
	(133,826)	3,497	876,716
Share capital	4	100,000	100,000
(Accumulated losses)/retained profits	(133,830)	(96,503)	776,716
	(133,826)	3,497	876,716
Net (liabilities)/tangible assets per share	(33,456.50)	0.03	8.77

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***7. CASH FLOW STATEMENT**

The following proforma consolidated cash flow statement of Borneo Aqua Group has been prepared for illustrative purposes only, based on the audited financial statements of Plentiful, Marine and Borneo Aqua for the financial period/year ended 31 March 2005, adjusted to include payments of dividend by Plentiful and Marine amounting to RM500,000 and RM300,000 respectively, on the assumption that the Borneo Aqua Group had been in existence throughout the financial year ended 31 March 2005 and the Capitalisation of Debts and Rights Issue had been effected on 31 March 2005, and should be read in conjunction with the notes thereto:

	Note	Proforma Group RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation		3,616,131
Adjustments for:		
Depreciation of property, plant and equipment		350,084
Amortisation of broodstocks and development expenditure		36,509
Gain on disposal of property, plant and equipment		(500)
Loss on disposal of broodstocks		68,032
Interest income		(16,113)
Finance costs		22,289
		<u>460,301</u>
Operating profit before working capital changes		4,076,432
Increase in inventories		(284,160)
Increase in receivables		(3,650,662)
Increase in payables		1,377,429
		<u>(2,557,393)</u>
Net cash from operating activities		<u>1,519,039</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and broodstocks		142,674
Purchase of property, plant and equipment	7.2	(1,400,258)
Development expenditure incurred		(98,999)
Additions of broodstocks		(424,396)
Net cash used in investing activities		<u>(1,780,979)</u>

14. ACCOUNTANTS' REPORT (CONT'D)

Accountants' Report

7. CASH FLOW STATEMENT (Contd.)

	Note	Proforma Group RM
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares		550,542
Increase in amount due to a shareholder		12,000
Interest received		16,113
Dividend paid		(1,500,000)
Interest paid on hire purchase		(22,289)
Payment of hire purchase liabilities		(178,536)
Net cash from financing activities		<u>(1,122,170)</u>
Net increase in cash and cash equivalents		(1,384,110)
Cash and cash equivalents at beginning of year		<u>2,772,345</u>
Cash and cash equivalents at end of year	7.3	<u><u>1,388,235</u></u>

7.1 Cash and Cash Equivalents – Accounting Policy

For the purposes of the proforma consolidated cash flow statement, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value.

7.2 Purchase of Property, Plant and Equipment

	RM
Purchase of property, plant and equipment by means of:	
Hire purchase	160,000
Cash payments	<u>1,400,258</u>
	<u><u>1,560,258</u></u>

7.3 Cash and Cash Equivalents

Cash and cash equivalents included in the proforma consolidated cash flow statement represent cash and bank balances.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***8. STATEMENT OF ASSETS AND LIABILITIES**

The following proforma statement of assets and liabilities of Borneo Aqua Group has been prepared for illustrative purposes only, based on the audited financial statements of Plentiful, Marine and Borneo Aqua for the financial period/year ended 31 March 2005, adjusted to include payments of dividend by Plentiful and Marine amounting to RM500,000 and RM300,000 respectively, on the assumption that the Acquisitions, Capitalisation of Debts and Rights Issue had been effected on 31 March 2005, and should be read in conjunction with the notes thereto.

	Note	Proforma Group RM'000
PROPERTY, PLANT AND EQUIPMENT	8.3	3,796,807
BROODSTOCKS		867,094
DEFERRED TAX ASSETS	8.4	214,749
DEVELOPMENT EXPENDITURE	8.5	349,686
CURRENT ASSETS		
Inventories	8.6	1,307,582
Trade receivables	8.7	1,859,658
Other receivables		960,546
Cash and bank balances		1,388,235
		<u>5,516,021</u>
CURRENT LIABILITIES		
Amount due to a shareholder	8.8	12,000
Trade payables	8.9	381,725
Other payables		264,952
Hire purchase creditors	8.10	100,447
Tax payable		3,233
		<u>762,357</u>
NET CURRENT ASSETS		<u>4,753,664</u>
LONG TERM LIABILITIES		
Hire purchase creditors	8.10	<u>(123,173)</u>
		<u>9,858,827</u>
Share capital	8.11	7,500,000
Accumulated losses		<u>(13,478)</u>
		7,486,522
Negative goodwill on consolidation		<u>2,372,305</u>
		<u>9,858,827</u>
Net tangible assets per share (RM)		0.13

Borneo Aqua Harvest Berhad

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies****(a) Basis of Accounting**

The proforma consolidated statement of assets and liabilities of the Borneo Aqua Group has been prepared under the historical cost convention.

The proforma consolidated statement of assets and liabilities comply with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The proforma consolidated statement of assets and liabilities include the financial statements of Borneo Aqua and its subsidiary companies. Subsidiaries are those companies in which the Borneo Aqua Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiaries acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition.

The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(b) Basis of Consolidation (Contd.)**

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Borneo Aqua Harvest Group's share of its net assets together with any unamortised balance of goodwill which was not previously recognised in the consolidated income statement.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair values of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

(c) Investments in Subsidiary Companies

Investments in subsidiary companies are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 8.1 (1).

On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised in the income statement.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)****8.1 Significant Accounting Policies (Contd.)****(d) Property, Plant and Equipment**

- i) Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 8.1 (l).
- ii) Long leasehold land (with remaining lease period of more than 50 years) which is stated at cost and not amortised. The non-amortisation of the long leasehold land has no material effect on the financial statements.
- iii) Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings	10%
Floating platform, net and cages	10%
Hatchery ponds	10%
Heavy equipments	20%
Motor vehicles	20%
Fish pond equipment, furniture, fittings and equipment	10%

- iv) Construction-in-progress is not depreciated until it is completed and ready for use.
- v) Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.
- vi) Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(e) Broodstocks**

Broodstocks are stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 8.1 (I).

All costs incurred on non-breeding broodstocks, which are accumulated on a project basis, are capitalised until such time when the broodstocks commence breeding. Costs incurred on non-breeding broodstocks consist of the acquisition cost of the mother fish, cost of feeds and medication, direct labour cost and an appropriate proportion of farm operating overheads.

Maintenance costs of broodstocks after commencement of breeding are charged to the income statement.

The costs of broodstocks are amortised over the economic egg production lives of the respective of fish, which varies between 8 to 10 years depending on the species of fish.

(f) Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is also recognised as an expense in the period incurred except when the expenditure meet the following criteria where it will be capitalised as intangible assets:

- the product or process is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product or process will be sold or used in-house;
- the assets will generate future economic benefits; and
- adequate technical, financial and other resources for completion of the project are available.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(f) Research and Development (Contd.)**

Development costs initially recognised as an expense are not recognised as an asset in subsequent periods.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is recognised as an expense in the income statement based on a straight-line basis over 5 years. The policy for the recognition and measurement of impairment losses is in accordance with Note 8.1 (l).

(g) Inventories**i) Fishery Live Stocks**

Fishery live stocks are stated at the lower of cost (determined on a monthly weighted average basis) and net realisable value. Cost of fishery live stocks include the cost of feeds and medication, direct labour cost and an appropriate proportion of farm operating overheads accumulated on a project basis. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing selling and distribution.

ii) Consumable Stores

Consumable stores are stated at cost. Cost includes expenses incurred in bringing the items into stores and is computed using the weighted average method. Provision is made for all damaged, obsolete and slow-moving items.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(h) Leases**

A lease is recognised as a finance lease if it transfers substantially to the Borneo Aqua Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

i) Finance Leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the company's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is consistent with that for depreciable property, plant and equipment as described in Note 8.1 (d).

ii) Operating Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(i) Provisions for Liabilities**

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(j) Income Tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also debited or credited directly in equity.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(k) Revenue Recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenue from sales of fish, fish fry and fish eggs is recognised upon delivery of products to customers during the year less returns and discounts.

(l) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(m) Currency Conversion

Foreign currency transactions are recorded in Ringgit Malaysia at the rates of exchange approximating those ruling at transaction dates. Foreign currency assets and liabilities are reported at the rates ruling at balance sheet date. All gains or losses on exchange are dealt with through the income statement.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(n) Employee Benefits****i) Short term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

ii) Defined contribution plans

As required by law, employers in Malaysia make contributions to the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

(o) Financial Instruments

Financial instruments are recognised in the balance sheet when the Borneo Aqua Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are debited directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.1 Significant Accounting Policies (Contd.)

(o) Financial Instruments (Contd.)

i) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

ii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

iii) Interest-bearing borrowings

Interest-bearing bank overdrafts and other facilities are recorded at the amount of proceeds received, net of transaction costs. Borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

iv) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

14. ACCOUNTANTS' REPORT (CONT'D)

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.2 Financial Risk Management***(a) Objectives and Policies*

The Borneo Aqua Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its interest rate, liquidity and credit risks. The Borneo Aqua Group operates within clearly defined guidelines that are approved by the board of directors and the Group's policy is not to engage in speculative transactions.

(b) Interest Rate Risk

The Borneo Aqua Group's primary interest rate risk relates to interest-bearing debts, and the Group has no substantial long-term interest-bearing assets as at 31 March 2005. The investment in financial assets is short term in nature and they are not held for speculative purposes but have occasionally, in short term commercial papers which yield better returns than cash at bank.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

(c) Foreign Exchange Risk

The Borneo Aqua Group is exposed to foreign exchange risk as certain purchases are transacted in United States Dollar. Material foreign exchange exposures are not hedged currently due to the Malaysian Ringgit being pegged to the United States Dollar.

(d) Liquidity Risk

The Borneo Aqua Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)****8.2 Financial Risk Management Policies (Contd.)****(e) Credit Risk**

Credit risk is controlled by the application of credit approvals, limits and monitoring procedures. Credit risk is minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via group management reporting procedures.

The Borneo Aqua Group does not have any significant exposure to any individual customer nor does it have any major concentration of credit risk related to any financial instruments.

(f) Fair values

The carrying amounts of the Borneo Aqua Group's financial instruments, including financial assets and liabilities approximate their fair values due to their short term maturities.

8.3 Property, Plant and Equipment

	At Cost	Accumulated Depreciation	Net Book Value
	RM	RM	RM
Long leasehold land, buildings and staff quarters	558,153	76,267	481,886
Floating platform, net and cages	1,374,585	284,843	1,089,742
Hatchery ponds	758,624	101,813	656,811
Heavy equipments	141,000	43,350	97,650
Motor vehicles	185,360	55,134	130,226
Tug boat, fish pond equipment, furniture, fittings and equipment	1,423,602	208,997	1,214,605
Work-in-progress	125,887	-	125,887
	<u>4,567,211</u>	<u>770,404</u>	<u>3,796,807</u>

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)****8.3 Property, Plant and Equipment (Contd.)**

- a) Net book value of plant and equipment held under hire purchase arrangement are as follows:

	RM
Heavy equipment	97,650
Motor vehicles	76,143
Fish pond equipment	170,733
	<u>344,526</u>

- b) The financial effect on non-amortisation of the long leasehold land on the financial results is an increase in amortisation charge of RM486.
- c) The buildings and hatchery ponds are constructed on lands leased from third parties for a tenure of 8 years.
- d) The floating platform, staff quarters and fish rearing cages are constructed on the sea front of Pulau Berhala and Pulau Bai, Sandakan for which the Group has obtained permission from the relevant authorities to undertake fish rearing activities.

8.4 Deferred Tax Assets

The components of deferred tax assets are as follows:

	RM
Unutilised tax losses	<u>214,749</u>

Plentiful and Marine have been granted tax incentive under Section 127 of the Income Tax Act, 1967 whereby the two companies are exempted from tax on statutory income from fish breeding, fish fry hatchery and fish rearing activities for a period of 10 years commencing 1 April 2004.

14. ACCOUNTANTS' REPORT (CONT'D)*Accountants' Report***8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)****8.5 Development Expenditure**

This represents expenditure incurred on development of techniques for improvement of operational efficiencies of fish fry hatchery and fish rearing activities.

8.6 Inventories

	RM
At cost:	
Fishery live stocks	991,039
Fish fry-in-progress	78,287
Feeds	57,189
Chemical	65,088
Fuel and oil	7,420
Consumable stores	32,196
	<u>1,231,219</u>
At net realisable value:	
Fishery live stocks	76,363
	<u>1,307,582</u>

8.7 Trade Receivables

The Borneo Aqua Group's normal trade credit term is less than 30 days.

8.8 Amount Due to a Shareholder

The amount is unsecured, interest-free and has no fixed terms of repayment.

8.9 Trade Payables

The normal trade credit terms granted to the Borneo Aqua Harvest Group range from 30 to 90 days.

14. ACCOUNTANTS' REPORT (CONT'D)

Accountants' Report

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.10 Hire Purchase Creditors**

	RM
Minimum hire purchase payments:	
Not later than 1 year	115,860
Later than 1 year and not later than 2 years	78,934
Later than 2 years and not later than 5 years	36,789
Later than 5 years	17,016
	<u>248,599</u>
Less: Future finance charges	(24,979)
	<u>223,620</u>
Present value of hire purchase liabilities:	
Not later than 1 year	100,447
Later than 1 year and not later than 2 years	71,933
Later than 2 years and not later than 5 years	34,711
Later than 5 years	16,529
	<u>223,620</u>
Analysed as:	
Due within 12 months	100,447
Due after 12 months	123,173
	<u>223,620</u>

The hire purchase liabilities bore interest at the balance sheet date at rates between 3.4% to 9.0% per annum.

8.11 Share Capital

	Number of Ordinary Share of RM0.10 each	RM
Authorised:		
As at 31 March 2005	1,000,000	100,000
Creation of new ordinary shares	499,000,000	49,900,000
	<u>500,000,000</u>	<u>50,000,000</u>
Issued and fully paid:		
As at 31 March 2005	20	2
Issued pursuant to the Acquisitions	1,052,040	105,204
Issued pursuant to the Capitalisation of Debts	68,442,520	6,844,252
Issued pursuant to the Rights Issue	5,505,420	550,542
	<u>75,000,000</u>	<u>7,500,000</u>

14. ACCOUNTANTS' REPORT (CONT'D)

Accountants' Report

8. STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.12 Commitments**

	RM
Approved and contracted for:	
Acquisition of leasehold lands	<u>1,587,600</u>
Approved but not contracted for:	
Capital expenditure and acquisition of broodstocks	<u>27,208,300</u>

9. PROFORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of Borneo Aqua Group as at 31 March 2005 set out in Section 8, the proforma net tangible assets per ordinary share and the enlarged issued and paid-up share capital are derived as follow:

	RM'000
<i>i) Proforma net tangible assets</i>	
Proforma net tangible assets after the Acquisitions, Capitalisation of Debts and Rights Issue	9,509
Add: Public Issue	24,750
Less: Estimated listing expenses	<u>(2,200)</u>
Proforma net tangible assets after the Public Issue and Bonus Issue	<u>32,059</u>
<i>ii) Enlarged issued and fully paid-up share capital</i>	
	No. of ordinary shares of RM0.10 each
As at 31 March 2005	20
Issued pursuant to the Acquisitions	1,052,040
Issued pursuant to the Capitalisation of Debts	68,442,520
Issued pursuant to the Rights Issue	<u>5,505,420</u>
	75,000,000
To be issued pursuant to the Public Issue	25,000,000
To be issued pursuant to the Bonus Issue	<u>200,000,000</u>
	<u>300,000,000</u>
<i>iii) Proforma net tangible assets per share (RM)</i>	<u>0.11</u>

Borneo Aqua Harvest Berhad

14. ACCOUNTANTS' REPORT (CONT'D)



Accountants' Report

10. SUBSEQUENT EVENTS

Save as disclosed above and in Section 2.2, there were no subsequent events between 31 March 2005 and the date of this report.

11. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Borneo Aqua Group have been prepared in respect of any period subsequent to 31 March 2005.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ernst & Young', written over the printed name and logo.

ERNST & YOUNG
AF: 0039
Chartered Accountants
Sandakan, Malaysia

A handwritten signature in black ink, appearing to read 'Chong Yew Hoong', written over the printed name.

CHONG YEW HOONG
1502/04/07(J)
Partner