

7. BUSINESS OVERVIEW

7.1 THE BORNEO AQUA GROUP'S PRODUCTS

As at the date hereof, the Borneo Aqua Group has successfully produced 3 high commercial value species for commercial purposes, the details are as follows:

Specie	Scientific Name	Chinese Name (Romanised)	Bahasa Malaysia Name
Malabar Red Snapper	<i>Lutjanus Malabaricus</i>	<i>Hung Kai</i>	<i>Ikan Merah</i>
Marble Grouper	<i>Epinephelus Fuscoguttatus</i>	<i>Lau Fu Pan</i>	<i>Kerapu</i>
Coral Trout Grouper	<i>Plectropomus Leopardus</i>	<i>Tung Sing Pan/ Chat Sing Pan</i>	<i>Sunoh</i>

The high commercial value species that are currently in various stages of research and are expected to be in production for commercial purposes in the current financial year and within the next 3 financial years are as follows:

Specie	Scientific Name	Chinese Name (Romanised)	Bahasa Malaysia Name	Estimated commencement of production (Financial year ending)
Giant Grouper	<i>Epinephelus Lanceolatus</i>	<i>Lotun / Fa Mui</i>	<i>Kerapu Hitam/ Keratang</i>	31 March 2006
Barred Cheek Coral Trout Grouper	<i>Plectropomus Maculatus</i>	<i>Tai Sing Pan</i>	<i>Sunoh</i>	31 March 2006
Tomato Rock Grouper	<i>Cephalopholis Sonnerati</i>	<i>Hung Lau Fu Pan</i>	<i>Kerapu Merah</i>	31 March 2007
Coral Rockcod Grouper	<i>Epinephelus Corallicola</i>	<i>So Shi Pan</i>	<i>Kerapu Bintang</i>	31 March 2007
Potato Cod Grouper	<i>Epinephelus Tukula</i>	<i>Tai Lam Pan</i>	<i>N/A</i>	31 March 2008
Humpback Grouper	<i>Cromileptes Altivelis</i>	<i>Lau Chu Pan</i>	<i>Kerapu Tikus</i>	31 March 2008
Camouflage Grouper	<i>Epinephelus Polyphekadion</i>	<i>Cham Pan</i>	<i>Kerapu Hitam</i>	31 March 2009
Trout Cod Grouper	<i>Epinephelus Maculatus</i>	<i>Fa Yin Pan</i>	<i>Kerapu Bunga</i>	31 March 2009
Barred Knifejaw*	<i>Oplegnathus Fasciatus</i>	<i>N/A</i>	<i>N/A</i>	31 March 2009

Notes:

N/A Not available.

* As part of its R&D process, the Group has in June 2005 successfully hatched eggs bought from South Korea to fry, of which part of them will be reared to adult fish for broodstock purpose whilst the balance will be sold.

7. BUSINESS OVERVIEW (CONT'D)

The brief description of the above species is as follows:

The Malabar Red Snapper (*Lutjanus Malabaricus*), also known as “Ikan Merah” in Bahasa Malaysia and “Hung Kai” in Chinese, inhabits coastal waters and feeds on bottom living invertebrates and fishes. This fish is characterised by having dark crimson red colour on its back and light crimson red colour on its belly with a dark blotch on the upper part of the caudal peduncle and peraly spot in front of the blotch. The Malabar Red Snapper is able to grow up to approximately 1 meter in length and 7.9 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD52.1 or *RM25.0 per kg as at 30 June 2005.

The Marble or Flowery Grouper (*Epinephelus Fuscoguttatus*), also known as “Kerapu” in Bahasa Malaysia and “Lau Fu Pan” in Chinese, inhabits coastal waters in coral reefs and rocky areas. This fish is characterised by having marble or flowery patterns on its body with bright orange colour on its pectoral fins, yellow colour on its other fins and all fins are dotted with dark and black spots of varies sized. The Marble Grouper is able to grow up to approximately 1.2 meters in length and 11 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD120.0 or *RM57.6 per kg as at 30 June 2005.

The Coral Trout or Leopard Grouper (*Plectropomus Leopardus*), also known as “Sunoh” in Bahasa Malaysia and “Tung Sing Pan/Chat Sing Pan” in Chinese, inhabits coral-rich areas of lagoon reefs and mid-shelf reefs and is usually inactive at night, hiding under ledges. This fish is characterised by having a red coloured body with numerous fine blue dots on the head, body and median fins. The Coral Trout Grouper is able to grow up to 1.2 meters in length and 23.6 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD240.0 or *RM115.2 per kg as at 30 June 2005.

The Giant Grouper (*Epinephelus Lanceolatus*), also known as “Kerapu Hitam” or “Keratang” in Bahasa Malaysia and “Fa Mui” or “Lotun” in Chinese, inhabits coral reefs and rocky areas. This fish is characterised by having small black spots on the fins and is green-grey to grey-brown colour on its body with faint mottling. The Giant Grouper is able to grow up to approximately 2.7 meters in length and 400 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD143.0 or *RM68.6 per kg as at 30 June 2005.

The Barred Cheek Coral Trout Grouper (*Plectropomus Maculatus*), also known as “Sunoh” in Bahasa Malaysia and “Tai Sing Pan” in Chinese, inhabits coastal waters in coral reefs and rocky areas. This fish is characterised by having a greenish grey, brown or red coloured head, body and median fins with dark-edged bright blue spots on the head, becoming horizontally elongated near the pectoral fins and blue spots on the rear part of the body and on caudal peduncle. The Barred Cheek Coral Trout Grouper is able to grow up to 1.0 meters in length and 25 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD196.0 or *RM94.1 per kg as at 30 June 2005.

The Tomato Rock Grouper (*Cephalopholis Somnerati*), also known as “Kerapu Merah” in Bahasa Malaysia or “Hung Lau Fu Pan” in Chinese, inhabits deep lagoon reefs and steep outer reef slopes. This fish is characterised by having an orange red to orange brown coloured body with small reddish dots over the body. The Tomato Rocked Grouper is able to grow up to 0.57 meter in length and 5 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD196.0 or *RM94.1 per kg as at 30 June 2005.

The Coral Rockcod Grouper (*Epinephelus Corallicola*), also known as “Kerapu Bintang” in Bahasa Malaysia or “So Shi Pan” in Chinese, inhabits shallow silty reefs and estuarine areas. This fish is characterised by having a pointed head with brownish to greenish grey colour on the head and body and widely spread small spots all over the head, body and fins. The Coral Rockcod Grouper is able to grow up to 0.5 meter in length. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD166.6 or *RM80.0 per kg as at 30 June 2005.

7. BUSINESS OVERVIEW (CONT'D)

The Potato Cod Grouper (*Epinephelus Tukula*), also known as “Tai Lam Pan” in Chinese, inhabits deep reef channels and seamounts. This fish is characterised by having a pale brownish grey coloured body with large dark brown to black round to oval blotches scattered on the body. The Potato Cod Grouper is able to grow up to 2 meters in length and 110 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD166.6 or *RM80.0 per kg as at 30 June 2005.

The Humpback Grouper (*Cromileptes Altivelis*), also known as “Kerapu Tikus” in Bahasa Malaysia and “Lau Chu Pan” in Chinese, inhabits lagoon and seaward reefs and is typically found in dead or silty areas. This fish is characterised by having a pale greenish brown to whitish brown coloured body with round, black spots on the head, body and on all fins. The Humpback Grouper is able to grow up to 0.7 meter in length and 4.8 kg in weight. The average wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD551.0 or *RM264.5 per kg as at 30 June 2005.

The Camouflage Grouper (*Epinephelus Polyphekadion*), also known as “Kerapu Hitam” in Bahasa Malaysia and “Cham Pan” in Chinese, inhabits coral rich areas of lagoon and outer reefs. This fish is characterised by having a brown coloured body covered with numerous small dark brown spots and irregular dark greenish blotches superimposed over the dark spots. The Camouflage Grouper is able to grow up to 0.9 meter in length and 4 kg in weight. The wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD183.4 or *RM88.3 per kg as at 30 June 2005.

The Trout Cod Grouper (*Epinephelus Maculatus*), also known as “Kerapu Bunga” in Bahasa Malaysia and “Fa Yin Pan” in Chinese, inhabits coastal waters in coral reefs and rocky areas. This fish is characterised by having a dark brown spots all over the body and fins. The Trout Cod Grouper is able to grow up to 0.6 meter in length. The wholesale price (live cultured fish) in Hong Kong for this fish is approximately HKD183.4 or *RM88.3 per kg as at 30 June 2005.

The Barred Knifejaw (*Oplegnathus Fasciatus*), inhabits coral reefs and rocky area with the depth of 10-50 meters. This fish is characterised by its white colour and 7 vertical black stripes on its body. The Barred Knifejaw is able to grow up to 0.8 meter in length and 6.4 kg in weight. The wholesale price (live cultured fish) in Korea for this fish is approximately *RM200.0 per kg as at 30 June 2005.

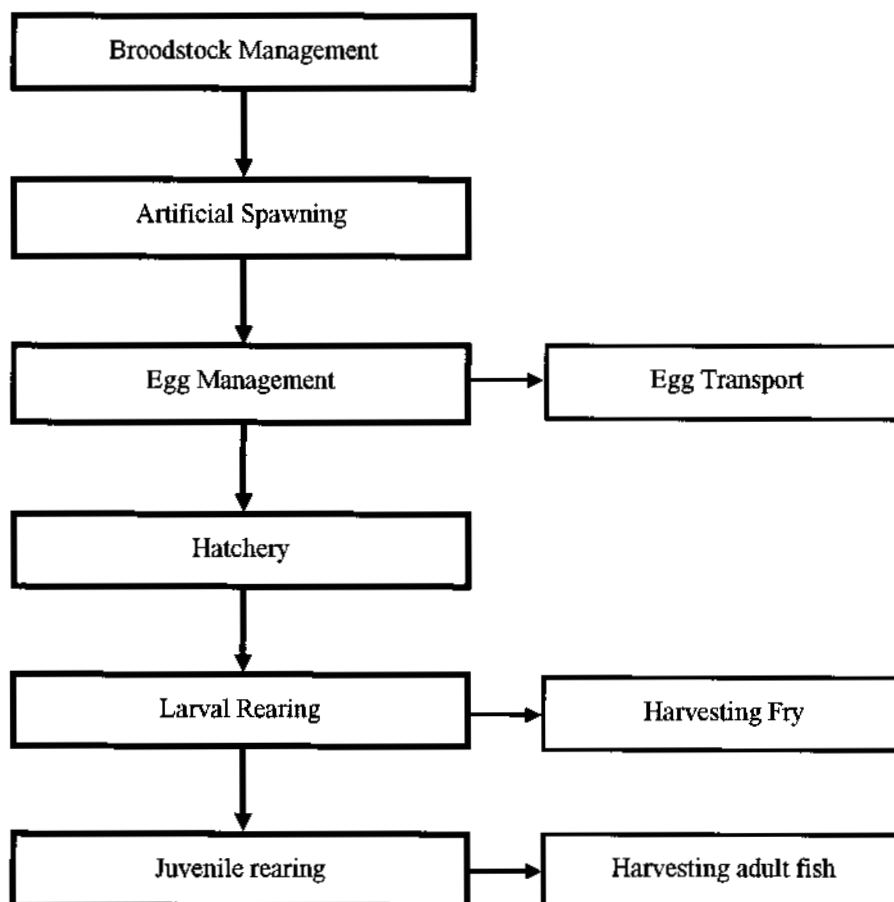
Note:

* As at 30 June 2005, the wholesale prices were obtained from third party quotation and Directors of Borneo Aqua and the exchange rate used is HKD 1: RM0.48.

7. BUSINESS OVERVIEW (CONT'D)

7.2 OVERVIEW OF BORNEO AQUA GROUP'S FISH BREEDING PROCESS

Set out below is the summary of fish breeding process adopted by Borneo Aqua Group.



7.2.1 Broodstock management

7.2.1.1 Broodstock acquisition and initial treatment

A major factor in the success of fish spawning is the availability of strong and healthy mature brooders as their health and conditions will affect the quality of eggs or fry produced. As it is the start of the production chain, quality of broodstock is of utmost importance in ensuring the success of spawning. In view of its importance, Borneo Aqua has a strict selection criterion in the acquisition of brooders for R&D and breeding purposes.

It is a policy of Plentiful that it acquires broodstocks with several sizes, weight and different maturity levels to ensure continuity of egg productions on a regular basis. Different species also require different sizes for spawning.

The Borneo Aqua Group has a team headed by its marine biologists, Tai Chu Chun and Akinori Hotani to ensure that the criteria are strictly adhered to. Broodstocks are thoroughly examined by the marine biologists before they are acquired.

The main selection criteria are as follows:

- Normal body shape and colour.
- Absence of skeletal deformities.
- Overall healthy status.

7. BUSINESS OVERVIEW (CONT'D)

- Normal behaviour such as quick response to food distribution, fast swimming, controlled buoyancy.
- The suitable size within its age group for spawning purposes.
- The best growth and food conversion rate within its age group.

Wild broodstocks are mainly acquired from owners of deep-sea trawlers and coastal fishermen from Sabah. Over the last three years, Plentiful has established an extensive network of deep-sea trawlers' owners and coastal fishermen that will ensure that Plentiful will have a constant supply of healthy broodstocks for its research and breeding purposes.

Plentiful is also acquiring broodstocks from the villagers who have collected wild juvenile fishes from the sea and reared them to maturity.

Another method of obtaining broodstock is to select strong and healthy juveniles to breed them into broodstocks. However, this method requires more than five years to grow the juvenile up to broodstock size.

As the fatality rate of broodstocks during the R&D phase is high, the number of broodstocks to be acquired will gradually be increased to a level that is enough to carry out R&D effectively, and for breeding purposes thereafter.

Broodstocks acquired from the wild or wild fishes have to be conditioned to captivity, a process known as domestication. This process starts with hyperbaric treatment to remove the excessive gas in its body to reduce the risks of undue death. For this purpose, an appropriate density in the cage for broodstock is observed and the oxygen saturation around 100% is maintained. Then, the broodstock will be bathed and treated with anti-bacteria parasite medicine, to disinfect the fish from parasites.

The conditions and behaviour of the fish during the domestication process will be closely monitored to minimise stress to the fish as such stress will inhibit their sexual maturity for a certain time. All data obtained from the monitoring will be properly recorded for research purpose.

7.2.1.2 Broodstock culturing

Routine controls are necessary for proper management of broodstocks, which include monitoring of water quality and broodstock conditions. Elements of water quality to be monitored include salinity, temperature, dissolved oxygen and pH. Conditions of broodstock refer to the general behaviour, feeding activity, diseases symptoms and prophylactic treatments (treatments to protect the fish from future attack by pathogen (micro-organism that causes disease and bacteria attack)).

As for feeding, a strict diet and feeding schedule is maintained at regular intervals based on periodical controls of fish weight. Broodstock are fed with fresh quality fish once every alternate day, either in the early morning or late afternoon whilst nutritional supplements such as vitamins are given once a week. To maintain their quality and lower the risk of bacterial infection, fresh quality fish purchased will be cleaned, minced and deep-frozen immediately.

Feeding by hand is practised because it prevents food leftovers, which may deteriorate water quality, and will also enable the feeders to observe the behaviour of broodstocks. A sign of unhealthy broodstock is that it normally loses its appetite. Once detected, the affected broodstock will be examined immediately, separated from the other broodstocks and treated accordingly.

During this stage, Plentiful will ensure that there is an acceptable level of equilibrium density and sex ratio in every cage for breeding purposes.

7. BUSINESS OVERVIEW (CONT'D)

All data or observations obtained are properly recorded for future reference and research purposes.

7.2.2 Artificial Spawning

Before the artificial spawning technique is carried out, every broodstock will be weighted and examined to establish if it is suitable to be used as brooder. For this purpose, anaesthetics and tranquillisers are used during the procedure to avoid any injury to the broodstocks and reduce stress to the broodstocks. Samples of the eggs are extracted from the female broodstocks using canulation technique for examination. Once the eggs in the female broodstocks reach the size of 400 micron, the female broodstocks are considered suitable to be induced for spawning. As for the male broodstocks, they are considered matured if they release white milt from the genital pore, when their abdominal part is pressed. These broodstocks will then be grouped together for artificial spawning.

Artificial spawning is a process wherein exogenous hormones are injected into the broodstocks to stimulate mass spawning for commercial purpose. As broodstocks normally spawn either during a new or full moon, depending on the species, the treatment is carried out about two days before a new or full moon. Thereafter, most of the broodstocks will release the eggs within three to six days.

7.2.3 Egg Management

Broodstock spawning usually takes place at night, at around 2200 to 0200 hours and the eggs produced are normally collected with a fine mesh net at the early embryonic stage between 0700 to 0800 hours. The net is specially designed to suit the environment of the broodstock spawning cages. The optimum mesh size of the net is 0.3mm to 0.4mm considering the egg diameter of 0.8mm to 0.9mm.

Once harvested, the eggs are treated with iodine bath to prevent disease that may occur during larvae rearing. After the bath, the eggs are placed in a tank filled with treated seawater where the dissolved oxygen level, salinity, temperature and pH are constantly monitored while randomly selected samples are taken for examination to analyse the percentage of eggs that will hatch for record purposes.

In order to segregate the fertilised or healthy eggs and the poor quality eggs, the aeration supply to the tank will be temporarily stopped whereby the poor quality eggs will sink to the bottom while the healthy eggs remain afloat. The healthy eggs will then be collected and packed in a plastic bag containing treated seawater whereby oxygen will be released into it. The plastic bags will be placed in polystyrene boxes during the journey to the hatchery section to protect the eggs from heat.

7.2.4 Hatchery

When the fertilised or healthy eggs are received, they are placed in an incubation tank filled with treated seawater and another round of segregation process follows, whereby healthy eggs are segregated from the poor quality eggs. Once the hatchery pond is ready, these eggs will be relocated into a sac within the pond for incubation.

Preparation of the hatchery pond starts about a week before the healthy eggs are received. Before it is stocked with eggs, designated pond is carefully examined for its cleanliness and appropriate steps are taken to ensure it has been disinfected. Water from the designated pond will be released to empty the pond so that it can be dried under the sun for three days before being treated with aqua lime to exterminate any bacteria therein under the sun for another two to three days. Next, the designated pond will be filled with filtered and sterilised seawater where the temperature and salinity are constantly monitored and controlled to ensure that they are in accordance with the established formulae to ensure success hatching and to increase the survival rate of the larvae. The seawater is filtered through two filtration systems comprising, the intake subsystem and the reservoir subsystem distribution filtration. The treated seawater is then stored in the reservoir ponds for sedimentation before it is used. The capacity of the reservoirs is designed based on the total volume required to cater for the hatchery activities.

7. BUSINESS OVERVIEW (CONT'D)

When the eggs are relocated to the pond, they are placed in a covered sac for incubation purpose. As this is a very critical and sensitive stage for the success of the entire breeding process, the water quality and condition in the designated pond are closely monitored throughout the 48 hours of incubation by designated staff. The temperature, salinity and pH of the pond will be monitored and controlled throughout the period to ensure its suitability for the larvae growth. In addition, other elements in the seawater including the level of ammonia, dissolved oxygen and tannic acid will be monitored daily to ensure the level is acceptable as excessive level could cause fatality to the larvae. The seawater in the pond is frequently replaced with new water to maintain its quality and to prevent contamination.

Once hatched, the larvae are released into the same pond, by gently lifting the floating sac. Thus, the hatching debris will remain inside the incubating sac and will be disposed of after the larvae are released into the pond. Before they are released into the pond, the hatched larvae are checked to assess their viability and condition.

7.2.5 Larvae Rearing

The success and failure of larvae rearing depends very much on the control of the water and the availability of appropriate live feeds. The data of the quality and conditions of the water in the pond is recorded on a daily basis for analysis to determine the appropriate action to be taken in order to maintain a suitable environment for the larvae.

During the first two days of hatching, the newly hatched larvae survive by eating the reserves of their yolk sac and thereafter will be fed with live feeds. The initial feeding stage is a very crucial period in the development of larvae as in most cases, starvation is the major cause of larvae mortality.

The success of this stage very much depends on the live feeds to be fed to the larvae in addition to the quality and conditions of the water. Through its R&D, Plentiful has successfully acquired the technology in cultivating two different types of live feeds namely, Rotifer and Copepod, in different sizes and in large quantity for the larvae.

Size of the prey or live feeds at various feeding stages is very important depending on the various stage of the larvae development due to the size of the larvae mouth and digestion system. The initial feeding starts with small size Rotifer of between 50-100 micrometer ("µm") and will gradually increase to 250 µm as the larvae grow. When the larvae reach 15 days of age, they will be fed with bigger Rotifer and Copepod which are further enriched with Omega 3 Highly Unsaturated Fatty Acid ("Omega 3 HUFA"). Copepod is an essential feed as it contains high nutrition and Omega 3 HUFA, which will increase the survival rate of the larvae.

In addition, Artemia, which is imported from Taiwan, Republic of China and United States of America, is an important supplemental live feed for larvae after the Rotifer and Copepod feeding stage. Artemia is also an alternative to Copepod for larvae of at least 15 days old. When Artemia is needed for feeding, the incubation of Artemia cysts to obtain live Artemia will be prepared 24 hours before feeding time. After the incubation stage, the Artemia will be enriched with Omega 3 HUFA. Artemia in its original form is less nutritious compared to Rotifer and Copepod.

Feeding on live prey should last for only 30 to 35 days based on Plentiful's experience and research data. Thereafter, the larvae will be fed with minced trash fish and nutritional supplements, which include vitamins and amino stimulants. Plentiful has developed a unique processing technique whereby it can blend the trash fish and the supplement into micro-particles showing excellent stability in water, a slow sinking rate and ability to attract larvae to feed on it. At this stage, the fatality rate of the larvae will be reduced.

7. BUSINESS OVERVIEW (CONT'D)

During the entire larvae rearing stage, the water temperature, salinity, dissolved oxygen level and pH are constantly monitored and recorded on a daily basis to ensure the optimum condition for the development of the larvae. In addition, the larvae population, behaviour and development are also closely monitored and recorded to avoid congestion and cannibalism among the larvae. Daily samples of the larvae will be collected and analysed under the microscope to assess repletion rates (percentage of larvae having preys in their stomach) and number of prey per larvae. A healthy population will normally show that almost 100% of sampled larvae will have prey in their digestive tract, their quantity being directly linked to the mouth size.

After 40 days in the larvae ponds, the larvae will be harvested and segregated according to their size to prevent cannibalism during the nursery stage. The larvae will then be transferred to nursery tanks (which are provided with 24 hour oxygen supply) whereby they are cultured to 10 to 20 millimetres ("mm") (for internal fish culture or rearing) and between 20 to 50 mm (for commercial sale purposes), depending on customers' requirement. It will usually take about another two weeks to grow to the length of 20 mm and an additional two weeks to grow to the length of 50 mm.

7.2.6 Juvenile rearing

Currently, all juvenile fishes are reared in sea cages. During this stage, Plentiful will monitor the water condition to ensure that virus or bacteria infection in the water is minimised to improve the survival rate of the juveniles. The juveniles are fed with tiny shrimps and minced fish. Special attention is provided to the deterioration of culture water to avoid any mortality occurring during this stage. The feed for the juvenile is chosen with care for their size of particles and protein level. Depending on the specie, it usually takes about six to eight months to grow the juvenile to adult for trading purposes.

The process of harvesting the adult fish involves lifting the net of certain sections of the cage and then scooping the fish slowly to avoid injury and fatality. The fish is sold either alive or frozen depending on the client's requirement and will be packed accordingly. If the client requires the fishes to be frozen, the fishes will be frozen to a temperature of minus 65 degrees to maintain their freshness prior to delivery.

7.3 PRINCIPAL MARKET

The principal markets of the Borneo Aqua Group's products, turnover and the percentage of contribution to the Group's turnover for the financial year ended 31 March 2005 are as follows:

	RM	%
Export market	2,737,553	45.40
Local market	3,291,999	54.60
	6,029,552	100.00

7. BUSINESS OVERVIEW (CONT'D)

7.4 SOURCE AND AVAILABILITY OF RAW MATERIAL

The Directors of Borneo Aqua have identified broodstock, water and feed as the major input to the production system.

The Borneo Aqua Group which already has approximately 2,237 tails of broodstock of various species as at 31 March 2005, is continuously looking at increasing its broodstocks. It is a policy of the Borneo Aqua Group to acquire broodstocks with several sizes, weight and different maturity levels to ensure continuity of egg productions on a regular basis. Different species also require different sizes for spawning. Wild broodstocks are mainly acquired from owners of deep-sea trawlers and coastal fishermen from Sabah. Over the last three years, the Borneo Aqua Group has established an extensive network of deep-sea trawlers' owners and coastal fishermen that will ensure that the Borneo Aqua Group will have constant supply of healthy broodstocks for its research and breeding purposes. The Borneo Aqua Group is also acquiring broodstocks from the villagers who have collected wild juvenile fishes from the sea and reared them to maturity. Another method of obtaining broodstock is to select strong and healthy juveniles to breed them into broodstock. However, this method requires more than 5 years to grow the juveniles up to broodstock size.

In respect of the water supply to the ponds at the Hatchery Centre, there is adequate supply to meet the total needs of the ponds as the water supply is obtained from the sea, in view of the fact that the ponds are situated next to the sea.

At the larvae stage, the fishes are fed with larvae feeds such as Rotifer, Copepods and Artemia. The larvae feeds are internally produced at the Hatchery Centre. At the juvenile stage, the fishes are fed tiny shrimps and minced fish. When the fishes have reach the adult size, it will be fed with fresh trash fish. The tiny shrimps are mainly caught from the sea while the minced and trash fish are purchased from the local fishermen.

7.5 QUALITY CONTROL

The Borneo Aqua Group adheres to stringent quality control standards to maintain the high quality fishes that it produces. Quality control measures are established at various stages of production from broodstocks management to harvesting of adult fish.

Critical process parameters and product quality measurements are defined. Some examples of these process parameters and quality measurements are temperature, salinity, pH, dissolved oxygen, ammonia, stocking density and condition of the fish. In order to achieve consistent quality expectations, the Borneo Aqua Group has set up a monitoring system that monitors such parameters and quality measures. All the data are used to check for any abnormal fluctuations or trends and immediate action will be taken if there is any area which are noted to be out of control points. Such a proactive quality control system is very useful and effective and allows immediate rectification action to be taken.

7.6 BARRIERS OF ENTRY

Generally, the barriers of entry for the local marine fish breeding industry for commercial purposes are relatively high, and the number of new entrants can be very low, as the technical know-how for breeding of marine fishes can only be obtained through years of research and is well guarded by owners.

In addition, marine fish breeding technology is not easily transferable from one country to another due to, amongst others, different water conditions and quality, temperature and environment. The success in breeding of marine fishes is very much dependent on the surrounding environment and water quality. Amongst others, the salinity, pH, temperature, dissolved oxygen level and ammonia level in the seawater of Taiwan, Republic of China or Japan is very different from those in Malaysia. Even the water conditions and quality in Peninsular Malaysia and Sabah are different. Hence, even with technology transferred from abroad, a local company will have to conduct extensive R&D before it can successfully acquire the relevant technology that suits the local environment and this process may take years.

7. BUSINESS OVERVIEW (CONT'D)

R&D on marine fish can be very costly due to high fatality of broodstocks where, on average, only one out of three broodstocks will survive the process of R&D. In addition, it is relatively difficult to acquire wild broodstocks for research and breeding purposes due to the depleting supply in the wild. It may take years to acquire the sufficient number of broodstocks to carry out research effectively and commercial breeding purposes thereafter.

7.7 RESEARCH AND DEVELOPMENT**7.7.1 Development History**

Plentiful first started its R&D activities on the breeding of marine fish not long after its incorporation in April 2001. It first started its research on the suitable specie of fish to start with, taking into consideration the environment and water quality in Sandakan, and the commercial viability of the specie. After months of research and market study, Plentiful commenced R&D on the breeding of Malabar Red Snapper and Marble Grouper in end 2001. The R&D was carried out at the Group's R&D centre at Sandakan, Sabah. At its start, the R&D activities were carried out under the guidance of Tai Kun-Tsai, the Non-Executive Deputy Chairman of Borneo Aqua and Tai Chu Chun, the son of Tai Kun-Tsai, who subsequently headed the R&D Division. Tai Chu Chun, a diploma holder in Ocean Aquatic Studies from Institute of Koashiung National Ocean Aquatic Technology, brought along with him seven years of knowledge and practical experience to accelerate the R&D on the breeding of Malabar Red Snapper and Marble Grouper. In mid 2002, Plentiful commenced its R&D on the breeding of Coral Trout Grouper, a priced fish for consumption amongst the Chinese communities in the Asia Pacific region, in particular Hong Kong and China.

Plentiful's R&D capabilities were further strengthened with the employment of Akinori Hotani in mid 2003. Akinori Hotani is a first class degree holder in Marine Science and Aquaculture from University of Kinki, Japan.

Plentiful achieved its major breakthrough in early 2003, in which the Malabar Red Snapper and Marble Grouper have successfully produced large numbers of fertilised eggs, which were subsequently hatched for commercial purposes. Thereafter, in early 2004, Plentiful achieved another major breakthrough in the success of the breeding of Coral Trout Grouper, a specie which is known to be extremely difficult to be breed in captivity.

The successes were reported to the Fisheries Department of Sabah, which thereafter via its letter dated 23 October 2003 and 24 April 2004 acknowledged that Plentiful is the first company in Malaysia to have successfully mass-produce fish fry of Marble Grouper, Malabar Red Snapper and Coral Trout Grouper for commercial purposes.

With its success in the R&D of the abovementioned species and with the valuable experience gained, Plentiful is now currently focusing on the R&D of other species while at the same time conducting further research on Marble Grouper, Malabar Red Snapper and Coral Trout Grouper to improve on its productivity and quality.

7. BUSINESS OVERVIEW (CONT'D)

The species that are currently in various stages of R&D and are expected to be in production for commercial purposes in the current financial year and within the next 3 financial years are as follows:

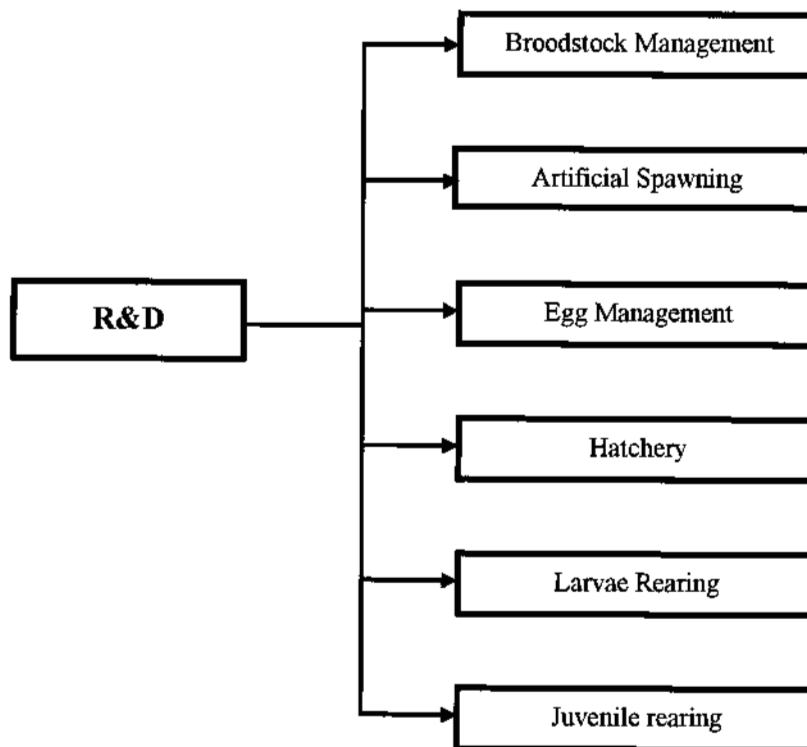
Specie	Scientific Name	Chinese Name (Romanised)	Bahasa Malaysia Name	Commencement/ Expected commencement of R&D (Financial year)
Giant Grouper	<i>Epinephelus Lanceolatus</i>	<i>Lotun/Fa Mui</i>	<i>Kerapu Hitam/ Keratang</i>	31 March 2004
Potato Cod Grouper	<i>Epinephelus Tuluka</i>	<i>Tai Lam Pan</i>	<i>Not available</i>	31 March 2004
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Coral Rockcod Grouper	<i>Epinephelus Corallicola</i>	<i>So Shi Pan</i>	<i>Kerapu Bintang</i>	31 March 2005
Humpback Grouper	<i>Cromileptes Altivelis</i>	<i>Lau Chu Pan</i>	<i>Kerapu Tikus</i>	31 March 2006
Barred Knifejaw	<i>Oplegnathus Fasciatus</i>	<i>N/A</i>	<i>N/A</i>	31 March 2006
Camouflage Grouper	<i>Epinephelus Polyphekadion</i>	<i>Cham Pan</i>	<i>Kerapu Hitam</i>	31 March 2007
Trout Cod Grouper	<i>Epinephelus Maculatus</i>	<i>Fa Yin Pan</i>	<i>Kerapu Bunga</i>	31 March 2007

Note:

The above expected dates for the commencement of R&D were arrived at after taking into consideration, amongst others, the current demand and commercial value of the species, and the broodstocks available. The management of the Borneo Aqua Group may expedite or delay the R&D activities on the above mentioned species or may commence R&D activities on new species depending on the circumstances at any point in time. Any changes to the abovementioned R&D activities will affect the expected period of commercial production of the species as set out in Section 7.15 below.

7. BUSINESS OVERVIEW (CONT'D)

7.7.2 Overview of R&D Process



Set out above is the overview of the R&D process carried out by the Group, which commences from the first day a broodstock is acquired up to the successful rearing of juvenile produced to adult fish. Extensive R&D is carried out at each stage of the entire breeding process for each specie of fish. Set out below are the key achievements achieved in relation to R&D carried out.

7.7.3 Key achievements of Borneo Aqua's technologies

The Borneo Aqua Group is an integrated marine aquaculture group of companies whereby marine biotechnologies are applied/used in its production process from broodstock management to spawning, hatching, and larvae and fry rearing. Plentiful's achievement of being the first company in Malaysia to have successfully produce Malabar Red Snapper, Marble Grouper and Coral Trout Grouper for commercial purposes proved the uniqueness and advantages of Borneo Aqua Group's technologies, which were acquired through extensive R&D conducted over the last 3 years. The technologies have and will continue to drive the growth of the Group and the local aquaculture industry.

The numerous achievements of Borneo Aqua's technologies are as follow:

Artificial Breeding

Borneo Aqua has successfully acquired the technology in sex reversal process for Grouper specie through its extensive R&D and the experience of its marine biologists. As Grouper specie is a protogonic hermaphrodite, it normally matures as female but transforms into male after a sex reversal process after its reaches a body weight ranging from over 20 kilograms to 50 kilograms, depending on the specie of Grouper. This process would take place between two reproductive seasons with an ovaric intersexual stage followed by a testicular intersexual phase. On average and depending on the specie, it takes more than five years for a Grouper to reach 20 kilograms. As such, there is high tendency of inadequate number of male Groupers available for breeding purpose.

7. BUSINESS OVERVIEW (CONT'D)

Through the R&D team, Borneo Aqua has successfully formularised the appropriate dosage and mixture of hormone-based supplements, to induce the transformation of female Groupers to males for breeding purposes. Equipped with this technology, Borneo Aqua is able to achieve or control the optimal sex ratio in a cage for breeding purposes and in accordance with its production schedule. This is a very important technology as it is not commercially viable to depend on a Grouper to change their sex naturally for breeding purposes.

Without this technology, there is an extremely high tendency of inadequate number of male Groupers available for commercial breeding purposes.

Mass Spawning

In nature, reproductive development and spawning of fishes are controlled by environmental factors such as temperature, photoperiod, nutrition, water quality and presence of spawning substrate. In aquaculture, it is not possible or economically feasible to replicate natural conditions especially since many species are cultured some distance from their original geographic location. Hence, the unpredictability in terms of both timing and quantity of output is a serious hindrance to commercial viability. Hence, the only option to generate mass production of fish eggs is by way of artificial fish spawning.

Having carried out extensive R&D, Borneo Aqua has successfully acquired the technology of artificial fish spawning. The most critical technology at this stage is the use of appropriate and accurate dosage of hormone supplements, to induce spawning in accordance with the Group's production schedule. Borneo Aqua, through its R&D, has developed the relevant formulae of appropriate dosages and type of hormone supplements for each specie in accordance to their body weight. The appropriate and accurate dosage of the supplements to be used is very critical as the supplements can only be administered only once as the broodstock is highly sensitive to hormone supplements. Over-dosage may harm or kill the broodstock and may also destroy the entire gonad system of the broodstock which will stop it from producing eggs. Plentiful has managed to formularise the appropriate and accurate dosage of hormone through years of R&D and sacrifice of many broodstocks.

In the spawning process, hormone supplements are used to accelerate the egg maturation, increase the maturity or the sizes of the eggs to an optimal size for artificial spawning and to induce the female broodstocks to release the eggs.

Through its research, Borneo Aqua has also been able to formularise the appropriate environment and optimal water quality and conditions such as temperature, dissolved oxygen level and salinity for successful breeding for each specie of fish. With the formula, Borneo Aqua is able to control the environment and water condition through, amongst others, use of oxygen pump and manipulation of the surrounding environment to control the temperature to ensure successful breeding and also to increase egg production.

With this technology, Borneo Aqua will be able to determine the timing of spawning and the egg production required based on its production schedule.

Eggs Management

Through its R&D and observations, Borneo Aqua has successfully researched and developed the relevant knowledge for each stage of the egg development and as a result thereof, has successfully developed strict procedures for egg handling. Eggs are very sensitive before the embryonic stage and just before hatching. Plentiful has also successfully acquired the technical knowledge for embryo development phase.

7. BUSINESS OVERVIEW (CONT'D)

With the developed knowledge along with the strict procedures, Borneo Aqua has been able to constantly achieve high hatching rate and high survival rate amongst the hatched larvae.

Hatchery

The quality and conditions of seawater is a key factor in the hatchery stage. The success and failure of larvae rearing depends on the control of the seawater. Through its R&D, Plentiful has successfully formularised the appropriate temperature, pH, dissolved oxygen level and salinity of the water for larvae rearing for each specie to minimise mortality rate. With its proven formulae, Borneo Aqua has managed to achieved an average survival rate of 5% for Snapper specie and 3% for Grouper specie as compared to the survival rate of wild or naturally hatched fry of 0.001% (to the best knowledge of the Group's marine biologists), which is equivalent to one broodstock only producing one juvenile at each time of spawning.

The abovementioned survival rate achieved by Borneo Aqua is in line with the industry's average survival rate. Despite the achievement, Borneo Aqua is constantly conducting research to further increase the survival rate.

Live Feed

Borneo Aqua has also successfully acquired the technology for the production of live feeds for larvae, namely Rotifer and Copepod. Rotifer and Copepod are essential food for larvae rearing as they contain the important and relevant nutrition required for the development and survival of larvae. Borneo Aqua also has the technology to further enrich the Rotifer and Copepod with Omega 3 HUFA, which is very important for the development of the larvae.

With the successful production of Rotifer and Copepod, Borneo Aqua is able to increase the survival rate of the larvae and also to grow them into healthy and good quality fry. In addition, Borneo Aqua has also been able to reduce its feeds cost as the cost involved in the production of Rotifer and Copepod is relatively low with the discovered technology.

In view of the lack of available data and technology on fish farming for research purposes in Malaysia, it is the intention of the Borneo Aqua Group to become a reliable training and resource centre to complement the efforts of the Government to further improve and develop the marine aquaculture industry. There are also plans to tie-up with local or regional universities or related bodies to share and improve technical knowledge on marine fish farming. As such, there are plans to increase the number of qualified research personnel, equipment, detailed documentation system for the R&D purposes.

The R&D team is also given the task of conducting training and providing consultancy services to those who are interested in fish rearing to develop the local aquaculture industry and also as part of its marketing strategies to create market for its fry.

The Borneo Aqua Group has spent a total of RM781,450 on R&D in the financial period ended 31 March 2003 and the financial years ended 31 March 2004 and 31 March 2005, of which RM406,002 was charged out as expenses whilst the balance of RM375,448 was capitalised as development expenditure which shall be amortised accordingly. The amounts spent on research and development represent approximately 10% of the proforma aggregate turnover of the Borneo Aqua Group in line with its continuous product enhancement and development plans. The Group has allocated RM2.73 million from the total proceeds from the Rights Issue and Public Issue for R&D expenditure. In addition, the Group has budgeted an annual R&D expenditure of 1% of the Group's revenue each year for ongoing R&D.

7. BUSINESS OVERVIEW (CONT'D)

7.8 INTERRUPTIONS TO BUSINESS DURING THE PAST 12 MONTHS

There has not been any material interruption to the businesses of the Borneo Aqua Group in the 12 months preceding the date of this Prospectus.

7.9 EMPLOYEES

As at 8 July 2005, being the last practicable date prior to the printing of this Prospectus, the Borneo Aqua Group has a total of 65 full-time employees in the following categories:

Category of Employee	----- Malaysian citizens ----->				Total Malaysian	Foreigners	Total
	Bumiputera	Chinese	Indian	Others			
Managerial and professional	-	4	-	-	4	-	4
Technical and supervisory	1	4	-	-	5	2	7
Clerical and related occupations	1	3	-	-	4	-	4
General employee	49	1	-	-	50	-	50
	51	12	-	-	63	2	65

Borneo Aqua recognises the importance of its employees and is continuously taking steps to update them on the latest developments in the aquaculture industry. The Group undertakes on-the-job training to transfer the knowledge from the more experienced personnel to new or junior employees. The employees are also sent to various breeding centres from time to time to further upgrade their knowledge and skills. In addition, the Borneo Aqua Group's middle management team is constantly exposed to various aspects of its business in order to ensure that they understand the Group's businesses and strategy, and are adequately equipped with the knowledge necessary for them to assume senior management positions.

The employees of the Borneo Aqua Group are not members of any trade union, and the management of the Borneo Aqua Group enjoys cordial relations with these employees. There has not been any material dispute to date between the management and these employees.

The number of years in service of the employees of the Borneo Aqua Group are as follows:

Years of service	Number of employees	Percentage of total employees %
Less than 1 year	37	57
More than 1 year but less than 5 years	28	43
Total	65	100

7.10 KEY ACHIEVEMENTS

Through the extensive R&D conducted throughout the years by its dedicated R&D team led by Tai Chu-Chun and Akinori Hotani, the Borneo Aqua Group has successfully acquired the relevant technology for marine fish breeding and have achieved numerous successes. Amongst the most notable achievement is that Plentiful is the first company in Malaysia to have successfully mass produce the fry of Marble Grouper, Malabar Red Snapper and Coral Trout Grouper as acknowledged by the Fisheries Department of Sabah via its letters dated 23 October 2003 and 24 April 2004 respectively.

7. BUSINESS OVERVIEW (CONT'D)

Plentiful was also awarded the certificate of recognition as an Excellent Entrepreneur in the Agriculture Sector by the Ministry of Agriculture and Food Industry, Sabah on 16 July 2005.

7.11 CONTRIBUTION TO ECONOMIC GROWTH

Based on the high demand for fishes and fish fry in the domestic and international market, the Group believes that with its success in the mass production of Marble Grouper, Malabar Red Snapper and Coral Trout Grouper, it will be able to replicate the technical knowledge on other high demand and commercial value fishes and culture them for commercial purposes. As such, the Borneo Aqua Group will be able to contribute to the development of the local aquaculture industry and hence, reduce the import of fish fry and adult fishes, in line with the Government's aspiration of being self sustainable in food production and as a result thereof, save on foreign exchange. The positive development of the local aquaculture industry will create employment opportunities, in particular in the rural areas.

In addition, the Group believes that it will be able to supply high quality fish fry to the other local breeders, contribute its technical knowledge on fish culture to the local fish industry and to generate further linkages with the rest of the economy.

7.12 LOCATIONS OF OPERATIONS

At present, the Borneo Aqua Group maintains its head office, R&D centre and Hatchery Centre at Kampung Sungai Kayu, Sandakan while its Breeding Centre and Rearing Centre are based at Pulau Berhala and Pulau Bai, Sandakan. The Borneo Aqua Group also maintains a R&D centre at Pulau Berhala.

7.13 MAJOR CUSTOMERS

The Borneo Aqua Group's top ten customers for the financial year ended 31 March 2005 are as follows:

Customers	Contribution to revenue (%)	Length of relationship (years)
Sun Tat Marine Products Co Ltd	43.76	Less than two years
Timply Trading (Seafood Supplier)	14.29	Less than two years
Mulia Seri Wawasan Sdn Bhd	12.52	Less than two years
Port View Seafood Village Sdn Bhd	10.10	Less than two years
Ng Koon Fook	3.85	Less than one year
Yee Yin Fong	3.18	Less than one year
Leong Yuk Heng	2.73	Less than one year
Liew Kong Hui	2.53	Less than one year
Miracle Display Sdn Bhd	2.23	Less than one year
Grand Port View Restaurant Sdn Bhd	1.85	Less than two years

7. BUSINESS OVERVIEW (CONT'D)

7.14 MAJOR SUPPLIERS

The Borneo Aqua Group's top ten suppliers for the financial year ended 31 March 2005 are as follows:

Suppliers	Contribution to cost of sales (%)	Length of relationship (years)
Chan Chiau Hee Dan Zulkifly Sdn Bhd	13.30	Less than three years
Syarikat Fan & Brother	5.02	Less than two years
Pan Sarawak Company Sdn Bhd	4.62	Less than three years
Lup Kong	4.41	Less than three years
Hosianheng (Sabah) Sdn Bhd	4.00	Less than three years
Ku Tai Yee	3.29	Less than two years
Syarikat Wing Wah	3.06	Less than one year
Syarikat Keong Lip Machinery	3.00	Less than three years
Syarikat Fong Seng (1970) Sdn Bhd	2.84	Less than three years
Miracle Gateway Sdn Bhd	2.71	Less than two years

7.15 FUTURE PLANS AND PROSPECTS

In view of the widening gap between the demand and supply of marine fish in the country as well in the international market, Borneo Aqua intends to be the catalyst to develop the marine fish farming industry in Malaysia, particularly in Sabah, in line with the economic strategy of both the Sabah State and the Federal Government to promote aquaculture as one of the main economic activities for the country. This industry not only provides abundant protein food supplement at an affordable price to the people but would also contribute significantly to the economy of the country in terms of job opportunities, reduce the outflow of foreign reserves and at the same time increase the inflow of foreign currencies earned from the export of its products.

Currently, the greatest weakness of fish farming industry in the country is the lack of supply of high commercial value marine fish fry in the local market as no known company in the country is producing them for commercial purposes except Plentiful, as confirmed by the Fisheries Department of Sabah. To meet the expected demand, Borneo Aqua plans to increase its capacity to handle mass production of fish eggs and produce sufficient high commercial value fish fry, in particular the Grouper and Snapper species, to be supplied to local fish farmers.

To achieve that objective, Borneo Aqua plans to acquire and lease additional land measuring approximately 87 acres adjacent to its existing operations at Kampung Sungai Kayu, and to construct an additional 100 new sea cages at its existing site at Pulau Berhala to be developed mainly for hatchery, broodstocks culturing and fish rearing activities to increase its current capacity for the production of fish eggs and fry, and adult fish. In addition, the Group is expected to expand its broodstocks culturing and fish rearing activities in Pulau Bai in the current financial year with the construction of 300 new sea cages with the proceeds from the Listing. The Group also plans to set up a new indoor hatchery centre at Pulau Palak, Sandakan in the current financial year with the proceeds from the Listing to increase its hatchery capacity.

7. BUSINESS OVERVIEW (CONT'D)

The plan to increase its capacity has also taken into account the potential enlarged operations with the success of artificial spawning of other species. In addition to increasing its operational capacity, the construction of new sea cages are also to cater for the Group's plan to relocate a substantial portion of its broodstocks to the new ponds at its existing site, and to the new cages at Pulau Bai and future breeding centre to be set up, as part of the Group's risk management program to mitigate the risks of mass mortality due to diseases and pollution.

The other major weakness in the local marine agriculture industry is the lack of technical knowledge, as most fish farmers cannot afford to carry out R&D to enhance their productivity to enable them to compete effectively in the international market. To this end, Plentiful has developed a two-pronged strategy. In the very near future, adequate training will be made available for those who are interested in fish rearing activities to create sizeable fish rearing farms in the country to take advantage of the fish fry made available by the Borneo Aqua Group. The Borneo Aqua Group also plans to provide fish rearing consultancy services to those who are interested in venturing into marine aquaculture in addition to providing technical support to its customers. Only after sufficient demand for fish fry has been created within the country, Borneo Aqua will introduce its hatchery technology to interested fish farmers to enable them to have greater depths in fish hatchery and rearing. Once an established pool of hatchery centres are available, Borneo Aqua plans to farm-out part of its hatchery operations to those centres as it grows further in the near future as this will enable it to utilise more of its capacity for breeding activities, especially its research on new species.

To broaden its product and earnings base, the Borneo Aqua Group has set a target and timeline for the commencement of research and the commercial production of other high commercial value species, and to increase the production of current species. To achieve the target, a total of approximately RM1.5 million from the proceeds of the Listing will be utilised for the acquisition of broodstocks for research purposes. The number of broodstocks to be acquired at the earlier stage of R&D is relatively high as the fatality rate of broodstocks during the R&D phase is high. Based on Plentiful's research record, it is estimated that only one out of three broodstocks acquired will survive the R&D phase. Hence, the number of broodstocks to be acquired will gradually be increased to a level that is enough to carry out research and studies effectively, and for breeding purposes thereafter.

The species that are currently in various stages of R&D and are expected to be in production for commercial purposes in the current financial year and within the next 3 financial years are as follows:

	Specie	<--Expected period of commercial production -->			
		Financial year	Mar 2006	Mar 2007	Mar 2008
1.	Giant Grouper				
2.	Barred Cheek Coral Trout Grouper				
3.	Tomato Rock Grouper				
4.	Coral Rockcod Grouper				
5.	Potato Cod Grouper				
6.	Humpback Grouper				
7.	Camouflage Grouper				

7. BUSINESS OVERVIEW (CONT'D)

	Specie	<--Expected period of commercial production -->			
		Mar 2006	Mar 2007	Mar 2008	Mar 2009
	Financial year				
8.	Trout Cod Grouper				
9.	Barred Knifejaw				

The milestones in relation to the research of the abovementioned high commercial value specie are set out in Section 7.7.1 above.

The Group also plans to venture into production of marine fish feeds in the future when its customer base and the local marine aquaculture industry have increased to a reasonable size to be able to commercially support such a new venture. In addition to broadening its earnings base, the Group will also be able to control the quality of the feeds used by its contracted hatchery centres to which the Group plans to farm-out part of its hatchery activities.

As part of its future plan, the Borneo Aqua Group is also taking the necessary initiatives to further improve its R&D capabilities in terms of equipment and human resources. The Directors of Borneo Aqua are aware that the R&D is the critical aspect for the success of the Group. Their initial investments in R&D had achieved outstanding results within a short period of approximately two years. The Directors of Borneo Aqua believe that further investments in the R&D activities would propel the companies to higher grounds in terms of productivity and quality of products.

As part of its future development plans, the Group intends to conduct feasibility studies in various countries in the Asia Pacific region with the view of signing up appropriate business partners, for instance, foreign wholesaler to market and deliver its products. This is to enable Borneo Aqua to build and strengthen its market base of the respective local markets in the respective importing countries through the assistance/expansion of the local wholesaler, and hence, reap the benefits in savings in time and cost spent in setting up its own distribution/marketing centres in these targeted countries and to allow Borneo Aqua to focus on its R&D and breeding activities. The Group will continue with this approach before directly distributing to end buyers over the longer term once it is viable to do so.

The Directors of Borneo Aqua believe that the prospects of the Group are promising due to the great demand for high commercial value marine fishes. The demand for cultured fish is expected to increase over time due to the depleting supply of wild fishes and the growth of population and their living standards, particularly in the Asia Pacific region. Furthermore, fish is a good source of protein and is consumed by people of all races and religions. With the successes achieved in the breeding of Malabar Red Snapper, Marble Grouper and Coral Trout Grouper coupled with the Group's extensive R&D, the Board is confident that the Group's R&D team will be able to replicate the successes on the abovementioned new species.

Furthermore, the Directors are also confident that the Group will be able to break into Asia Pacific's market as the Group has the competitive edge as mentioned in Section 9.3 of this Prospectus.

8. INDUSTRY OVERVIEW

8.1 THE MALAYSIAN ECONOMY

With the more robust growth in global trade and domestic demand, the momentum of economic growth in Malaysia, which began in the second half of 2003, gathered pace in 2004. Real gross domestic product increased by 7.1% in 2004 (2003: 5.3%), the fastest growth since 2000. The economy benefited from the rapid growth of global trade in manufactures and higher prices for primary commodities. Although global growth moderated somewhat in the second half of the year, the Malaysian economy remained resilient with stronger domestic demand providing the impetus for sustained expansion. The private sector was the main force of economic expansion, while the Government continued with fiscal consolidation.

The improvement in the economy was reflected by positive growth across all sectors except construction. The main drivers of growth were the manufacturing, services and primary commodities sectors. Value added in the manufacturing sector expanded strongly by 9.8%, as output growth in both export- and domestic-oriented industries reflected stronger external and domestic demand for manufactured goods. In the export-oriented industries, the strongest output expansion was seen in the electronics industry, benefiting from the upturn in the global semiconductor cycle. The fisheries sub-sector grew by 6.5% in 2004 to 1.58 million tonnes (2003: 1.48 million tonnes), driven mainly by more active deep-sea fishing and increased output of high value-added aquaculture and ornamental fish.

(Source: Bank Negara Malaysia Annual Report 2004)

8.2 MARINE FISH INDUSTRY

The world fish demand is estimated to increase in line with the growth of population, income and standard of living. The increase in demand is also due to greater awareness that fish is a good source of protein.

The importance of aquaculture grows each year because of increased demand for seafood, overall population growth and diminishing natural seafood supplies. Today, more than 1 billion people rely on fish as a source of animal protein. In addition, one hundred and fifty million people around the world depend on the fish industry for employment. Fish is also one of the highly traded aquaculture commodities with nearly 40% of fish production traded internationally. Aquaculture has been proven to be efficient in increasing farmers' income and improving food supply while protecting water resources and natural fishery resources. International trade in fishery products increased substantially since the mid 1980s. The total value of exports was valued at USD 20 billion in 1984. It rose sharply to USD 55 billion in 2000.

The aquaculture sector has also proven to be successful in providing attractive income for investors in Taiwan, Republic of China, Vietnam, Thailand and other neighbouring countries.

Fish farmers in Malaysia have also been importing large numbers of hatchery-produced fish fry/juveniles from Taiwan, Republic of China in the last few years. The primary species are Giant Grouper (*Epinephelus Lanceolatus*), Marble or Flowery Grouper (*Ephinephelus Fuscoguttatus*) and Bleeker's Grouper/Humpback Grouper (*Cromileptes Altivelis*).

In Malaysia, Sabah possesses a unique geographical location which is flourished with near extinct species of fish, a suitable weather condition and less polluted surroundings. Sabah has boundless potential for research and development for breeding various species of near extinct or high value marine fish for consumerism.

8. INDUSTRY OVERVIEW (CONT'D)

Recent studies carried out by FAO on the sustainable contribution of fisheries to food security in the Asia Pacific region indicated that, by the year 2010, substantially more fish would be required to sustain the demand from the expanding population.

China has set a target for fish production of 32 million tonnes by the year 2000 and by 2010, this could increase to 40 million tonnes. In South and Southeast Asia, the demand is expected to increase corresponding to the rising population and income which will boost intra-regional trade, both for high-commercial value and low-commercial value and fishery products. By 2010, fish supplies in South and Southeast Asia will need to increase by at least five million tonnes merely to maintain the current consumption level and the effect of economic growth on demand will further increase requirements.

Many coastal fish stocks will need to be rehabilitated urgently through effective fisheries management schemes with special attention to substantial monitoring of or even reduction in fishing efforts. To satisfy this increasing demand, aquaculture, and to a lesser extent, inland fisheries, may provide better opportunities for augmenting regional fish production.

(Source : www.fao.org and WorldFish Center)

8.3 FISH INDUSTRY IN MALAYSIA

The fisheries sector plays an important role in providing fish as a source of food and protein. It also plays a significant role with regard to the provision of employment, particularly in the rural areas and the support it provides to the country's economic growth. The fisheries sector contributed about 1.54% to the National GDP of RM353.25 billion in 2001 and provided direct employment to 84,496 fishermen and 22,108 fish culturists. Over the years, the industry has succeeded in achieving a steady production from its marine inshore fisheries amounting to an average of 1.06 million tonnes.

The Department of Fisheries Malaysia is taking several measures to increase fish production in the country. Amongst these measures are to increase fish production from deep-sea fishing and the development of the aquaculture sector.

The fisheries sector is an important economic sector to the growing population in Malaysia as it continues to provide a vital source of animal protein and promotes rural development by providing employment. The consumption of fish in Malaysia is expected to increase by 14 per cent by 2010. The Malaysian Ministry of Agriculture 2000 Report stated that Malaysia targets 94 per cent self-sufficiency in fish by 2010, an improvement from the current level of 89 per cent. To expedite marine finfish production and realise the target production, there is a need for a quantum leap to a culture system with higher production capacity. A new culture system, which could be used in open sea, is being introduced in Malaysia.

There are very few successful marine finfish hatcheries in the country and they cannot cope with the increasing demand for fingerlings or fry. In addition, there is a lack of broodstock to expand their product line in the future. Another important area is development of healthy broodstock to ensure that fingerlings or fry are pathogen-free.

Set out below are Malaysia's total export and import of fishery commodity for 2000 to 2001, Malaysia's export and import of live, fresh, chilled or frozen fish for 2000 to 2001 and Malaysia's export and import of fish fry for 2000 to 2001:

Malaysia's export and import of fishery commodity for 2000 and 2001

Year	← Import →		← Export →	
	Tonnes	RM 000	Tonnes	RM 000
2000	323,199	1,168,300	144,590	1,349,520
2001	349,265	1,273,700	161,339	1,363,900

8. INDUSTRY OVERVIEW (CONT'D)Malaysia's export and import of live, fresh, chilled or frozen fish for 2000 and 2001

Year	←----- Import -----→		←----- Export -----→	
	Tonnes	RM 000	Tonnes	RM 000
2000	243,879	711,485	42,807	178,312
2001	263,599	772,329	41,454	189,228

Malaysia's export and import of live fish fry for 2000 and 2001

Year	←----- Import -----→		←----- Export -----→	
	No of fry	RM 000	No of fry	RM 000
2000	55,157,530	7,865	18,816,160	1,317
2001	35,585,660	5,115	7,851,220	550

The Fisheries Department is targeting to produce enough fish and fish products for domestic consumption and for export. Under the Third National Agricultural Policy (1998-2010), the target is to annually produce 1.93 million tonnes of fish worth approximately RM8.3 billion beginning 2010. Aquaculture production is envisaged to increase four-fold to 600,000 tonnes by 2010, wherein 400,000 tonnes will be produced through mariculture (land and water based aquaculture) while 200,000 tonnes will be contributed by the development and expansion of freshwater fish industry.

Research and development is the key strategy to ensure sound fisheries development and management as it provides new knowledge and the technologies to formulate culture of new species, and improve competitiveness and productivity.

(Source: Department Of Fisheries Malaysia)

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9. SUMMARY OF THE 5-YEAR BUSINESS DEVELOPMENT PLAN

9.1 OVERVIEW

The Borneo Aqua Group is principally involved in rearing of marine fish, marine fish breeding and hatchery. Further details of the Company's overview and future plans for each of the business divisions which are set out in the Company's business plans are also set out in Sections 7.1 and 7.15 of this Prospectus.

9.2 BUSINESS OBJECTIVES

Borneo Aqua is committed to further improve and develop the marine aquaculture industry in Malaysia by:

- (i) enhancing the country's R&D capabilities in the breeding and hatchery of marine fish through sharing of knowledge with local universities and relevant organisations/bodies;
- (ii) educating local fish farmers on breeding and hatchery of marine fish through training and consultancy services to be provided by the Company;
- (iii) creating sub-sector within the aquaculture industry or promoting new down stream industry such as marine fish feed industry and production of value-added fish products such as fish fillet for export market; and
- (iv) improving the living standard of fish farmers through rearing of a diversified and high commercial value marine fishes to be introduced by Borneo Aqua.

Borneo Aqua is also committed to be one of the market leaders in breeding and hatchery of high commercial value marine fish in the Asia Pacific region. In achieving this business objective, the Company will:

- (a) broaden its product base or species of fish through research by a highly trained and motivated R&D team;
- (b) enhance its R&D capabilities through tie-ups with local or international universities and related organisations/bodies;
- (c) provide high quality products and services; and
- (d) establish new and improve on its network of customers for its products, and to develop strategic marketing alliances with international wholesaler.

9. SUMMARY OF THE 5-YEAR BUSINESS DEVELOPMENT PLAN (CONT'D)

9.3 Competitive Edge

- 9.3.1 Currently, Taiwanese companies dominate the fish breeding industry in the Asia Pacific region including the industry in West Malaysia for many years, in particular in relation to the supply of fish fry. They are able to dominate the industry due to their superior and advance breeding techniques, which were acquired through many years of research.
- 9.3.2 Despite being new to the industry, Borneo Aqua is confident that it will be able to compete with other companies in the Asia Pacific region, in particular Taiwanese companies, in view of the following competitive advantages:
- (a) The Malaysian Government is aggressively promoting aquaculture as one of the main industries for the country with a target of becoming a self-sufficient food producing country. In this regard, the Government has many tax incentives in place for companies involved in the fish farming industry. Currently, most companies involved in the fish farming industry are eligible to apply for tax exemption for 10 years. Such incentives augur well for the Borneo Aqua Group as in addition to it being eligible for the exemption, such incentives will encourage more fish farming in Malaysia and thus there will be greater demand for its fish fry.
 - (b) For the local market, Borneo Aqua, being strategically located in Sandakan, has the logistic advantage over its regional competitors. Due to the shorter distance, not only the freight charges are lower but more importantly the risk of fatality of fry is also lower. The logistic advantage is translated to cheaper and better quality fish fry for the customers.
 - (c) The direct costs of fish breeding in Sandakan are generally much lower compared to an advanced country such as Taiwan, Republic of China. In particular, the costs of land, labourers and even trash fish are not only easily available but also at a cheaper rate. Hence, the cost of operations is much lower than its competitors, thus giving the Borneo Aqua Group the flexibility in the pricing of its products.
 - (d) Fish will only breed during the warmer period of the year and hence fish spawning in four seasons country such as Taiwan, Republic of China is only limited to approximately 6 months a year whereas in a country with the tropical climate such as Sandakan, the breeding is all year round. This advantage not only increases the volume of the production of eggs but also provides flexibility for optimising the usage of available ponds and cages.
 - (e) The Borneo Aqua Group has the capability in R&D to succeed in the industry. The research and technology are specifically focused on high commercial value species for commercial purpose. With the expected funds from the Listing, the Borneo Aqua Group will be able to further enhance its R&D capabilities. Borneo Aqua has allocated RM2.73 million of the total proceeds to be raised from the Listing for capital expenditure for R&D purposes. In addition, the Group will also allocate approximately 1.0% of its annual turnover for R&D purposes.
 - (f) Due to its rich marine life and more conducive water conditions and weather, it is much easier to obtain new wild broodstock of various species in Sabah's coastal area for R&D and commercial breeding purposes compared to other countries such as Taiwan, Republic of China.

9. SUMMARY OF THE 5-YEAR BUSINESS DEVELOPMENT PLAN (CONT'D)

- (g) Based on the studies conducted and experience of the Directors of Borneo Aqua, the seawater in Sandakan appears to be more suitable for fish breeding than that of Taiwan, Republic of China. The Group believes that the seawater quality in Sandakan is of better quality due to less pollution compared to more advanced countries such as Taiwan, Republic of China. In addition, to the best knowledge of Borneo Aqua's Directors, there has been no record of serious seawater pollution in Sandakan for the past 20 years. Even during the recent wide spread of sea red tide around the waters of Sabah, Brunei and Sarawak, Sandakan was spared from such problem. Furthermore, unlike countries like Taiwan, Republic of China, Philippines and Indonesia, Sabah is not affected by typhoons and earthquakes.

9.4 Key Business Strategies

Borneo Aqua's key strategies to achieve its business objectives and to maintain its competitive strengths are as follows:

9.4.1 Marketing Strategy

Borneo Aqua intends to increase its marketing and sales channel regionally by establishing new and improving its network of customers for its products, and to develop strategic marketing alliances with international wholesalers.

Presently, the Group markets its fish fry to local marine fish farmers with the objective of spurring the growth of the local marine aquaculture industry whilst the Group markets adult fish mainly through wholesalers. This marketing approach is adopted as wholesalers are generally aware of the dynamics and latest development within the fishery industry and have their respective established distribution networks, thus allowing the Group to capitalise on their existing networks to distribute the products in the markets where the wholesalers are located.

As part of its future development plans, the Group intends to conduct feasibility studies in various countries in the Asia Pacific region with the view of signing up appropriate business partners, for instance, foreign wholesaler to market and deliver its products. This is to enable Borneo Aqua to build and strengthen its market base of the respective local markets in the respective importing countries through the assistance/expansion of the local wholesalers and hence, reap the benefits in savings in time and cost spent in setting up its own distribution/marketing centres in these targeted countries and to allow Borneo Aqua to focus on its R&D and breeding activities.

The Group will continue with this approach before directly distributing to end buyers over the longer term once it is viable to do so.

9.4.2 Research and Development

Borneo Aqua believes that R&D is the key strategy to ensure sound fisheries development and management, as this will provide new knowledge and the technologies to improve competitiveness and productivity. In order to achieve this, the Company has set out the following phases of R&D to be implemented/improved over the next 3 financial years:

- (i) Broodstock management
- (ii) Artificial spawning
- (iii) Eggs management
- (iv) Hatchery
- (v) Larvae rearing
- (vi) Juvenile rearing

Further details on the Borneo Aqua Group's R&D capabilities and efforts which are disclosed in the Business Plan are also set out in Section 7.7 of this Prospectus.

9. SUMMARY OF THE 5-YEAR BUSINESS DEVELOPMENT PLAN (CONT'D)

In addition, the Company intends to explore the feasibility of, where appropriate, enhancing its R&D capabilities through tie-up with local or international universities and related organisations/bodies.

As part of its future plans, Borneo Aqua Group is also taking the necessary initiatives to further improve its R&D capabilities in terms of equipment and human resources. Thus, the Borneo Aqua Group is continuing to recruit qualified and experienced personnel and to retain its employees so as to enhance its industry experience.

The Directors of Borneo Aqua are aware that R&D is the critical aspect for the success of the Group. Their initial investments in R&D had achieved outstanding results within a short period of approximately two years. The Directors of Borneo Aqua believe that further investments in the R&D activities would propel the Group to a higher ground in terms of productivity and quality of its products.

To broaden its product and earnings base, the Borneo Aqua Group proposes to utilise a total of approximately RM1.5 million from the proceeds of the Listing for the acquisition of broodstocks for research purposes whilst approximately RM1.23 million will be used to purchase equipment for R&D purposes. In addition, the Directors have budgeted an annual R&D expenditure of 1% of Borneo Aqua Group's consolidated revenue each year for ongoing R&D.

9.4.3 Human Resource

The Borneo Aqua Group's human resource plans reflect the need to bolster its capabilities to match its positioning as one of the market leaders in the breeding and hatchery of high commercial value marine fish in the Asia Pacific region over the 5-year business plan period. Total employment is expected to increase to approximately 120 by the end of the financial year ending 31 March 2006 as compared to 65 employees as at 8 July 2005. As at 8 July 2005, the Borneo Aqua Group has a total of 5 R&D personnel representing 7.7% of the total employees in the Borneo Aqua Group. The number of R&D personnel is expected to increase to 7 for the financial year ending 31 March 2006.

The Company's human resource strategy is to maintain a small number of but highly motivated and productive permanent staff who are involved mainly in R&D and operations of its fish breeding and hatchery business divisions. Recognising the importance for its employees to continually upgrade their skills and enhance their knowledge, the Company undertakes on-the-job training to transfer the knowledge from the more experienced personnel to new or junior employees. The employees are also sent to various breeding centres from time to time to further upgrade their knowledge and skills. In addition, the Borneo Aqua Group's middle management team is constantly exposed to various aspects of its business in order to ensure that they understand the Group's businesses and strategy, and are adequately equipped with the knowledge necessary for them to assume senior management positions.

10. MORATORIUM ON THE PROMOTERS' SHARES

Paragraph 2.10.2 of the Listing Requirements provides that shares held by the promoters of a company seeking approval for admission to the Official List of the MESDAQ Market ("Applicant"), amounting to 45% of the nominal issued and paid-up share capital of the Applicant as at the date of admission and any interest in such shares may not be sold, transferred or otherwise disposed of for 1 year from the date of the Applicant's admission to the Official List of MESDAQ Market. Thereafter, the promoters may sell, transfer or otherwise dispose of up to a maximum of one-third of their respective shareholding per annum on a straight line basis of their respective shareholdings under moratorium.

However, the SC has via its approval letter dated 23 March 2005 revised the moratorium to 51% of the issued and paid-up share capital of Borneo Aqua. As such, details of the promoters of Borneo Aqua whose shares are subject to moratorium are as follows:

Promoters	*After Issues		Under Moratorium	
	Number of Borneo Aqua Shares held	Percentage of enlarged share capital %	Number of Borneo Aqua Shares held	Percentage of enlarged share capital %
Datuk Lo Fui Ming	120,011,271	40.00	100,536,644	33.51
Ho Khin Fong @ Henry Ho	19,132,299	6.38	16,027,639	5.34
Lo Ken Hin	17,300,625	5.77	14,493,196	4.83
Tai Chu-Chun	14,531,694	4.84	12,173,588	4.06
Chang Mei-Lin	11,661,240	3.89	9,768,933	3.26
	182,637,129	60.88	153,000,000	51.00

Note:

* Not including the Issue Shares allocated as part of pink form allocation to eligible Directors.

The quantum and proportion of ordinary shares of RM0.10 each in Borneo Aqua which are to be held under moratorium as described above have been fully accepted by the promoters of Borneo Aqua, representing 51% of the enlarged issued and paid-up share capital of the Company.

The promoters of Borneo Aqua will not be allowed to sell, transfer or otherwise dispose of any part of their respective interests in Borneo Aqua Shares under the moratorium within 1 year from the date of admission of Borneo Aqua to the Official List of the MESDAQ Market, and thereafter, they are permitted to sell, transfer or otherwise dispose of up to a maximum of one-third per annum of their respective shareholdings under moratorium on a straight-line basis.

This restriction is specifically endorsed on the notice of allotment and share certificates of Borneo Aqua representing the respective shareholdings of the promoters of Borneo Aqua which are under moratorium, to ensure that Borneo Aqua's share registrars shall not register any transfer not in compliance with the moratorium restrictions. This restriction has been fully accepted by the said promoters.

The remarks to be endorsed on these share certificate are as follows:

"The shares comprised herein are not capable of being sold, transferred or assigned for a period as determined by Bursa Securities ("Moratorium Period"). Accordingly, the shares comprised herein will not constitute good delivery pursuant to the Rules of Bursa Securities during the moratorium period. No share certificate or certificates will be issued to replace this certificate unless the same shall be endorsed with this restriction."

11. CONFLICT OF INTEREST AND RELATED PARTY TRANSACTIONS

11.1 CONFLICT OF INTEREST

CIMB confirms that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for the Listing.

Ernst & Young confirms that there is no existing or potential conflict of interest in its capacity as the Reporting Accountants for the Listing.

Teh & Lee confirms that there is no existing or potential conflict of interest in its capacity as the Solicitors for the Listing.

11.2 RELATED PARTY TRANSACTIONS

Save as disclosed below, there is no contract or arrangement with Borneo Aqua or any of Borneo Aqua's subsidiaries that is subsisting and which involves an interest of a Director, substantial shareholder or key management or technical personnel of Borneo Aqua:

- (i) A Deed dated 25 May 2004 made between Chak Fook Thau ("the Vendor"), Datuk Lo Fui Ming ("the Purchaser") and Plentiful ("the Sub-lessee"), pursuant to which the Vendor has agreed to grant to the Purchaser an option to purchase ("the Option") all that parcel of land held under NT073026472 measuring approximately 13 acres situated at Sungai Kayu, Mile 7, Sandakan, Sabah for a purchase price of RM40,000 per acre, whereby the Option shall continue to be valid until the listing of Borneo Aqua on Bursa Securities or until 31 March 2005, which ever is earlier subject to the signing of a formal agreement and the existing sub-lease granted by the Vendor to the Sub-lessee which is valid from 1 January 2003 to 31 December 2010 shall cease to continue until such time the Purchaser elects to exercise the Option and upon the terms and conditions as set out therein. The Purchaser has paid RM10,000 as a deposit to the Vendor in accordance to the Deed.

A Supplementary Agreement dated 30 March 2005 made between the Vendor, Purchaser and Sub-lessee, pursuant to which the parties have agreed to amend the exercise period for the Option (*as defined in the Deed set out above*) to "30 September 2005 or the listing of Borneo Aqua on Bursa Securities, whichever is the earlier".

A Sale and Purchase Agreement dated 6 June 2005 made between the Vendor and Purchaser, pursuant to which the Vendor has agreed to sell to the Purchaser a piece of land held under NT073026472 measuring approximately 13 acres situated in Sungai Kayu, Mile 7, Sandakan, Sabah at the purchase price of RM520,000, subject to and upon the terms and conditions as set out therein.

- (ii) An Agreement For Sublease dated 26 May 2004 made between Datuk Lo Fui Ming ("the Sub-lessor") and Plentiful ("the Sub-lessee"), pursuant to which the Sub-lessor has agreed to sub-lease to the Sub-lessee all that piece of land held under NT073026472 measuring approximately 13 acres situated in Sungai Kayu, Mile 7, Sandakan, Sabah (on the condition that if the Sub-lessor shall exercise his option to purchase as stated in (i) above) at the consideration of RM520,000 for a period of thirty (30) years from the commencement date with an option to renew for a further two (2) terms of thirty (30) years each without any additional payment whatsoever and upon the terms and conditions as set out therein.

Under the Land Ordinance Sabah, only natives of Sabah can purchase land under native title ("Native Land"). As such, Plentiful is not permitted to purchase any Native Land. Hence, Plentiful will sublease the parcel of land held under NT073026472 from Datuk Lo Fui Ming based on the terms stated above. The rationale for Datuk Lo Fui Ming, who is a native of Sabah, to purchase the aforementioned land and subsequently sub-lease it to Plentiful is to ensure that the operations of Plentiful will not be interrupted in the future.

11. CONFLICT OF INTEREST AND RELATED PARTY TRANSACTIONS (CONT'D)

11.3 INTERESTS IN A SIMILAR TRADE

Save as disclosed below, none of the Directors and substantial shareholders of Borneo Aqua has any interest, direct or indirect, in any other business or company which is carrying on a trade similar to that of Borneo Aqua and/or its subsidiaries:

Tai Kun-Tsai, the Deputy Chairman of Borneo Aqua and his son, Tai Chu-Chun, the Executive Director of Borneo Aqua ("Interested Directors") are the substantial shareholders of Long Diann Marine Bio Technology Co. Ltd (*formerly known as Long Diann Trading Pte Ltd*) ("Long Diann"), a company incorporated in Taiwan, Republic of China which is principally engaged in breeding of marine fishes. The fish fry are mainly sold to Vietnam and Taiwan, Republic of China while the adult fishes are sold to China and Japan. Borneo Aqua sells fish fry in Malaysia while the adult fishes are sold in Hong Kong and Malaysia.

As these products cater to different geographical market segments and the fact that demand for high commercial value fishes exceeds existing supply, the Directors of Borneo Aqua, save for the Interested Directors, are of the view that Tai Kun-Tsai and Tai Chu-Chun's interest in the similar business will not result in any material conflict of interest.

To further mitigate the possible conflict of interest and competition from Long Diann, the following measures were undertaken by Borneo Aqua:

- (i) Tai Kun-Tsai will have to abstain from any deliberations involving Long Diann, if there is any. He holds a non-executive position in Borneo Aqua and is not actively involved in the decision making of Borneo Aqua's operation;
- (ii) Tai Chu-Chun will have to abstain from any deliberations involving Long Diann, if there is any;
- (iii) The Board of Directors of Borneo Aqua is controlled by Malaysian directors; and
- (iv) Borneo Aqua will establish an Audit Committee, which part of the role is to review the transactions entered into by Borneo Aqua to ensure that there is no conflict of interest.

11.4 INTERESTS IN MATERIAL ASSETS ACQUIRED, DISPOSED OF OR LEASED

Save as disclosed below, none of the Directors and substantial shareholders of Borneo Aqua has any interest, direct or indirect, in any promotion of, or in, any material asset, within the 2 years preceding the date of this Prospectus, acquired by, disposed of by, or leased to Borneo Aqua or any of its subsidiaries, or is proposed to be acquired by, disposed of or leased to Borneo Aqua or any of its subsidiaries:

- (i) A Deed dated 25 May 2004 made between Chak Fook Thau ("the Vendor"), Datuk Lo Fui Ming ("the Purchaser") and Plentiful ("the Sub-lessee"), pursuant to which the Vendor has agreed to grant to the Purchaser an option to purchase ("the Option") all that piece of land held under NT073026472 measuring approximately 13 acres situated in Sungai Kayu, Mile 7, Sandakan, Sabah at the purchase price of RM40,000 per acre, whereby the Option shall continue to be valid until the listing of Borneo Aqua on Bursa Securities or until 31 March 2005, whichever is later subject to the signing of a formal agreement and the existing sub-lease granted by the Vendor to the Sub-lessee which is valid from 1 January 2003 to 31 December 2010 shall cease to continue until such time the Purchaser elects to exercise the Option and upon the terms and conditions as set out therein. The Purchaser has paid RM10,000 as a deposit to the Vendor in accordance to the Deed.

A Supplementary Agreement dated 30 March 2005 made between the Vendor, Purchaser and Sub-lessee, pursuant to which the parties have agreed to amend the exercise period for the Option (*as defined in the Deed set out above*) to "30 September 2005 or the listing of Borneo Aqua on Bursa Securities, whichever is the earlier".

11. CONFLICT OF INTEREST AND RELATED PARTY TRANSACTIONS (CONT'D)

A Sale and Purchase Agreement dated 6 June 2005 made between the Vendor and Purchaser pursuant to which the Vendor has agreed to sell to the Purchaser a piece of land held under NT073026472 measuring approximately 13 acres situated in Sungai Kayu, Mile 7, Sandakan, Sabah at the purchase price of RM520,000, subject to and upon the terms and conditions as set out therein.

- (ii) An Agreement For Sublease dated 26 May 2004 made between Datuk Lo Fui Ming ("the Sub-lessor") and Plentiful ("the Sub-lessee"), pursuant to which the Sub-lessor has agreed to sub-lease to the Sub-lessee all that piece of land held under NT073026472 measuring approximately 13 acres situated in Sungai Kayu, Mile 7, Sandakan, Sabah (on the condition that if the Sub-lessor shall exercise his option to purchase as stated in (i) above) at the consideration of RM520,000 for a period of thirty (30) years from the commencement date with an option to renew for a further two (2) terms of thirty (30) years each without any additional payment whatsoever and upon the terms and conditions as set out therein.

- 11.5 Save as disclosed above and in Section 16.7, there are no unusual transactions involving goods, services, tangible or intangible assets to which the Borneo Aqua Group was a party in respect of the past financial year and the financial period immediately preceding the date of this Prospectus.
- 11.6 There are no outstanding loans and/or guarantees made by the Borneo Aqua Group to or for the benefit of related parties.

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12. FINANCIAL INFORMATION

12.1 PROFORMA CONSOLIDATED INCOME STATEMENT OF THE BORNEO AQUA GROUP

The following table sets forth a summary of the proforma consolidated income statements of the Borneo Aqua Group for the past financial periods ended 30 June 2002 and 31 March 2003 and the financial years ended 31 March 2004 and 31 March 2005, prepared based on the assumption that the current structure of the Borneo Aqua Group has been in existence throughout the financial periods/years under review. The proforma consolidated income statements are presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set forth in Section 14 of this Prospectus.

	←----- Audited -----→			
	←----- Financial periods/years ended -----→			
	30 June 2002 RM	31 March 2003 RM	31 March 2004 RM	31 March 2005 RM
Revenue	-	-	1,649,098	6,029,552
(Loss)/Profit before R&D expenditure, amortisation, depreciation, finance costs and taxation	(46,050)	(437,598)	739,650	3,746,956
R&D 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 before tax)/PBT	(70,202)	(818,191)	411,369	3,338,074
Taxation	-	351,487	(136,738)	(3,233)
(Loss after tax)/PAT	(70,202)	(466,704)	274,631	3,334,841
Number of Borneo Aqua Shares assumed in issue ⁽¹⁾	75,000,000	75,000,000	75,000,000	75,000,000
Net (loss per share)/ EPS (sen)	⁽²⁾ (0.08)	⁽²⁾ (0.83)	0.37	4.45

Notes:

- (1) Being the number of Borneo Aqua Shares assumed in issue after the Acquisitions, Capitalisation of Debts and Rights Issue.
- (2) Annualised for comparison purposes only.
- (3) During the financial period ended 31 March 2003 and the financial years ended 31 March 2004 and 31 March 2005, the Borneo Aqua Group had incurred R&D expenditure amounting to RM394,667, RM269,177 and RM117,606 respectively. Development expenditure amounting to RM77,927, RM179,915 and RM117,606 have been capitalised as intangible assets for the financial period ended 31 March 2003 and the financial years ended 31 March 2004 and 31 March 2005 respectively. Capitalised development expenditure will be amortised based on straight line basis over 5 years.
- (4) The subsidiaries of Borneo Aqua, namely 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.

There were no extraordinary items or exceptional items during the financial periods/years under review.

The audited financial statements of Borneo Aqua and its subsidiaries for the financial periods ended 30 June 2002 and 31 March 2003 and the financial years ended 31 March 2004 and 31 March 2005 were not subject to any audit qualification.

12. FINANCIAL INFORMATION (CONT'D)**12.2 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis with respect to the past financial periods ended 30 June 2002 and 31 March 2003 and the financial years ended 31 March 2004 and 31 March 2005 are based on, and should be read in conjunction with the Accountants' Report set forth in Section 14 of this Prospectus.

12.2.1 Components of the Proforma Consolidated Income Statements

	<----- Financial periods/years ended ----->			
	30 June 2002 RM	31 March 2003 RM	31 March 2004 RM	31 March 2005 RM
Revenue				
Sale of fish fry	-	-	721,832	1,463,590
Sale of adult fish	-	-	921,266	4,563,404
Sale of fish eggs	-	-	6,000	2,558
	-	-	1,649,098	6,029,552
Cost of sales	(61,336)	(419,837)	(946,598)	(2,130,306)
Gross (Loss)/ Profit	(61,336)	(419,837)	702,500	3,899,246
Other income	-	-	2,750	38,377
Operating expenses				
Research and development expenditure	-	(316,740)	(89,262)	-
Distribution costs	-	-	(59,128)	(13,005)
Administrative expenses	(8,866)	(73,653)	(129,752)	(564,255)
Finance costs	-	(7,961)	(15,739)	(22,289)
(Loss before tax)/PBT	(70,202)	(818,191)	411,369	3,338,074
Taxation	-	351,487	(136,738)	(3,233)
(Loss after tax)/PAT	(70,202)	(466,704)	274,631	3,334,841

12.2.2 Segmental analysis by market

By market	<----- Financial periods/years ended ----->			
	30 June 2002 RM	31 March 2003 RM	31 March 2004 RM	31 March 2005 RM
Local	-	-	1,219,103	3,291,999
Export	-	-	429,995	2,737,553
	-	-	1,649,098	6,029,552

12. FINANCIAL INFORMATION (CONT'D)**12.2.3 Financial year ended 31 March 2005 ("FYE 2005") compared to financial year ended 31 March 2004 ("FYE 2004")**

For the FYE 2005, the Borneo Aqua Group's revenue amounted to RM6,029,552 representing an increase of 265.63% compared to RM1,649,098 for the FYE 2004. This is mainly due to the increase in sales volume of fish fry and adult fish as a result of the increase in the number of broodstocks becoming breedable and improvement in breeding technique and survival rate. Revenue arising from sale of fish fry amounted to RM1,463,590 or 24.27% of the total revenue while revenue arising from sale of adult fishes amounted to RM4,563,404 or 75.68% of the total revenue.

The revenue from the sale of fish fry of RM1,463,590 for the FYE 2005 represents an increase of 102.76% compared to RM721,832 for the FYE 2004. For the FYE 2005, the Borneo Aqua Group has sold 471,237 tails of fish fry compare to 311,287 tails of fish fry for the FYE 2004. The increase in sale of fish fry is mainly due to sale of 65,656 tails of Coral Trout Grouper fry and 90,000 tails of other fish fry.

The revenue from the sale of adult fishes of RM4,563,404 for the FYE 2005 represents an increase of 395.34% compared to RM921,266 for the FYE 2004. For the FYE 2005, the Borneo Aqua Group has sold 144,442 kg of adult fish compared to 26,707 kg of adult fish for the FYE 2004. The increase in sale of adult fish is mainly due to sale of Malabar Red Snapper which contributed 70,738 kg for the FYE 2005 compared to 2,595 kg for the FYE 2004 and Marble Grouper which contributed 40,020 kg for FYE 2005 compared to 21,542 kg for FYE 2004. In addition, the sale of 10,535 kg of Coral Trout Grouper and 18,110 kg of Giant Grouper has also contributed to the increase in sale of adult fish.

The revenue arising from the local sales for the FYE 2005 is RM3,291,999 representing an increase of 170.03% compared to RM1,219,103 in the FYE 2004 while the revenue arising from export sales for FYE 2005 is RM2,737,553 representing an increase of 536.65% compared to RM429,995 in the FYE 2004. The export sales relate mainly to the sales of adult fishes to customers in Hong Kong.

The Borneo Aqua Group has managed to record a gross profit of RM3,899,246 for the FYE 2005, representing an increase of 455.05% compared to RM702,500 for the FYE 2004. The increase in gross profit for the FYE 2005 is mainly due to increase in revenue by 265.63% and the sales from Coral Trout Grouper which command a higher selling price and gross profit margin.

Other income for the FYE 2005 represents interest income, gain on disposal of assets, rental income and other sundry income.

The R&D expenditure has reduced from RM89,262 for the FYE 2004 to nil in the FYE 2005 as the current R&D expenditure relates to fishes that has high probability of success, hence are capitalised. The administrative expenses has increased significantly from RM129,752 for the FYE 2004 to RM564,255 for the FYE 2005 due to the increase in operating activities in the Borneo Aqua Group which is in line with the increase in revenue.

The Borneo Aqua Group recorded a PBT of RM3,338,074 in the FYE 2005, representing an increase of 711.45% compared to RM411,369 for the FYE 2004. This is mainly due to the increase in revenue and economics of scale achieved.

The Borneo Aqua Group recorded a PAT of RM3,334,841 in the FYE 2005, representing an increase of 1,114.30% compared to RM274,631 for the FYE 2004. Taxation for the FYE 2005 is in respect of interest income received. The statutory income derived from its operating activities is not liable for tax as Borneo Aqua's subsidiaries, 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.

12. FINANCIAL INFORMATION (CONT'D)

12.2.4 FYE 2004 compared to financial period ended 31 March 2003 ("FPE 2003")

For FYE 2004, the Borneo Aqua Group's revenue amounted to RM1,649,098 representing sale of fish fry and adult fishes upon the successful breeding of Malabar Red Snapper and Marble Grouper which have been brought into commercial production. Revenue arising from sale of fish fry amounted to RM721,832 or 43.77% of the total revenue while revenue arising from sale of adult fishes amounted to RM921,266 or 55.86% of the total revenue. The sales of fish fry amounted to 311,827 tails while the sales of adult fishes amounted to 26,707 kg for the FYE 2004. The revenue arising from the local sales is RM1,219,103 while the revenue arising from the export sales is RM429,995. The export sales relate mainly to the sales of adult fishes to customers in Hong Kong.

The Borneo Aqua Group has managed to record a gross profit of RM702,500 for the FYE 2004 compared to the gross loss of RM419,837 for the FPE 2003 and a PBT of RM411,369 for the FYE 2004 compared to the loss before tax of RM818,191 for the FPE 2003 as the Borneo Group has started generating revenue in the FYE2004.

The R&D expenditure has reduced from RM316,740 in the FPE 2003 to RM89,262 in the FYE 2004 as most of the R&D expenditure has been capitalised following the successful breeding of Malabar Red Snapper and Marble Grouper. However, the administrative expenses has increased from RM73,653 for the FPE 2003 to RM129,752 for the FYE 2004 due to the increase in operating activities in the Borneo Aqua Group. The Borneo Aqua Group has also incurred selling expenses amounting to RM59,128 in the FYE 2004 due to the marketing activities conducted.

The Borneo Aqua Group recorded a PAT of RM274,631 in the FYE 2004 compared to a loss after tax of RM466,704 for the FPE 2003. The taxation for the FYE 2004 relates to the reversal of deferred tax asset upon utilisation of brought forward tax losses to offset against profit for the year.

12.2.5 FPE 2003 compared to financial period ended 30 June 2002 ("FPE 2002")

For the FPE 2003, the Borneo Aqua Group has not generated revenue as it is at the final stage of R&D activities for the commercial production of Malabar Red Snapper and Marble Grouper. The Borneo Aqua Group recorded a gross loss of RM419,837 for the FPE 2003 compare to RM61,336 for the FPE 2002 due to the purchase of fish fry and higher fish farming operating costs.

The Borneo Aqua Group recorded a loss before tax of RM818,191 for the FPE 2003 compare to RM70,202 for the FPE 2002 due to higher operating loss, R&D expenditure and higher administrative expenses.

The Borneo Aqua Group recorded a loss after tax of RM466,704 for the FPE 2003 as there is a recognition of deferred tax benefit in respect of losses incurred of RM351,487.

12.2.6 FPE 2002

For the FPE 2002, the Borneo Aqua Group commenced activities in fish breeding, operation of a fish hatchery and fish rearing. There is no revenue for the FPE 2002 as the Borneo Aqua Group has just commenced operations and is concentrating on its R&D activities. The Borneo Aqua Group recorded a gross loss of RM61,336 for the FPE 2002 which represents operating costs incurred mainly in respect of depreciation of plant and equipment, maintenance and other administrative expenses.

The Borneo Aqua Group recorded a loss before tax of RM70,202 for the FPE2002 which is due to the gross loss and write-off of preliminary expenses. The Borneo Aqua Group was not liable for tax for the FPE 2002 due to the losses incurred.

12. FINANCIAL INFORMATION (CONT'D)

12.3 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES, MATERIAL COMMITMENT AND MATERIAL LITIGATION
(i) Working Capital

The Directors of Borneo Aqua are of the opinion that, after taking into account the consolidated cashflows, banking facilities available and the gross proceeds from the Rights Issue and Public Issue, the Borneo Aqua Group will have adequate working capital for its foreseeable requirements, in any case for a period of 12 months after the date of issuance of this Prospectus.

(ii) Borrowings

As at 8 July 2005, being the latest practicable date prior to the printing of this Prospectus, the Borneo Aqua Group does not have any outstanding borrowing, any other loan capital outstanding, loan capital created but unissued, or mortgage or charge outstanding, save for:

Outstanding borrowings	Payable within 12 months RM	Payable after 12 months RM
Hire purchase	154,634	214,683

There has been no default by the Borneo Aqua Group on payments of either interest and/or principal sums in respect of its borrowings throughout the past financial year and subsequent financial period immediately preceding the date of this Prospectus.

(iii) Contingent Liabilities

As at 8 July 2005, being the latest practicable date prior to the printing of this Prospectus, the Directors of Borneo Aqua are not aware of any contingent liabilities incurred by Borneo Aqua and/or any of Borneo Aqua's subsidiaries which, upon becoming enforceable, may have a material impact on the financial position of the Borneo Aqua Group.

(iv) Material Commitment

Save as disclosed below, as at 8 July 2005, being the latest practicable date prior to the printing of this Prospectus, the Directors of Borneo Aqua are not aware of any material capital commitment contracted or known to be contracted by Borneo Aqua and/or its subsidiaries which, upon becoming enforceable, may have a material impact on the financial position of the Borneo Aqua Group.

	RM 000
Approved and contracted for	1,587.6
Approved but not contracted for	27,208.3

12. FINANCIAL INFORMATION (CONT'D)

Note:

* Details of the material commitment approved but not contracted for are as follows:

	<i>RM 000</i>
<i>Acquisition of land</i>	<i>600.0</i>
<i>Construction, infrastructure and equipment cost for new ponds and construction of a new indoor hatchery centre</i>	<i>8,322.9</i>
<i>Construction of new sea cages</i>	<i>4,198.0</i>
<i>Acquisition of broodstocks</i>	<i>6,303.6</i>
<i>Construction of office building with training centre, fish fry packing and distribution centre and a jetty</i>	<i>4,150.0</i>
<i>Others</i>	<i>3,633.8</i>
	<u><i>27,208.3</i></u>

(v) Material Litigation

As at 8 July 2005, being the latest practicable date prior to the printing of this Prospectus, neither Borneo Aqua nor any of its subsidiaries is engaged in any litigation and/or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of Borneo Aqua or its subsidiaries, and the Directors of Borneo Aqua are not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of Borneo Aqua and/or its subsidiaries.

12.4 EXCLUSION OF PROFIT FORECAST AND PROJECTIONS

The Borneo Aqua Group's turnover and operating results are difficult to forecast and could be adversely affected by many factors, some of which are highlighted in Section 4 of this Prospectus. As such, the Borneo Aqua Group's profit forecast is not disclosed in this Prospectus.

12. FINANCIAL INFORMATION (CONT'D)

12.5 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AND PROFORMA CONSOLIDATED BALANCE SHEETS OF THE BORNEO AQUA GROUP (Prepared for inclusion in the Prospectus)



■ Chartered Accountants
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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

25 July 2005

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,

BORNEO AQUA HARVEST BERHAD ("Borneo Aqua") PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2005

We report on the proforma consolidated balance sheets set out in the Prospectus to be dated 6 August 2005, which have been prepared for illustrative purposes only, to provide information about how the balance sheet of Borneo Aqua as at 31 March 2005 that has been presented might have been affected by the following transactions had the transactions been completed on that date:

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 "Acquisitions".

12. FINANCIAL INFORMATION (CONT'D)



**BORNEO AQUA HARVEST BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 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").

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 the Capitalisation of Debts ("Rights Issue").

d) Public Issue

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

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 ("Bonus 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 ("Listing").

It is the responsibility solely of the directors of Borneo Aqua to prepare the proforma consolidated balance sheets in accordance with the requirements of the Securities Commission's Prospectus Guidelines in respect of Public Offerings ("the Guidelines").

It is our responsibility to form an opinion, as required by the Guidelines, and to report our opinion to you. Our work consisted primarily of comparing unadjusted financial information presented with their original form, considering the adjustments and discussing the proforma consolidated balance sheets with the responsible officers of Borneo Aqua. Our work involved no independent examination of any of the underlying financial information other than our audit of the financial statements that included the audited balance sheet of Borneo Aqua as at 31 March 2005, on which we reported to the members of Borneo Aqua as of the date of our report.

12. FINANCIAL INFORMATION (CONT'D)



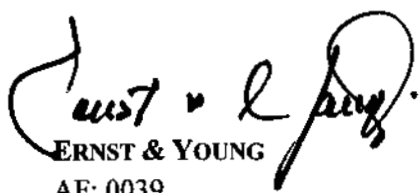
**BORNEO AQUA HARVEST BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2005**

In our opinion:

- a) the proforma consolidated balance sheets have been properly compiled on the bases stated; and
- b) within the context of the assumed date of Acquisitions, Capitalisation of Debts, Rights Issue, Public Issue and Bonus Issue:
 - i) such bases are consistent with the accounting policies of Borneo Aqua and its subsidiary companies; and
 - ii) the adjustments set out are appropriate for the purposes of the proforma consolidated balance sheets pursuant to the Guidelines.

This letter has been prepared for the inclusion in the Prospectus in connection with the Public Issue and Listing. This letter should not be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

Yours faithfully,



ERNST & YOUNG
AF: 0039
Chartered Accountants
Sandakan, Malaysia



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

12. FINANCIAL INFORMATION (CONT'D)


BORNEO AQUA HARVEST BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2005

The proforma consolidated balance sheets of Borneo Aqua Harvest Berhad ("Borneo Aqua") as at 31 March 2005 set out below are provided for illustrative purposes only to show the effects of the Acquisitions, Capitalisation of Debts, Rights Issue, Public Issue and Bonus Issue as set out in the notes below, on the assumption that these transactions were completed on 31 March 2005:

	Audited as at 31 March 2005 RM	Adjustments RM	Proforma I After Acquisitions RM	Adjustments RM	Proforma II After Proforma I, Capitalisation of Debts and Rights Issue RM	Adjustments RM	Proforma III After Proforma II, Public Issue and Utilisation of Proceeds RM	Adjustments RM	Proforma IV After Proforma III and Bonus Issue RM
Property, plant and equipment	-	3,796,807	3,796,807	-	3,796,807	18,048,502	21,845,309	-	21,845,309
Broodstocks	-	867,094	867,094	-	867,094	1,500,000	2,367,094	-	2,367,094
Deferred tax assets	-	214,749	214,749	-	214,749	-	214,749	-	214,749
Development expenditure	-	349,686	349,686	-	349,686	-	349,686	-	349,686
	-	5,228,336	5,228,336	-	5,228,336	19,548,502	24,776,838	-	24,776,838
CURRENT ASSETS									
Inventories	-	1,307,582	1,307,582	-	1,307,582	-	1,307,582	-	1,307,582
Trade receivables	-	1,859,658	1,859,658	-	1,859,658	-	1,859,658	-	1,859,658
Other receivables	617,819	342,727	960,546	-	960,546	-	960,546	-	960,546
Cash and bank balances	2	837,691	837,693	550,542	1,388,235	3,001,498	4,389,733	-	4,389,733
	617,821	4,347,658	4,965,479	550,542	5,516,021	3,001,498	8,517,519	-	8,517,519

12. FINANCIAL INFORMATION (CONT'D)

BORNEO AQUA HARVEST BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2005


	Audited as at 31 March 2005 RM	Proforma I		Proforma II	Proforma III		Proforma IV		
		Adjustments RM	After Acquisitions RM	Adjustments RM	After Proforma I, Capitalisation of Debts and Rights Issue RM	After Proforma II, Public Issue and Utilisation of Proceeds RM	Adjustments RM	After Proforma III and Bonus Issue RM	
CURRENT LIABILITIES									
Amounts due to shareholders	-	6,856,252	6,856,252	(6,844,252)	12,000	-	12,000	-	12,000
Trade payables	-	381,725	381,725	-	381,725	-	381,725	-	381,725
Other payables	631,297	(366,345)	264,952	-	264,952	-	264,952	-	264,952
Hire purchase creditors	-	100,447	100,447	-	100,447	-	100,447	-	100,447
Tax payable	-	3,233	3,233	-	3,233	-	3,233	-	3,233
	631,297	6,975,312	7,606,609	(6,844,252)	762,357	-	762,357	-	762,357
NET CURRENT (LIABILITIES)/ASSETS	(13,476)	(2,627,654)	(2,641,130)	7,394,794	4,753,664	3,001,498	7,755,162	-	7,755,162
LONG TERM LIABILITIES									
Hire purchase creditors	-	(123,173)	(123,173)	-	(123,173)	-	(123,173)	-	(123,173)
	(13,476)	2,477,509	2,464,033	7,394,794	9,858,827	22,550,000	32,408,827	-	32,408,827
Share capital	2	105,204	105,206	7,394,794	7,500,000	2,500,000	10,000,000	20,000,000	30,000,000
Share premium	-	-	-	-	-	20,050,000	20,050,000	(20,000,000)	50,000
Accumulated losses	(13,478)	-	(13,478)	-	(13,478)	-	(13,478)	-	(13,478)
Shareholders' equity	(13,476)	105,204	91,728	7,394,794	7,486,522	22,550,000	30,036,522	-	30,036,522
Negative goodwill on consolidation	-	2,372,305	2,372,305	-	2,372,305	-	2,372,305	-	2,372,305
	(13,476)	2,477,509	2,464,033	7,394,794	9,858,827	22,550,000	32,408,827	-	32,408,827
Net tangible assets per share (RM) *	(673.80)		2.01		0.13		0.32		0.11

* In arriving at the net tangible assets, development expenditure has been deducted from the net assets.

12. FINANCIAL INFORMATION (CONT'D)



BORNEO AQUA HARVEST BERHAD

PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2005

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

1. The proforma consolidated balance sheets have been prepared for illustrative purposes only to show the effects on the financial position of Borneo Aqua as at 31 March 2005 of the transactions set out below, had the transactions been implemented and completed on that date, and on basis which are consistent with the accounting policies of Borneo Aqua and its subsidiary companies as disclosed in the audited financial statements for the year ended 31 March 2005.
2. The proforma consolidated balance sheets of Borneo Aqua have been prepared based on the audited balance sheet of Borneo Aqua, Plentiful Harvest Sdn Bhd and Marine Terrace Sdn Bhd, adjusted to include payments of dividend by Plentiful Harvest Sdn Bhd and Marine Terrace Sdn Bhd amounting to RM500,000 and RM300,000 respectively.

3. Proforma I – After the Acquisitions

Proforma I is stated after incorporating the effects of the following:

- 3.1 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.
- 3.2 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 (3.1) and (3.2) shall hereinafter be collectively referred to as “the Acquisitions”.

- 3.3 Inter-company balances have been eliminated in arriving at the proforma consolidated balance sheets.
- 3.4 The proforma consolidated balance sheets of Borneo Aqua are arrived at using the acquisition method of accounting.

12. FINANCIAL INFORMATION (CONT'D)

BORNEO AQUA HARVEST BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2005

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (Contd.)**4. Proforma II – After Proforma I, Capitalisation of Debts and Rights Issue**

Proforma II is stated after Proforma I and incorporating the effects of the following:

- 4.1 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”).
- 4.2 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”).

5. Proforma III – After Proforma II, Public Issue and Utilisation of Proceeds

Proforma III is stated after Proforma II and incorporating the effects of the following:

- 5.1 Public issue of 25,000,000 new Borneo Aqua Shares at an issue price of RM0.99 per share (“Public Issue”).
- 5.2 The estimated listing expenses of approximately RM2.2 million will be written off to the share premium account.
- 5.3 The gross proceeds arising from the Rights Issue and Public Issue amounting to RM550,542 and RM24,750,000 respectively will be utilised as follows:

	RM'000
Capital expenditure for operations *	18,127.6
Expenditure for research and development activities	2,730.0
Working capital	2,242.9
Estimated listing expenses	2,200.0
	<u>25,300.5</u>

* Capital expenditure for operations amounting to RM1,309,098 incurred during the financial year ended 31 March 2005 has been paid out of internally generated funds whilst awaiting for the receipt of proceeds from the Public Issue.

12. FINANCIAL INFORMATION (CONT'D)**BORNEO AQUA HARVEST BERHAD****PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2005****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (Contd.)****6. Proforma IV – After Proforma III and Bonus Issue**

Proforma IV is stated after Proforma III and incorporating the effect of the 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 (“Bonus Issue”).

7. Others

7.1 The movements of the issued and paid-up share capital of Borneo Aqua after implementation of the Acquisitions, Capitalisation of Debts, Rights Issue, Public Issue and Bonus Issue set out above are as follows:

	No. of ordinary shares of RM0.10 each	RM
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>
To be issued pursuant to the Public Issue	25,000,000	2,500,000
To be issued pursuant to the Bonus Issue	200,000,000	20,000,000
	<u>300,000,000</u>	<u>30,000,000</u>

7.2 Share premium is arrived as follows:

	RM
As at 31 March 2005	-
Arising from Public Issue	22,250,000
Less: Estimated listing expenses	(2,200,000)
Less: Capitalisation for Bonus Issue	<u>(20,000,000)</u>
	<u>50,000</u>

13. DIRECTORS' REPORT



BORNEO AQUA HARVEST BERHAD (649504-D)

84E/16, Kampung Sungai Kayu, Mile 7, Jalan Airport
P.O Box 2112, 90724 Sandakan, Sabah, Malaysia
Tel : (6089) 674 211/674 213 Fax : (6089) 671214
www.borneoaqua.com.my

(Prepared for inclusion in this Prospectus)

Borneo Aqua Harvest Berhad
(Company number 649504-D)
84E/16, Kampung Sungai Kayu
Mile 7, Jalan Airport
P.O. Box 2112
90724 Sandakan
Sabah

25 July 2005

The Shareholders
Borneo Aqua Harvest Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of Borneo Aqua Harvest Berhad ("Borneo Aqua"), I report that after making due enquiry in relation to the interval between 31 March 2005, being the date to which the last audited financial statements of Borneo Aqua and its subsidiaries ("Group") have been made up, and 25 July 2005, being a date not earlier than fourteen days before the issue of this Prospectus:

- (i) the business of the Group has, in the opinion of the Board of Directors of Borneo Aqua, been satisfactorily maintained;
- (ii) in the opinion of the Board of Directors of Borneo Aqua, no circumstances have arisen since the last audited financial statements of Borneo Aqua and its subsidiaries which have adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) no contingent liabilities have arisen by reason of any guarantee or indemnity given by the Group;
- (v) the Board of Directors of Borneo Aqua is not aware of any default or any known events that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of the Group since the last audited financial statements of Borneo Aqua and its subsidiaries; and
- (vi) save as disclosed in the Accountants' Report set out in Section 14 of this Prospectus, there have been no changes to the published reserves or any unusual factors affecting the profits of the Group since the last audited financial statements of Borneo Aqua and its subsidiaries.

Yours faithfully
For and on behalf of the Board of Directors of
Borneo Aqua Harvest Berhad

Datuk Lo Fui Ming
Managing Director/Chief Executive Officer