
12. ACCOUNTANTS' REPORT

(Prepared for the inclusion in this Prospectus)

LEOU & ASSOCIATES

Chartered Accountants

(AF 0659)

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A Member Firm Of The
Malaysian Institute of Accountants
(Established under the Accountants Act 1967)
Institut Akauntan Malaysia
(Diperbadankan di bawah Akta Akauntan 1967)

Date: **01 SEP 2006**

The Board of Directors
StemLife Berhad
B-7-15, Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur

Dear Sirs,

STEMLIFE BERHAD (“StemLife” or the “Company”) ACCOUNTANTS' REPORT

1.0 INTRODUCTION

This report has been prepared by Leou & Associates, an approved company auditor, for inclusion in the Prospectus of StemLife Berhad (“StemLife” or “the Company”) in connection with the public issue of 40,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.33 per ordinary share in StemLife and the listing of and quotation for the entire enlarged issued and paid up share capital of StemLife, consisting 165,000,000 ordinary shares of RM0.10 each (“StemLife Shares”), on the MESDAQ market of Bursa Malaysia Securities Berhad (“Securities Exchange”).

2.0 LISTING SCHEME

Public Issue and Listing

Public issue of 40,000,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.33 per StemLife Share and admission to the Official List of the Securities Exchange and the listing of and quotation for its entire enlarged issued and paid-up share capital of RM16,500,000 comprising 165,000,000 StemLife Shares on the MESDAQ Market of the Securities Exchange.

12. ACCOUNTANTS' REPORT (Cont'd)

3.0 GENERAL INFORMATION

3.1 Background

StemLife Sdn Bhd was incorporated in Malaysia on 13 December 2001 as a private limited company under the Companies Act, 1965.

StemLife was converted to a public limited company on 19 May 2006.

3.2 Share Capital

Details of the changes in the Company's authorised capital since incorporation is set out below :-

Date	Event	No. of Shares	Type of Shares	Par Value	Authorised Share Capital
				RM	RM
13.12.2001	Subscribers' shares	100,000	Ordinary shares	RM1.00	100,000
25.02.2002	Sub-division of shares	1,000,000	Ordinary shares	RM0.01	100,000
07.03.2002	Increase of share capital	500,000,000	Ordinary shares	RM0.01	5,000,000
11.04.2003	Reclassification into redeemable convertible preference shares ("RCPS") and ordinary shares	200,000,000	Preference shares	RM0.01	2,000,000
		300,000,000	Ordinary shares	RM0.01	3,000,000
13.04.2005	Reclassification of RCPS into ordinary shares	500,000,000	Ordinary shares	RM0.01	5,000,000
08.07.2005	Consolidation of shares	50,000,000	Ordinary shares	RM0.10	5,000,000
30.11.2005	Increase of share capital	100,000,000	Ordinary shares	RM0.10	10,000,000
25.04.2006	Increase of share capital	250,000,000	Ordinary shares	RM0.10	25,000,000

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

Date of Issue	Number of Ordinary Shares/ RCPS	Par Value	Consideration	Cumulative Share Capital
		RM		RM
13.12.2001	100,000	1.00	Subscribers' Shares	100,000
25.02.2002**	10,000,000	0.01	None (Share Split)	100,000
07.03.2002	3,500,000	0.01	Other than cash	135,000
09.03.2002	4,050,000	0.01	Cash	175,500
30.04.2002	17,550,000	0.01	Cash	351,000
28.06.2002	64,900,000	0.01	Cash	1,000,000
30.04.2003	80,000,000	0.01	Conversion of RCPS	1,800,000
08.07.2005 #	18,000,000	0.10	Consolidation of Shares	1,800,000
08.07.2005	32,000,000	0.10	Cash	5,000,000
30.11.2005	20,000,000	0.10	Cash	7,000,000
07.04.2006	30,000,000	0.10	Cash	10,000,000
26.04.2006	25,000,000	0.10	Cash	12,500,000

** Share Split

Share consolidation

12. ACCOUNTANTS' REPORT (Cont'd)

3.3 Principal Activities

StemLife is principally engaged in :-

- (a) stem cell therapies and consultancy services;
- (b) collection, testing, processing and cryo-preservation of umbilical cord blood stem cells ("UCBSC Banking");
- (c) harvesting, testing, processing and cryo-preservation of peripheral blood stem cells ("PBSC Banking"); and
- (d) investment holding.

Information on StemLife's subsidiary companies, all of which are incorporated in Malaysia as private limited companies, are as follows:-

Company Name	Date Of Incorporation	Authorise d Share Capital	Issued And Fully Paid-Up Share Capital	Effective Equity Interest	Principal Activites
STEMLIFE PROPERTIES SDN BHD ("SL PROPERTIES")	26 April 2005	RM 100,000	RM 100	% 100	Property Investment
SL DIAGNOSTICS SDN BHD ("SL DIAGNOSTICS")	10 May 2005	100,000	100	100	Dormant
CELL THERAPY INNOVATION SDN BHD ("SL THERAPY")	10 May 2005	100,000	100	100	Dormant
STEMLIFE LOGISTICS SDN BHD ("SL LOGISTICS")	21 January 2006	100,000	2	100	Dormant

Information on StemLife's associated company, which is incorporated in Thailand as a private limited company, is as follows:-

Company Name	Date Of Incorporation	Authorised Share Capital	Issued And Fully Paid Up Share Capital	Effective Equity Interest	Principal Activites
THAI STEMLIFE COMPANY LIMITED ("THAI STEMLIFE")	20 April 2005	THB25,000,000	THB25,000,000	% 40	Stem cell therapies and consultancy services, UCBSC Banking and PBSC Banking

(StemLife together with its subsidiary and associated companies shall be collectively known as the "Group").

12. ACCOUNTANTS' REPORT (Cont'd)

3.4 Share Capital of StemLife's Subsidiary Companies

a) SL PROPERTIES

The share capital history of SL Properties since its incorporation is as follows :-

• *Authorised :*

Date of Creation	Number of Ordinary Shares	Par Value	Cumulative Total Authorised Share Capital
		RM	RM
26 April 2005	100,000	1.00	100,000

• *Issued and Paid-up :*

Date of Issue	Number of Ordinary Shares	Par Value	Consideration	Cumulative Total Paid-up Share Capital
		RM		RM
26 April 2005	2	1.00	Subscribers' Shares	2
28 October 2005	98	1.00	Cash	100

b) SL DIAGNOSTICS

The share capital history of SL Diagnostics since its incorporation is as follows :-

• *Authorised :*

Date of Creation	Number of Ordinary Shares	Par Value	Cumulative Total Authorised Share Capital
		RM	RM
10 May 2005	100,000	1.00	100,000

• *Issued and Paid-up :*

Date of Issue	Number of Ordinary Shares	Par Value	Consideration	Cumulative Total Paid-up Share Capital
		RM		RM
10 May 2005	2	1.00	Subscribers' Shares	2
28 October 2005	98	1.00	Cash	100

12. ACCOUNTANTS' REPORT (Cont'd)**c) SL THERAPY**

The share capital history of SL Therapy since its incorporation is as follows :-

- *Authorised :*

Date of Creation	Number of Ordinary Shares	Par Value	Cumulative Total Authorised Share Capital
10 May 2005	100,000	RM 1.00	RM 100,000

- *Issued and Paid-up :*

Date of Issue	Number of Ordinary Shares	Par Value	Consideration	Cumulative Total Paid-up Share Capital
10 May 2005	2	1.00	Subscribers' Shares	2
28 October 2005	98	1.00	Cash	100

d) SL LOGISTICS

The share capital history of SL Logistics since its incorporation is as follows :-

- *Authorised :*

Date of Creation	Number of Ordinary Shares	Par Value	Cumulative Total Authorised Share Capital
21 January 2006	100,000	RM 1.00	RM 100,000

- *Issued and Paid-up :*

Date of Issue	Number of Ordinary Shares	Par Value	Consideration	Cumulative Total Paid-up Share Capital
21 January 2006	2	1.00	Subscribers' Shares	2

3.5 Dividends

No dividends were declared or paid by the Company in respect of the three (3) financial years ended 31 December 2005 and the six months ended 30 June 2006.

12. ACCOUNTANTS' REPORT (Cont'd)**4.0 AUDITORS AND AUDITED FINANCIAL STATEMENTS**

This report is based on the audited accounts of StemLife, SL Properties, SL Diagnostics, SL Therapy, SL Logistics and on the audited accounts and mangament accounts of Thai StemLife for the financial period ended 31 December 2005 and six months ended 30 June 2006 respectively.

The auditors of the following companies for the following financial period ("FP") and financial year ("FY") under review are as follows :

Item No.	Company	Relevant FP / FY	Auditors
1	StemLife	FY ended 31 December 2003 to 2005 Six months ended 30 June 2006	Leou & Associates Leou & Associates
2	SL Properties	FP ended 31 December 2005 Six months ended 30 June 2006	Leou & Associates Leou & Associates
3	SL Diagnostics	FP ended 31 December 2005 Six months ended 30 June 2006	Leou & Associates Leou & Associates
4	SL Therapy	FP ended 31 December 2005 Six months ended 30 June 2006	Leou & Associates Leou & Associates
5	SL Logistics	Six months ended 30 June 2006 *	Leou & Associates
6	Thai StemLife	FP ended 31 December 2005 Six months ended 30 June 2006	Chomsak Budhamlinorateep Management accounts

* Incorporated on 21 January 2006.

4.1 Auditors' Report

The accounts of StemLife, SL Properties, SL Diagnostics, SL Therapy , SL Logistics and Thai StemLife for all periods and years relevant to this Report were reported on without qualification and the reports did not include any emphasis of any matter.

The auditors' report on the consolidated financial statements of StemLife for the year ended 31 December 2005 and six months ended 30 June 2006 are set out in Appendix I and II respectively.

4.2 Accounting Policies and Standards

This Report is prepared on a basis consistent with the accounting policies adopted by the Group as disclosed in Section 9 of this Report, and the information presented in this Report has been prepared in accordance with applicable approved accounting standards in Malaysia.

4.3 Material Change in the Accounting Policies Adopted

There has been no material change in the accounting policies adopted by the Group during the financial years/periods under review.

4.4 Restatements to the Audited Financial Statements

There are no restatements to the audited consolidated financial statements of StemLife for the financial years/periods under review, which have been dealt with in this Report.

The Group has only been in existence in the year ended 31 December 2005, hence there are no consolidated financial statements for the years ended 31 December 2003 and 31 December 2004. The audited financial statement of StemLife for the years ended 31 December 2003 and 31 December 2004 are shown at company level.

12. ACCOUNTANTS' REPORT (Cont'd)

5.0 SUMMARISED INCOME STATEMENTS

5.1 Consolidated Income Statements – StemLife

The summarised income statements of StemLife and the Group set out below is based on the audited accounts of StemLife for the years ended 31 December 2003 to 31 December 2005 and the six months ended 30 June 2006, the audited accounts of SL Properties, SL Diagnostics and SL Therapy for the financial period ended 31 December 2005 and the six months ended 30 June 2006, the audited accounts of SL Logistics for the six months ended 30 June 2006 and the audited accounts and management accounts of Thai StemLife for the financial period ended 31 December 2005 and six months ended 30 June 2006 respectively.

	← STEMLIFE →			← GROUP →		
	-----Year ended 31 December -----			01.01.05	01.01.06	
	2003	2004	2005	to 30.06.05	to 30.06.06	
	RM '000	RM '000	RM '000	(Unaudited) @	RM '000	
Revenue	1,218	3,288	7,577	2,648	5,648	
Cost of sales	(946)	(1,530)	(3,702)	(1,301)	(3,127)	
Gross Profit	272	1,758	3,875	1,347	2,521	
Other operating income	76	5	137	7	15	
Administrative expenses	(939)	(546)	(1,560)	(503)	(1,063)	
Profit from operations	(591)	1,217	2,452	851	1,473	
Interest Expense	-	(4)	(4)	(2)	(2)	
Share of associated company's results	-	-	(399)	-	(231)	
Profit Before Taxation	(591)	1,213	2,049	849	1,240	
Taxation	-	-	(8)	(1)	(4)	
Profit After Taxation	(591)	1,213	2,041	848	1,236	
No. of Ordinary Shares	'000	125,000	125,000	125,000	125,000	
Gross Earnings per share	(Sen)	(0.5)	1.0	1.6	0.7	1.0
Net Earnings per share	(Sen)	(0.5)	1.0	1.6	0.7	1.0
Effective Tax Rate	(%)	-	-	0.4	0.1	0.3

@ The consolidated income statements for the six months ended 30 June 2005 are unaudited and are included for comparison purposes only.

12. ACCOUNTANTS' REPORT (Cont'd)

Notes to the consolidated income statements of the Group :-

- (a) The consolidated income statements of StemLife are prepared based on the audited financial statements of StemLife, SL Properties, SL Diagnostics, SL Therapy and SL Logistics, and the audited financial statements and management accounts of Thai StemLife for the period ended 31 December 2005 and six months ended 30 June 2006 respectively.
- (b) All material inter-company transactions (if any) and unrealised profit (if any) has been eliminated on consolidation.
- (c) The gross and net earnings per share were calculated based on the profit before taxation and profit after taxation attributable to shareholders of StemLife for the respective financial period/years divided by the enlarged issued and paid-up share capital of 125,000,000 StemLife Shares.
- (d) There were no extraordinary items in respect of the relevant years and periods under review.

Commentary on the Income Statements :-

(a) FY ended 31 December 2003

Subsequent to its first year of operations in 2002, with continued efforts in marketing and creating awareness of the its services, StemLife increased its turnover by 425% to RM1.22 million. This is a direct result of an increase in the number of sign-up cases of 523 compared to 10 cases in 2002.

Similarly, gross profit increased by 197% to RM0.27 million while gross margin rose significantly as a result of increased efficiency from the higher number of sign-up cases. However, StemLife has not reached its optimal operating efficiency and as a result, recorded a pre-tax loss of RM0.59 million.

General and administration expenses increased by 107% due primarily to an increase in personnel and support costs.

(b) FY ended 31 December 2004

Turnover increased to RM3.28 million from RM1.21 million in 2003, representing an increase of 170%. This is a direct result of awareness of StemLife's services, which is evidenced by an increase in the number of sign-up cases from 523 to 1,249.

Gross profit increased by more than 500% to RM1.75 million, principally due to greater operating efficiency and lower cost per sample processed as a result of an increase in the number of sign-up cases. Meanwhile, general and administrative expenses is lower by RM0.39 million due to a reduction in Directors' fees to RM36,000 for 2004 from RM390,000 in 2003.

The Company turned around its operations in 2004 with a PAT of RM1.21 million as compared to a loss of RM0.59 million in 2003, after only three (3) years in operations, mainly due to greater awareness of the availability and benefits of StemLife's services.

12. ACCOUNTANTS' REPORT (Cont'd)

(c) FY ended 31 December 2005

Turnover for the year was RM7.57 million as compared to RM3.28 million, representing an increase of 130%. The Group had consistently managed to increase its turnover by more than 100% year-on-year since the commencement of its operations. This is a direct result of an increase in the number of sign up cases with 2,972 cases achieved in 2005. During the year, StemLife also launched its PBSC Banking and stem cell therapy and consultancy services with 25 clients signed up.

Gross profit increased to RM3.87 million from RM1.75 million in 2004, representing an increase of 120%. This is in line with the increase in the number of sign-up cases. General and administrative expenses increased by RM1.0 million or 177% primarily due to increased costs as a result of an increase in the level of business and R&D expenditure of RM157,430.

Thai StemLife also commenced operations during the year whereby the Group's share of losses amounted to RM0.39 million. This resulted in a decrease in the PAT margin from 36.86% to 26.94% in 2005.

(d) FP ended 30 June 2006

Turnover for the six (6) months was RM5.64 million, with the annualised results showing an increase of 49% as compared to 2005. The increase in turnover is mainly due to an increase in the number of UCBCS sign-up cases, with 2,491 confirmed cases as at 30 June 2006.

Similarly, gross profit for the six (6) months increased by 30% to RM2.52 million as compared to 2005's gross profit. However, gross profit margin for the six (6) months declined to 44.64% mainly due to the 4th anniversary promotion carried out during the first quarter of 2006.

General and administrative expenses for the six (6) months increased to RM1.06 million mainly as a result of:

- an increase in the number of staff due to the increase in the level of business; and
- an increase in Director's remuneration, which amounted to RM210,000 for the six (6) months as compared to RM36,000 in the FY ended 31 December 2005.

Even though the Group's share of losses in Thai StemLife amounted to RM0.23 million, StemLife achieved an increase in PAT of 21% to RM1.23 million for the six (6) months which is in line with the increase in turnover.

12. ACCOUNTANTS' REPORT (Cont'd)

5.2 StemLife (Company Level)

Below is the summarised Income Statement of StemLife :-

	-----Year ended 31 December -----			01.01.05	01.01.06	
	2003	2004	2005	to 30.06.05 (Unaudited) @	to 30.06.06	
	RM '000	RM '000	RM '000	RM '000	RM '000	
Revenue	1,218	3,288	7,577	2,648	5,648	
Cost of sales	(946)	(1,530)	(3,702)	(1,301)	(3,127)	
Gross Profit	272	1,758	3,875	1,347	2,521	
Other operating income	76	5	137	7	15	
Administrative expenses	(939)	(546)	(1,504)	(496)	(1,045)	
(Loss)/Profit from operations	(591)	1,217	2,508	858	1,491	
Interest Expense	-	(4)	(4)	(2)	(2)	
(Loss)/Profit Before Taxation	(591)	1,213	2,504	856	1,489	
Taxation	-	-	(6)	(1)	-	
(Loss)/Profit After Taxation	(591)	1,213	2,498	855	1,489	
Weighted average no. of ordinary shares in issue	'000	153,917 *	180,000 *	37,901 #	180,000 *	93,204 #
Weighted average gross (loss)/earnings per share	(Sen)	(0.4)	0.7	6.6	0.5	1.6
Weighted average net (loss)/earnings per share	(Sen)	(0.4)	0.7	6.6	0.5	1.6
Effective Tax Rate	(%)	-	-	0.2	0.1	0.0

@ Unaudited and included for comparison only

* ordinary shares of RM0.01 each

ordinary shares of RM0.10 each

Notes :-

- The gross and net earnings per share were calculated based on the profit before taxation and profit after taxation attributable to shareholders of StemLife for the financial years/period respectively divided by the weighted average number of ordinary shares in issue for each year/period under review.
- There were no extraordinary items in respect of the relevant years and period under review.

12. ACCOUNTANTS' REPORT (Cont'd)

5.3 SL PROPERTIES (Company Level)

Below is the summarised Income Statement of SL Properties :-

	26.04.05 to 31.12.05 RM '000	01.01.06 to 30.06.06 RM '000
Revenue	8	21
Cost of sales	-	-
Gross Profit	<u>8</u>	<u>21</u>
Other operating income	-	-
Administrative expenses	(56)	(34)
Loss from operations	<u>(48)</u>	<u>(13)</u>
Interest Expense	-	-
Loss Before Taxation	<u>(48)</u>	<u>(13)</u>
Taxation	(1)	(4)
Loss After Taxation	<u><u>(49)</u></u>	<u><u>(17)</u></u>
Weighted average no. of ordinary shares in issue	<u>27</u>	<u>100</u>
Weighted average gross (loss) per share (RM)	<u>(1,777.8)</u>	<u>(128.3)</u>
Weighted average net (loss) per share (RM)	<u><u>(1,814.8)</u></u>	<u><u>(630.6)</u></u>

Notes :-

- (a) There are no unaudited income statements for the six months ended 30 June 2005 for comparison purposes as SL Properties was incorporated on 26 April 2005.
- (b) The gross and net earnings per share were calculated based on the profit before taxation and profit after taxation attributable to shareholders of SL Properties for the periods under review divided by the weighted average number of ordinary shares in issue.
- (c) Effective tax rate is not available as SL Properties is in a loss position for the periods under review.
- (d) There were no extraordinary items in respect of the periods under review.

12. ACCOUNTANTS' REPORT (Cont'd)

5.4 SL DIAGNOSTICS (Company Level)

Below is the summarised Income Statement of SL Diagnostics :-

	10.05.05 to 31.12.05 RM '000	01.01.06 to 30.06.06 RM '000
Revenue	-	-
Cost of sales	-	-
Gross Profit	-	-
Other operating income	-	-
Administrative expenses	(4)	(1)
Loss from operations	(4)	(1)
Interest Expense	-	-
Loss Before Taxation	(4)	(1)
Taxation	-	-
Loss After Taxation	(4)	(1)
Weighted average no. of ordinary shares in issue	29	100
Weighted average gross loss per share (RM)	(137.9)	(10.0)
Weighted average net loss per share (RM)	(137.9)	(10.0)

Notes :-

- There are no unaudited income statements for the six months ended 30 June 2005 for comparison purposes as SL Diagnostics was incorporated on 10 May 2005.
- SL Diagnostics has remained dormant since incorporation.
- The gross and net earnings per share were calculated based on the profit before taxation and profit after taxation attributable to the shareholders of SL Diagnostics for the periods under review divided by the weighted average number of ordinary shares in issue.
- Effective tax rate is not available as SL Diagnostics is in a loss position for the periods under review.
- There were no extraordinary items in respect of the periods under review.

12. ACCOUNTANTS' REPORT (Cont'd)

5.5 SL THERAPY (Company Level)

Below is the summarised Income Statement of SL Therapy :-

	10.05.05 to 31.12.05 RM '000	01.01.06 to 30.06.06 RM '000
Revenue	-	-
Cost of sales	-	-
Gross Profit	-	-
Other operating income	-	-
Administrative expenses	(4)	(1)
Loss from operations	(4)	(1)
Interest Expense	-	-
Loss Before Taxation	(4)	(1)
Taxation	-	-
Loss After Taxation	(4)	(1)
Weighted average no. of ordinary shares in issue	29	100
Weighted average gross loss per share (RM)	(137.9)	(10.0)
Weighted average net loss per share (RM)	(137.9)	(10.0)

Notes :-

- There are no unaudited income statements for the six months ended 30 June 2005 for comparison purposes as SL Therapy was incorporated on 10 May 2005.
- SL Therapy has remained dormant since incorporation.
- The gross and net earnings per share were calculated based on the profit before taxation and profit after taxation attributable to the shareholders of SL Therapy for the periods under review divided by the weighted average number of ordinary shares in issue.
- Effective tax rate is not available as SL Therapy is in a loss position for the periods under review.
- There were no extraordinary items in respect of the periods under review.

12. ACCOUNTANTS' REPORT (Cont'd)

5.6 SL LOGISTICS (Company Level)

Below is the summarised Income Statement of SL Logistics :-

	21.01.06 to 30.06.06
	RM '000
Revenue	-
Cost of sales	-
Gross Profit	<u>-</u>
Other operating income	-
Administrative expenses	(3)
Loss from operations	<u>(3)</u>
Interest Expense	-
Loss Before Taxation	<u>(3)</u>
Taxation	-
Loss After Taxation	<u><u>(3)</u></u>
Weighted average no. of ordinary shares in issue	<u>2</u>
Weighted average gross loss per share (RM)	<u>(1,700.0)</u>
Weighted average net loss per share (RM)	<u>(1,700.0)</u>

Notes :-

- (a) There are no unaudited income statements for the period ended 30 June 2005 for comparison purposes as SL Logistics was incorporated on 21 January 2006.
- (b) SL Logistics has remained dormant since incorporation.
- (c) The gross and net earnings per share were calculated based on the profit before taxation and profit after taxation attributable to the shareholders of SL Logistics for the period under review divided by the weighted average number of ordinary shares in issue.
- (d) Effective tax rate is not available as SL Logistics is in a loss position for the periods under review.
- (e) There were no extraordinary items in respect of the period under review.

12. ACCOUNTANTS' REPORT (Cont'd)

6.0 SUMMARISED BALANCE SHEETS

6.1 Consolidated Balance Sheets – StemLife

The Balance Sheets of StemLife and the Group set out below is based on the audited accounts of StemLife for the years ended 31 December 2003 to 31 December 2005 and the six months ended 30 June 2006, the audited accounts of SL Properties, SL Diagnostics and SL Therapy for the financial period ended 31 December 2005 and the six months ended 30 June 2006, the audited accounts of SL Logistics for the six months ended 30 June 2006 and the audited accounts and management accounts of Thai StemLife for the financial period ended 31 December 2005 and six months ended 30 June 2006 respectively.

	Note	← STEMLIFE →		← GROUP →	
		-----As at 31 December -----			
		2003	2004	2005	As at 30.06.06
		RM '000	RM '000	RM '000	RM '000
Property, plant and equipment	9.3	505	762	3,107	3,482
Investment in associated company	9.4	-	-	547	316
Other investment	9.5	-	-	3,533	9,534
Deferred expenditure	9.6	-	-	93	346
CURRENT ASSETS					
Trade receivables	9.7	218	666	920	1,513
Other receivables and deposits		30	33	61	112
Deposits with licensed bank		400	200	-	-
Amount due from associated company	9.8	-	-	6	1
Cash and bank balances		44	1,266	1,898	5,985
		<u>692</u>	<u>2,165</u>	<u>2,885</u>	<u>7,611</u>
CURRENT LIABILITIES					
Trade payables	9.9	68	35	169	179
Other payables and accruals		547	617	897	1,090
Amount due to Directors	9.1	-	431	33	228
Lease payables	9.11	-	48	21	7
Provision for taxation	9.14	-	-	8	12
		<u>615</u>	<u>1,131</u>	<u>1,128</u>	<u>1,517</u>
NET CURRENT ASSETS		77	1,034	1,757	6,094
NET ASSETS		<u>582</u>	<u>1,796</u>	<u>9,037</u>	<u>19,772</u>
FINANCED BY :-					
Share Capital	9.12	1,800	1,800	7,000	12,500
Reserves		(1,218)	(4)	2,037	7,272
		<u>582</u>	<u>1,796</u>	<u>9,037</u>	<u>19,772</u>
Net Tangible Assets		<u>582</u>	<u>1,796</u>	<u>8,944</u>	<u>19,426</u>
Net Tangible Assets Per Share (Sen)		<u>3.23</u>	<u>9.98</u>	<u>12.78</u>	<u>15.54</u>

12. ACCOUNTANTS' REPORT (Cont'd)

Commentary on the Consolidated Balance Sheets :-

- (a) The Group's normal trade credit term ranges from 30 to 90 days. Other credit terms are assessed and negotiated on a case-by-case basis. The Group's trade receivables' turnover period is within normal credit term.
- (b) Included under other payables and accruals is an amount of RM797,100 as at 30 June 2006 consisting of advance payment made by StemLife customers.
- (c) The Group does not rely on any borrowings except for an item bought under lease arrangement included under plant, property and equipment. As at 30 June 2006, the amount outstanding for this item is RM7,094. Hence, the Group has negligible gearing ratio for the years/period under review.

12. ACCOUNTANTS' REPORT (Cont'd)

6.2 StemLife (Company Level)

Below is the summarised Balance Sheets of StemLife :

	-----At at 31 December -----			As at
	2003 RM '000	2004 RM '000	2005 RM '000	30.06.06 RM '000
Property, plant and equipment	505	762	1,760	2,158
Investment in subsidiary companies	-	-	_*	_*
Investment in associated company	-	-	945	945
Other investment	-	-	3,533	9,534
Deferred expenditure	-	-	93	346
CURRENT ASSETS				
Trade receivables	218	666	920	1,513
Other receivables and deposits	30	33	61	112
Deposits with licensed bank	400	200	-	-
Amount due from subsidiary compaies	-	-	1,393	1,410
Amount due from associated company	-	-	6	1
Cash and bank balances	44	1,266	1,898	5,985
	<u>692</u>	<u>2,165</u>	<u>4,278</u>	<u>9,021</u>
CURRENT LIABILITIES				
Trade payables	68	35	169	179
Other payables and accruals	547	617	887	1,103
Amount due to Directors	-	431	33	228
Lease payables	-	48	21	7
Provision for taxation	-	-	6	6
	<u>615</u>	<u>1,131</u>	<u>1,116</u>	<u>1,523</u>
NET CURRENT ASSETS	77	1,034	3,162	7,498
NET ASSETS	<u>582</u>	<u>1,796</u>	<u>9,493</u>	<u>20,482</u>
FINANCED BY :-				
Share Capital	1,800	1,800	7,000	12,500
Reserves	(1,218)	(4)	2,493	7,982
	<u>582</u>	<u>1,796</u>	<u>9,493</u>	<u>20,482</u>
Net Tangible Assets	<u>582</u>	<u>1,796</u>	<u>9,400</u>	<u>20,136</u>
Net Tangible Assets Per Share (Sen)	<u>3.23</u>	<u>9.98</u>	<u>13.43</u>	<u>16.11</u>

* Consist of investment in subsidiary companies amounting to RM301.

12. ACCOUNTANTS' REPORT (Cont'd)**6.3 SL PROPERTIES (Company Level)**

Below is the summarised Balance Sheets of SL Properties :

	As at 31.12.05 RM '000	As at 30.06.06 RM '000
PROPERTY, PLANT AND EQUIPMENT	203	191
INVESTMENT PROPERTIES	1,144	1,133
CURRENT ASSETS		
Trade receivables	-	29
	<u>-</u>	<u>29</u>
CURRENT LIABILITIES		
Other payables and accruals	6	11
Provision for taxation	2	6
Amount due to holding company	1,388	1,402
	<u>1,396</u>	<u>1,419</u>
NET CURRENT ASSETS	(1,396)	(1,390)
NET ASSETS	<u>(49)</u>	<u>(66)</u>
FINANCED BY :-		
Share Capital	-*	-*
Reserves	(49)	(66)
	<u>(49)</u>	<u>(66)</u>
Net Tangible Assets	<u>(49)</u>	<u>(66)</u>
Net Tangible Assets Per Share (RM)	<u>(490)</u>	<u>(660)</u>

* The share capital represents paid-up capital of RM100 comprising 100 ordinary shares of RM1.00 each

12. ACCOUNTANTS' REPORT (Cont'd)

6.4 SL DIAGNOSTICS (Company Level)

Below is the summarised Balance Sheets of SL Diagnostics :

	As at 31.12.05 RM '000	As at 30.06.06 RM '000
PROPERTY, PLANT AND EQUIPMENT	-	-
CURRENT ASSETS	-	-
CURRENT LIABILITIES		
Other payables and accruals	2	2
Amount due to holding company	2	3
	<u>4</u>	<u>5</u>
NET CURRENT ASSETS	(4)	(5)
NET ASSETS	<u>(4)</u>	<u>(5)</u>
FINANCED BY :-		
Share Capital	-*	-*
Reserves	(4)	(5)
	<u>(4)</u>	<u>(5)</u>
Net Tangible Assets	<u>(4)</u>	<u>(5)</u>
Net Tangible Assets Per Share (RM)	<u>(40)</u>	<u>(50)</u>

* The share capital represents paid-up capital of RM100 comprising 100 ordinary shares of RM1.00 each

Note :-

- (a) SL Diagnostics has remained dormant since incorporation.

12. ACCOUNTANTS' REPORT (Cont'd)**6.5 SL THERAPY (Company Level)**

Below is the summarised Balance Sheets of SL Therapy :

	As at 31.12.05 RM '000	As at 30.06.06 RM '000
PROPERTY, PLANT AND EQUIPMENT	-	-
CURRENT ASSETS	-	-
CURRENT LIABILITIES		
Other payables and accruals	2	2
Amount due to holding company	2	3
	<u>4</u>	<u>5</u>
NET CURRENT ASSETS	(4)	(5)
NET ASSETS	<u>(4)</u>	<u>(5)</u>
FINANCED BY :-		
Share Capital	-*	-*
Reserves	(4)	(5)
	<u>(4)</u>	<u>(5)</u>
Net Tangible Assets	<u>(4)</u>	<u>(5)</u>
Net Tangible Assets Per Share (RM)	<u>(40)</u>	<u>(50)</u>

* The share capital represents paid-up capital of RM100 comprising 100 ordinary shares of RM1.00 each

Note :-

(a) SL Therapy has remained dormant since incorporation.

12. ACCOUNTANTS' REPORT (Cont'd)**6.6 SL LOGISTICS (Company Level)**

Below is the summarised Balance Sheets of SL Logistics :

	As at 30.06.06 RM '000
PROPERTY, PLANT AND EQUIPMENT	-
CURRENT ASSETS	-
CURRENT LIABILITIES	
Other payables and accruals	1
Amount due to holding company	<u>2</u>
	<u>3</u>
NET CURRENT ASSETS	(3)
NET ASSETS	<u><u>(3)</u></u>
FINANCED BY :-	
Share Capital	-*
Reserves	<u>(2)</u>
	<u><u>(2)</u></u>
Net Tangible Assets	<u>(3)</u>
Net Tangible Assets Per Share (RM)	<u>(1,500)</u>

* The share capital represents paid-up capital of RM2 comprising 2 ordinary shares of RM1.00 each

Note :-

(a) SL Logistics has remained dormant since incorporation.

12. ACCOUNTANTS' REPORT (Cont'd)

7.0 CASH FLOW STATEMENT

7.1 Consolidated Cash Flow Statements – StemLife

The cash flow statement of StemLife and the Group set out below is based on the audited accounts of StemLife for the years ended 31 December 2003 to 31 December 2005 and the six months ended 30 June 2006, the audited accounts of SL Properties, SL Diagnostics and SL Therapy for the financial period ended 31 December 2005 and the six months ended 30 June 2006, the audited accounts of SL Logistics for the six months ended 30 June 2006 and the audited accounts and management accounts of Thai StemLife for the financial period ended 31 December 2005 and six months ended 30 June 2006 respectively.

	← STEMLIFE →			← GROUP →
	-----Year ended 31 December -----			01.01.06
	2003	2004	2005	to 30.06.06
	RM '000	RM '000	RM '000	RM '000
CASH FLOW FROM OPERATING ACTIVITIES				
(Loss)/Profit before taxation	(591)	1,213	2,049	1,240
Adjustments for :				
Depreciation	89	125	302	226
Loss on disposal of property, plant and equipment	-	-	1	4
Share of associated company's result	-	-	399	231
Operating profit before working capital changes	(502)	1,338	2,751	1,701
Receivables	(177)	(451)	(282)	(643)
Payables	510	37	415	203
Associated Company	-	-	(6)	5
Related parties	(58)	-	-	-
Directors' account	-	431	(398)	195
Net cash (used in)/generated from operating activities	(227)	1,355	2,480	1,461
CASH FLOW FOR INVESTING ACTIVITIES				
Investment in associated company	-	-	(945)	-
Investment in unquoted shares	-	-	-	(6,000)
Investment in Pru Bond Fund	-	-	(3,534)	-
Purchase of property, plant and equipment	(502)	(312)	(2,647)	(607)
Deferred expenditure	-	-	(93)	(253)
Net cash used in investing activities	(502)	(312)	(7,219)	(6,860)

12. ACCOUNTANTS' REPORT (Cont'd)

7.1 Consolidated Cash Flow Statements – StemLife (Cont'd)

	← STEMLIFE →		← GROUP →	
	-----Year ended 31 December -----			01.01.06
	2003	2004	2005	to 30.06.06
	RM '000	RM '000	RM '000	RM '000
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issuance of share capital	800	-	5,200	9,500
Repayment of lease payables	-	(21)	(28)	(14)
Net cash generated from/(used in) financing activities	800	(21)	5,172	9,486
NET INCREASE IN CASH AND CASH EQUIVALENTS	71	1,022	433	4,087
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	372	443	1,465	1,898
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	443	1,465	1,898	5,985
CASH AND CASH EQUIVALENTS COMPRISE :				
Cash and bank balances	43	1,265	1,898	5,985
Deposits with licensed bank	400	200	-	-
	443	1,465	1,898	5,985

Note :

- (a) Included under Payables as at 30 June 2005 is an amount of RM2,200,000 being advance payment for the subscription of StemLife Shares, which was subsequently issued in July 2005.

12. ACCOUNTANTS' REPORT (Cont'd)**7.2 StemLife (Company Level)**

Below is the Cash Flow Statement of StemLife :-

	-----Year ended 31 December -----			01.01.06
	2003	2004	2005	to 30.06.06
	RM '000	RM '000	RM '000	RM '000
CASH FLOW FROM OPERATING ACTIVITIES				
(Loss)/Profit before taxation	(591)	1,213	2,504	1,489
Adjustments for :				
Depreciation	89	125	257	204
Loss on disposal of property, plant and equipment	-	-	-	4
Operating profit before working capital changes	(502)	1,338	2,761	1,697
Receivables	(177)	(451)	(282)	(643)
Payables	510	37	404	225
Subsidiary companies	-	-	(1,393)	(18)
Associated company	-	-	(6)	5
Related parties	(58)	-	-	-
Directors' account	-	431	(398)	195
Net cash (used in)/generated from operating activities	(227)	1,355	1,086	1,461
CASH FLOW FOR INVESTING ACTIVITIES				
Investment in associated company	-	-	(945)	-
Investment in unquoted shares	-	-	-	(6,000)
Investment in Pru Bond Fund	-	-	(3,534)	-
Purchase of property, plant and equipment	(502)	(312)	(1,254)	(606)
Deferred expenditure	-	-	(93)	(253)
Net cash used in investing activities	(502)	(312)	(5,826)	(6,859)
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issuance of share capital	800	-	5,200	9,500
Repayment of lease payables	-	(21)	(28)	(14)
Net cash generated from/(used in) financing activities	800	(21)	5,172	9,486
NET INCREASE IN CASH AND CASH EQUIVALENTS	71	1,022	432	4,088
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	372	443	1,465	1,897
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	443	1,465	1,897	5,985
CASH AND CASH EQUIVALENTS COMPRISE :				
Cash and bank balances	43	1,265	1,897	5,985
Deposits with licensed bank	400	200	-	-
	443	1,465	1,897	5,985

Note :

- (a) Included under Payables as at 30 June 2005 is an amount of RM2,200,000 being advance payment for the subscription of StemLife shares, which was subsequently issued in July 2005.