

Java Incorporated Bhd (2511-M)

Incorporated in Malaysia

Explanatory Notes To The Interim Financial Report for the 2nd Financial Quarter Ending 30 June 2008

1. Basis of preparation

The interim financial report is prepared in accordance with the requirements outlined in the Financial Reporting Standards (“FRS”) 134 - Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group’s Annual Audited Financial Report for the Year Ended 30 June 2007. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2007.

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 30 June 2007 other than adoption of the following new accounting policies:-

2. Changes in Accounting Policies

The accounting policies adopted for the preparation of this interim financial report are consistent with those adopted for the financial year ended 30 June 2007 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial periods beginning on or after 1 July 2007:-

FRS 117	: Leases
FRS 124	: Related Party Disclosures
FRS 139	: Financial Instruments : Recognition and Measurement
FRS 6	: Exploration for an Evaluation of Mineral Resources
Amendment to FRS 119 ₂₀₀₄	: Employee Benefits – Actuarial Gains & Losses, Group Plans and Disclosures
Amendment to FRS 107	: Cash Flow Statements
Amendment to FRS 111	: Construction Contracts
Amendment to FRS 112	: Income Taxes
Amendment to FRS 118	: Revenue
Amendment to FRS 119	: Employee Benefits
Amendment to FRS 120	: Accounting for Government Grants and Disclosure of Government Assistance
Amendment to FRS 126	: Accounting and Reporting by Retirement Benefit Plans
Amendment to FRS 129	: Financial Reporting in Hyperinflationary Economics
Amendment to FRS 134	: Interim Financial Reporting
Amendment to FRS 137	: Provision, Contingent Liabilities and Contingent Assets
Amendment to FRS 121	: The Effects of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation

The adoption of new/revised FRSs will have no material financial impact on the Group.

3. **Audit report of the preceding annual financial statements**

There was no qualification of the Group's audited annual financial statements for the year ended 30 June 2007.

4. **Seasonality or cyclicity of operations**

The business operations of the Group were generally affected by the seasonal changes in weather and buying patterns.

5. **Items of unusual nature, size or incidence**

There were no items of unusual nature, size or incidence affecting assets, liabilities, equity, net income or cash flows of the interim financial report.

6. **Changes in estimates**

There were no changes in estimates that have had material effects in the current quarter.

7. **Issuance and repayment of Debt and Equity Securities**

There were no issuance and repayment of Debt and Equity securities in the current quarter except for the followings:-

i) Issuance of 146,800 (YTD 202,500) ordinary shares pursuant to the exercise of options granted under the Java Incorporated Bhd Employees' Share Option Scheme at option price of RM1.00 per share.

ii) Issuance of 49,000 (YTD 57,000) ordinary shares pursuant to the exercise of warrants granted by Java Incorporated Bhd at option price of RM1.00 per share.

iii) Issuance of 20,799,000 ordinary shares pursuant to the conversion of 20,799,000 1.5% Irredeemable Cumulative Convertible Preference Shares granted under the Java Incorporated Bhd at option price of RM1.00 per share.

8. **Dividends**

There were no dividends paid in the current quarter.

9. Segmental Information

The Group's operating businesses are classified according to the nature of activities as follows:-

Timber Products	- Harvesting and trading of raw timber and manufacturing and trading of downstream timber products
Plantation	- Oil palm plantation
Investment	- Investment holding

Segment revenue, expenses and results include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside the economic entity and are at arm's length. These transfers are eliminated on consolidation.

The Group's segmental report for the financial period to date are as follows :

Primary Reporting - Business Segments

	Timber Products	Plantation	Investment Holding	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000
Segment Revenue					
External revenue	136,662	-	-	-	136,662
Intersegment revenue	32,129	-	2,160	(34,289)	-
Total revenue	168,791	-	2,160	(34,289)	136,662
Segment Result					
Operating profit	15,389	(21)	(1,356)	(2,160)	11,852
Finance costs (net)	(1,183)	-	424	-	(759)
Taxation	(3)	-	-	-	(3)
Net Profit After Taxation	14,203	(21)	(932)	(2,160)	11,090
Minority interest	-	-	4	-	4
Net Profit for the period	14,203	(21)	(928)	(2,160)	11,094

Segmental information by geographical segment is not presented as the Group's operations are derived solely from Malaysia.

10. Property, plant and equipment

The valuation of property, plant and equipment has been brought forward without any amendments from previous annual financial statements.

11. Subsequent events

A final tax exempt dividend of 10.0 sen per share totaling RM17,338,593.90 proposed in respect of the financial year ended 30 June 2007 was paid by the Company on 21 January 2008.

12. **Changes in the composition of the Group**

There were no changes in the composition of the Group during the financial quarter ended 31 December 2007.

13. **Contingent liabilities / assets**

There were no material commitments and contingent assets or liabilities as at the date of this report except for the followings:-

- (a) bank guarantees issued by subsidiaries, in favour of certain third parties amounting to RM2,250,000.00 as performance bonds; and
- (b) corporate guarantees issued by Java Incorporated Bhd in favour of a licensed bank amounting to RM25,200,000.00 for the credit facilities granted to a subsidiary.

14. **Related party transactions**

There were no related party transactions during the quarter except for rental of premises amounting to RM133,874.00 paid/payable to Desa Samudra Sdn. Bhd and Seng Hoe & Choong Corporation Sdn Bhd, companies in which a director, Dato' Choo Keng Weng has financial interest. This transaction has been entered into in the normal course of business and has been established in commercial terms.

15. **Review of Performance**

The revenue for the reported quarter of RM64.41 million is lower than RM68.33 million as recorded for the corresponding quarter of last year. The operating profit of RM7.95 million is lower than that RM30.23 million recorded for the corresponding quarter of last year.

The lower revenue and operating profit for the reported quarter was largely due to lower selling price and the weaker US Dollar, coupled with higher operating costs as compared with the corresponding quarter of last year.

16. **Material Changes in results compared with immediate preceding quarter**

The Group's revenue for the reported quarter of RM64.41 million is lower than RM72.26 million recorded for the immediate preceding quarter.

The operating profit of the Group decreased from RM9.03 million in the immediate preceding quarter to RM7.95 million for the reported quarter. The net profit of the Group decreased from RM6.21 million from the immediate preceding quarter to that of RM4.89 million for the quarter under review.

The lower revenue and net profit recorded by the Group for the reported quarter was mainly due to the weak US Dollar, lower average selling price and higher production costs.

17. **Current year prospects**

Demand for the Group's timber products is expected to remain positive for the current year in view of the sustained demand for the timber products from China, India, Middle East and other developing countries, such as Vietnam. The Group will continue to monitor the costs of production and expects substantial savings with the completion and commissioning of the dedicated electrical supply at the manufacturing facility in Keningau, Sabah.

Nevertheless, a weak US Dollar and the rising costs of fuel will have a direct impact on the earnings of the Group

Barring any unforeseen circumstance, the Board is optimistic that the Group's performance for the current financial year will remain satisfactory.

18. **Profit forecast or profit guarantee**

The disclosure requirements for explanatory notes for the variance of actual profit after tax and shortfall in profit guarantee are not applicable.

19. **Taxation**

The taxation charges of the Group for the period under review are as follows:-

	3 months ended		6 months ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Current tax expense				
Malaysian - Current	(3)	-	(3)	-
- Prior year	-	-	-	(117)
- Overprovision	-	(9)	-	(9)
	<u>(3)</u>	<u>(9)</u>	<u>(3)</u>	<u>(126)</u>

Tax charge for the financial quarter under review was lower than the statutory tax rate mainly due to utilisation of capital allowances and tax losses by certain subsidiaries.

20. **Profits/Losses on sale of unquoted investments and/or properties**

There were no sales of unquoted investments and/or properties for the quarter reported.

21. **Quoted Shares**

(a) There were neither purchases nor disposals of quoted securities by the Group for the quarter reported.

(b) The investments in quoted shares as at the end of the quarter reported is as follows: -

Investments in quoted shares	RM
At cost	3,701.15
At carrying value/book value (after provision for diminution in value)	-
At market value (as at 21 February 2008)	1,200.00

22. **Corporate Proposals**

There were no corporate proposals announced but not completed not later than seven (7) days from the date of this interim report.

23. **Group borrowings and debt securities**

The Group's borrowings as at the end of the reporting period are as follows: -

	31.12.2007	30.6.2007
	RM'000	RM'000
Short term borrowings		
-Secured		
Hire Purchase Creditors	554	641
Bankers' Acceptance	7,658	12,416
Revolving Credits	-	6,000
Term Loans	18	17
Long term borrowings		
-Secured		
Hire Purchase Creditors	2,108	1,901
Term Loans	25,328	136
Total	35,666	21,111

All borrowings are denominated in Ringgit.

24. **Off Balance Sheet Financial Instruments**

The Group entered into forward foreign exchange contracts to limit the exposure to potential changes in foreign currency exchange rates with respect to the Group's foreign currency denominated estimated receipts.

There are no off balance sheet forward foreign contract exchange sales contracts outstanding as at 21 February 2008 (being a date not earlier than 7 days from the date of the quarterly report).

There is minimal credit risk because these contracts were entered into with reputable banks. All gains and losses arising from forward foreign exchange contracts are dealt with through the income statement upon maturity.

25. **Material Litigation**

There were no material litigations as at the date of this report.

26. **Earnings per share ("EPS")**

	3 months ended		6 months ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Profit attributable to members	4,885	28,030	11,090	45,057
Weighted average number of ordinary shares	161,568	165,261	156,962	165,261
Adjusted weighted average number of ordinary shares	178,291	192,853	173,685	195,720
Basic EPS (Sen)	3.02	16.96	7.07	27.26
Diluted EPS (Sen)	2.74	14.53	6.39	23.02

Number of shares in issue/issuable was calculated as shown below:-

26. **Earnings per share ("EPS") (Continued)**

	3 months ended		6 months ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Weighted average number of ordinary shares in issue	161,568	144,461	156,962	144,461
Effects of dilution:				
- Conversion of ICCPS	-	20,800	-	20,800
- Conversion of warrants in issue/issuable	14,410	24,598	14,410	24,598
- Conversion of weighted average number of share options	2,313	2,994	2,313	5,861
Adjusted weighted average number of ordinary shares	<u>178,291</u>	<u>192,853</u>	<u>173,685</u>	<u>195,720</u>

Assumption:

The ICCPS are deemed to have been converted into ordinary shares at the date of issuance.

By order of the Board,

Ng See Yen

Date: 28 February 2008