Java Incorporated Bhd (2511-M)
Incorporated in Malaysia
Explanatory Notes To The Interim Financial Report for the 4th Quarter Of The Financial Year 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") and Issues Committee Interpretations ("IC Int") 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 (MASB has yet to determine its effective date)
FRS 6	: Exploration for an Evaluation of Mineral Resources
Amendment to FRS 119_{2004}	: Employee Benefits – Actuarial Gains & Losses, Group Plans and Disclosures
FRS 107	: Cash Flow Statements
FRS 111	: Construction Contracts
FRS 112	: Income Taxes
FRS 118	: Revenue
FRS 119	: Employee Benefits
FRS 120	: Accounting for Government Grants and Disclosure of Government Assistance
Amendment to FRS 121	: The Effects of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation
FRS 126	: Accounting and Reporting by Retirement Benefit Plans
FRS 129	: Financial Reporting in Hyperinflationary Economics
FRS 134	: Interim Financial Reporting
FRS 137	: Provision, Contingent Liabilities and Contingent Assets

IC Int 01	: Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Int 02	: Members' Shares in Co-operative Entities and Similar Instruments
IC Int 05	: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Int 06	: Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC Int 07	: Applying the Restatement Approach under FRS 129_{2004} - Financial Reporting in Hyperinflationary Economies
IC Int 08	: Scope of FRS 2

The adoption of new/revised FRSs and IC Ints will have no material financial impact on the Group Financial Statements.

Consequent on the adoption of the revised FRS 117, the Group has effected the necessary changes to the accounting policies and disclosures as disclosed in note below.

FRS 117: Leases

Prior to 1 July 2007, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and subject to annual impairment review. The adoption of the revised FRS 117 has resulted in a change in the classification of leasehold land. Under FRS 117, leases of land and buildings are classified as operating or finance lease in the same way as leases of other assets.

The Group has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provision of FRS 117. At 1 July 2007, the unamortised carrying amount of leasehold land is classified as prepaid lease payments. The classification of leasehold land as prepaid lease payments has been accounted for retrospectively and certain comparatives as at 30 June 2007 have been restated.

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 cyclicality 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 Group during the current quarter under review and financial period to date.

6. **<u>Changes in estimates</u>**

There were no changes in estimates that have had material effects in the current quarter and financial period to date.

7. **<u>Issuance and repayment of Debt and Equity Securities</u>**

There were no issuance and repayment of Debt and Equity securities in the current quarter (current financial to date "YTD") except for the followings:-

i) Issuance of nil (YTD: 221,700) 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 4,500 (YTD: 61,800) ordinary shares pursuant to the exercise of warrants granted by Java Incorporated Bhd at option price of RM1.00 per share.

iii) Issuance of nil (YTD: 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. **<u>Dividend paid, proposed or declared</u>**

a. Current Quarter and Financial to date

During the current financial year under review, the following dividend payments were made :

i) A first and final tax exempt dividend of 10.0 sen (10%) per ordinary share of RM1/- each total amounting to RM17,338,593.90 in respect of the financial year ended 30 June 2007 was paid by the Company on 21 January 2008.

ii) A 1.5% per annum cumulative dividend for ICCPS of RM1.00 each, total amounting to RM935,730 was paid by the Company on 5 November 2007.

b. Previous corresponding period

i) The Company paid a final dividend of 3 sen (3%) less tax amounting to RM3.120 million in respect of the financial year ended 30 June 2006 on 30 January 2007.

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 ended 30th June 2008 is 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	259,197	-	-	-	259,197
Intersegment revenue	52,945	-	4,320	(57,265)	-
Total revenue	312,142	-	4,320	(57,265)	259,197
Segment Result					
Operating profit	25,635	(23)	(5,674)		19,938
Finance costs (net)	(2,622)	-	(157)	-	(2,779)
Taxation	277	-	9	-	286
Net Profit After Taxation	23,290	(23)	(5,822)	-	17,445
Minority interest	-	-	4	-	4
Net Profit for the period	23,290	(23)	(5,818)	-	17,449

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**

There were no significant events subsequent to the end of the current financial period to date that have not been reflected in the financial statements.

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

There were no changes in the composition of the Group for the current quarter and financial period to date.

13. **Contingent liabilities/ assets**

There were no material commitments and contingent assets or liabilities as at 25 August 2008, a date not earlier than seven (7) days of this report except for the followings:-

(a) bank guarantees issued to-date by subsidiaries, in favour of certain third parties amounting to RM4,153,000.00 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 RM97,030.00 (YTD: RM563,047) 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 RM62.41 million is lower than RM83.80 million as recorded for the corresponding quarter of last year. The profit before taxation of RM1.62 million is lower than RM10.29 million recorded for the corresponding quarter of last year.

The Group registered full current year revenue of RM259.20 million as compared with RM313.82 million recorded in the preceding year. Likewise the Group profit before tax also lower to RM17.16 million from RM72.59 million a year ago.

The lower revenue and profit before tax for the reported period mainly attributable to the lower sales volume, lower selling price and the weaker US Dollar, coupled with higher operating costs as compared with the corresponding period of last year.

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

The Group's revenue for the reported quarter of RM62.41 million is higher than the RM60.12 million recorded for the immediate preceding quarter.

The profit before tax of the Group decreased to RM1.62 million in the current quarter compared to immediate preceding quarter of RM4.45 million mainly due to the lower selling price and the weaker US Dollar, coupled with higher operating costs.

The lower profit before tax recorded by the Group for the reported quarter was also due to the commencement of harvesting from a new timber concession right which in turn required amortising according to the volume extracted based on the estimate.

17. **Next financial year prospects**

Global demand for timber is expected to remain stable for year 2009 in view of the sustained demand for wood based products from the other developing markets such as India, Japan and the Middle East. The continued strengthening of the US Dollar against the Ringgit Malaysia will also augur well for the timber industry.

However, with the anticipated slowdown in the global economy and the fluctuation of the price of crude oil, the principal challenge will be for the Group to enhance productivity and continue to manage its costs efficiencies.

The Board remains confident in the long term prospects of the timber Industry and viability of the Group's business and barring any other unforeseen circumstances, expects a positive and satisfactory financial results for year 2009.

18. **Profit forecast or profit guarantee**

The disclosure requirements for explanatory notes for the variance of actual profit after tax against profit guarantee/forecast are not applicable as the Group did not issue any profit guarantee/forecast to the public.

19. **Taxation**

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

	3 months ended		12 months ended	
	30.06.2008	**30.06.2007**	**30.06.2008**	**30.06.2007**
Malaysian tax expense	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Income tax				
- Current year	(65)	(150)	(68)	(150)
- Over / (under) provision in prior years	63	330	63	259
	(2)	180	(5)	109
Deferred taxation				
- Current year	-	194	-	194
- Over / (under) provision in prior years	291	(12)	291	(12)
	289	362	286	291

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 of the Group during the current quarter under review and financial period to date.

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
At carrying value/book value (after provision for diminution in value)	-
At market value (as at 25 August 2008)	1,880

22. **Corporate Proposals**

There were no corporate proposals announced which has not completed as at 25 August 2008, a date not earlier than seven (7) days from the date of this report.

23. **Group borrowings and debt securities**

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

All borrowings are denominated in Ringgit.

	30.06.2008 RM'000	30.6.2007 RM'000
Short term borrowings		
-Secured		
Hire Purchase Creditors	639	641
Bankers' Acceptance	8,397	12,416
Revolving Credits	-	6,000
Term Loans	5,611	17
Long term borrowings		
-Secured		
Hire Purchase Creditors	1,698	1,901
Term Loans	17,392	136
Total	33,737	21,111

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 estimate to be received.

Total off balance sheet forward foreign contract exchange sales contracts outstanding as at 25 August 2008 (being the date not earlier than 7 days from the date of the quarterly report) in Ringgit equivalent was RM312,234.24. The maturities of these contracts will from October to November 2008.

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 25 August 2008, a date not earlier than seven (7) days of this report.

26. **Dividends Proposed**

The Board of Directors hereby recommends a final tax exempt dividend of 3.5 sen (3.5%) per share ("Final Dividend") in respect of the financial year ended 30 June 2008, subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting. The Final Dividend will be paid on a date to be determined.

27. **<u>Earnings per share ("EPS")</u>**

	3 months ended		12 months ended	
	30.06.2008	**30.06.2007**	**30.06.2008**	**30.06.2007**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit attributable to members	1,906	10,649	17,449	72,886
Weighted average number of ordinary shares	173,389	149,300	165,129	146,701
Adjusted weighted average number of ordinary shares	187,295	184,290	179,035	181,181
Basic EPS (Sen)	1.10	7.13	10.57	49.70
Diluted EPS (Sen)	1.02	5.78	9.75	40.40

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

	3 months ended		12 months ended	
	30.06.2008	**30.06.2007**	**30.06.2008**	**30.06.2007**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Weighted average number of ordinary shares in issue	173,389	149,300	165,129	146,701
Effects of dilution:				
- Conversion of ICCPS	-	20,799	-	20,799
- Conversion of warrants in issue/issuable	12,850	12,146	12,850	12,384
- Conversion of weighted average number of share options	1,056	2,045	1,056	1,297
Adjusted weighted average number of ordinary shares	187,295	184,290	179,035	181,181

<u>Assumption:</u>
The ICCPS are deemed to have been converted into ordinary shares at the date of issuance.

By order of the Board,
Lim Siew Ting
Secretary
28 August 2008
Kuala Lumpur