

HeveaBoard Berhad
(Company No. 275512-A)
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2006**

**A. DISCLOSURE REQUIREMENTS AS PER FINANCIAL REPORTING
STANDARDS (“FRS”) 134 (FORMERLY KNOWN AS MALAYSIAN
ACCOUNTING STANDARDS BOARD (“MASB”) 26)**

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in compliance with the reporting requirements as set out in Financial Reporting Standards (“FRS”) No. 134 – “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. It should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2005.

The accounting policies and methods of computation adopted by the Group in these interim financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 December 2005. Until the last financial year ended 31 December 2005, the financial statements of the Group were prepared in accordance with Malaysian Accounting Standard Board (“MASB”). Following the changes in reporting regulations required by the MASB, the Group’s quarterly financial statements have therefore been prepared in accordance with the Financial Reporting Standards (FRSs) that have come into effect for financial period beginning on or after 1 January 2006. Adoption of these FRSs has not resulted in any material changes to the presentation and valuation of the financial statements except for: -

- i) FRS 3 - Business Combination: The adoption of this new FRS has resulted in the Group ceasing annual goodwill amortisation. Goodwill is carried at cost less impairment losses and is now tested for impairment in value in accordance with FRS 136 (Impairment of Assets) annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in profit and loss and subsequent reversal is not allowed. There is no impairment loss recorded during the period. Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life, which ranges from 10 to 20 years.

Prior to 1 January 2006, negative goodwill was net off against goodwill on consolidation. Under FRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is now recognised immediately in profit or loss. In accordance with transitional provisions of FRS 3, the negative goodwill as at 1 January 2006 of approximately RM670,000 was derecognised with a corresponding increase in retained profits.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods.

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1. Basis of Preparation (Cont'd)

In addition to the above, the Group has also taken option for early adoption of the following FRS for the financial period beginning 1 January 2006:-

- i) FRS 117 - Leases: The adoption of this FRS has resulted in the Group reclassifying RM10.42 million (2005 - RM10.63 million) from Property, plant and equipment to prepaid lease payment.

2. Audit Report of Preceding Annual Financial Statements

The audit report of the Group's most recent annual audited financial statements for the financial year ended 31 December 2005 was not qualified.

3. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows that were unusual because of their nature, size or incidence during the quarter under review.

4. Seasonal or Cyclical Factors

There were no major seasonal or cyclical factors that affected the operations.

5. Material Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter.

6. Debts and Equity Securities

During the financial period, there were no issuances, cancellations, repurchases and resale of debts and equity securities. Total repayment of debts amounted to RM724,643 for the reporting quarter.

7. Dividend Paid

The final dividend of 3.0sen per share, less 28% income tax amounting to RM1,728,000 in respect of the financial period ended 31 December 2005 was paid on 14 July 2006.

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8. Segmental Reporting (Analysis by Activities)

	← Cumulative quarter 12-month ended →			
	Current year period to-date 31.12.2006		Preceding year corresponding period to-date 31.12.2005	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
Manufacturing				
Particleboards	41,804	8,657	39,213	4,295
RTA Products*	93,629	191	74,664	3,503
Trading				
Particleboards	5,630	103	11,513	756
RTA Products*	22,062	434	22,284	1,294
Others	-	(5)	-	(3)
Total	<u>163,125</u>	<u>9,380</u>	<u>147,674</u>	<u>9,845</u>

*RTA - Ready-To-Assemble

9. Valuations of Investment and Property, Plant and Equipment

There were no revaluations of property, plant and equipment during the current quarters. As at 31 December 2006, all property, plant and equipment were stated at cost less accumulated depreciation.

10. Event Subsequent to the End of the Period

There were no material events affecting the earnings of the Group between 31 December 2006 and 27 February 2007.

11. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group for the current financial year to date.

12. Contingent Liabilities

Corporate guarantees of RM39,536,000 are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 23 February 2007 (the latest practicable date not earlier than seven (7) days from the date of issue of this report).

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13. Capital Commitments

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 December 2006 were as follows:

	The Group
	RM'000
Approved and contracted for	7,550
Approved but not contracted for	4,450

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES LISTING REQUIREMENTS

1. Review of performance

The Group registered a higher turnover of RM45.47 million for the reporting quarter ended 31 December 2006 as compared to RM40.15 million in the corresponding last quarter, an increase of RM5.32 million or 13.25%. The increased turnover was attributed to the start up of the 2nd Particleboard Line and the increased revenue from the RTA furniture sector which had secured new customers in both Japan and USA.

The Group registered a profit before tax of RM6.41 million for the reporting quarter as compared to RM2.89 million in the corresponding quarter in 2005, an increase of RM3.52 million or 121.83%. In spite of the lower margins achieved from the US Dollar export sales of the Group due to the appreciation of Malaysian Ringgit, coupled with the higher depreciation and finance costs incurred by the 2nd Particleboard Line commissioned in October 2006, the impact of lower operating profit was compensated by the unrealised exchange gain derived from the year-end translation adjustment in respect of the US Dollar denominated term loan taken to finance the plant and equipment.

2. Material Changes in the Quarterly Results Compared to the Results of the Preceding Quarter

The Group reported a profit before tax of RM6.41 million in this reporting quarter as compared to RM2.89 million in the preceding quarter. Depreciation and finance charges on the 2nd Particleboard Line have been taken into the account as the new plant has commenced commercial production. The profit before tax is attributed mainly by the unrealised exchange gain arising from the year-end translation of the US Dollar denominated term loan taken to finance the plant and equipment.

3. Current Year Prospect

The board of directors expects the 2nd Particleboard Line which will gradually increase the particleboard production by four times to contribute higher revenues and profits to the Group. The plant is expected to achieve the year average of 70% of its designed capacity in 2007. Substantially lower cost of particleboard production from the 2nd Line is envisaged due to the efficiency of the large capacity plant. Various energy saving features had also been incorporated in the advanced automated set up. Upon completion of fine-tuning, cost savings from energy required for burner and dryer using biomass fuel replacing conventional fossil fuel system for press heating and flakes drying are expected to contribute significantly to the performance of the Group yearly. Significant improvement on profitability deriving from cost efficiency practices and increased volume productivity is expected to be evident in the 2nd Quarter and beyond.

With the early setting up of HeveaMart representative marketing offices to facilitate particleboard export sales in strategic cities in a number of countries in Asia, and HeveaPac having expanded its RTA furniture manufacturing facilities, the Company is well poised to distribute the increased volume of particleboard to the export and domestic markets.

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3. Current Year Prospect (Cont'd)

Prospects for RTA furniture remain strong and growing with more secured orders obtained from major customers in both USA and Japan. HeveaPac is also investing in automation system to streamline production flow for enhancing efficiency and improving margin.

4. Variances from Profit Forecasts and Profit Guarantee

Not applicable.

5. Taxation

	Individual Quarter 3-month Ended		Cumulative Quarter 12-month Ended	
	Current year quarter ended 31.12.2006 RM'000	Preceding year corresponding quarter ended 31.12.2005 RM'000	Current year period to- date 31.12.2006 RM'000	Preceding year corresponding period to-date 31.12.2005 RM'000
Current taxation	195	91	(1,875)	791
Deferred Taxation	3,500	-	3,500	-
	3,695	91	1,625	791

The Ministry of Finance has exempted the Company from the payment of tax in respect of the statutory income derived from its approved business, i.e. manufacturing of plain and laminated particleboard, under Section 127 of the Income Tax Act 1967. The tax exemption granted is equivalent to the Investment Tax Allowance ("ITA") based on 100% of the qualifying capital expenditure incurred to be incurred in the 5-year period effective FY 2005. The full year tax provision at 28%, which was provided in FY2005, was reversed in the last quarter. The reversal of this tax provision amounted to RM1.81 million.

HeveaPac is eligible for the tax incentive under Allowance for Increased Export ("AIE") which allows the Company to claim 100% of the value of the increased export for the period 2003 to 2004 to set-off against 70% of its statutory business income. The AIE is effective from 1 January 2004. As a result, HeveaPac has a tax overpayment of RM0.63 million which was reversed in the second quarter.

The tax charge of RM3.5 million in the current quarter is due to the additional deferred tax provided in respect of the 2nd Particleboard Line which was commissioned in October 2006.

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6. Unquoted Investment and/or Properties

There were no disposals of unquoted investment and/or properties in the quarter ended 31 December 2006.

7. Quoted Investment

There was no purchase or disposal of quoted investment for the reporting quarter ended 31 December 2006.

8. Status of Corporate Proposal

There were no corporate proposal announced and not completed as at the date of this report.

9. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 31.12.2006 RM'000	As at 31.12.2005 RM'000
Short term borrowings - secured		
- bankers' acceptances	28,512	20,217
- hire purchase payables	4,357	4,313
- term loans	24,456	618
- ECR	5,065	-
- bank overdraft	9,082	5,262
	<hr/> 71,472	<hr/> 30,410
Long term borrowings - secured		
- hire purchase payables	6,857	2,851
- term loans	148,469	90,799
	<hr/> 155,326	<hr/> 93,650

10. Off Balance Sheet Financial Instruments

As at the date of this report, the Group had entered into the following forward foreign currency contracts to hedge its sales in USD:-

<u>Foreign Currency</u>	<u>Contract Amount</u>	<u>Maturity Date</u>
USD	12 Million	Feb 2007 - Jan 2008

As the foreign currency contracts are entered into to hedge the Group's export proceeds in foreign currency, the contracted rates will be used to convert the foreign currency into Ringgit as and when they are taken up, on or before the maturity dates.

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11. Material Litigation

The Group is not engaged in any material litigation either as plaintiff or defendant and the directors do not have any knowledge of any proceedings pending or threatened against the Group, which might materially and adversely affect the financial position or business of the Group.

12. Dividend

The Board propose a final dividend of 5.0 sen per ordinary share less 28% tax for this reporting quarter and for the financial year ended 31 December 2006.

The proposed final dividend has yet to be approved by the shareholders at the forthcoming Annual General Meeting. This dividend, upon approval by the shareholders, will be accounted for as dividend payable. The dividend payment date and entitlement date will be advised later.

13. Earnings per Share

The earnings per share is calculated by dividing the Group's profit attributable to shareholders by the number of ordinary shares in issue in the respective periods as follows:-

a) Basic

	31 December 2006		31 December 2005	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	2,719	7,755	2,800	9,054
Number of ordinary shares in issue ('000)	80,000	80,000	80,000	80,000
Basic earnings per share (sen)	3.40	9.69	3.50	11.32

b) Diluted

There is no dilutive effect arising from the Company's unexercised warrants as the exercise price is above the average market price of the Company's shares during the period.

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14. Authorisation

This Quarterly Results for the financial period ended 31 December 2006 have been seen and approved by the board of directors of HeveaBoard Berhad for release to the Bursa Securities.