

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH  
2007**

**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 2006.

**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 2006 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**

Except for the Chinese New Year festive season when activities slowed down, the pace of the Company’s business generally moved in tandem with the performance of the economy.

**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 RM3,455,662.00 for the reporting quarter.

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**7. Dividend Paid**

There were no dividends paid for the financial period ended 31 March 2007.

**8. Segmental Reporting (Analysis by Activities)**

	← Cumulative quarter 12-month ended →			
	Current year period to-date 31.03.2007		Preceding year corresponding period to-date 31.03.2006	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
<b>Manufacturing</b>				
Particleboards	22,114	(3,373)	10,312	222
RTA Products*	29,646	1,652	19,736	(803)
<b>Trading</b>				
Particleboards	663	(39)	1,892	76
RTA Products*	6,399	166	6,242	42
<b>Others</b>	-	(2)	-	(4)
<b>Total</b>	<b>58,822</b>	<b>(1,596)</b>	<b>38,182</b>	<b>(467)</b>

\*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 quarter. As at 31 March 2007, 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 March 2007 and 29 May 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.

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**12. Contingent Liabilities**

Corporate guarantees of RM40.41 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 22 May 2007 (the latest practicable date not earlier than seven (7) days from the date of issue of this report).

**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 March 2007 were as follows:

	The Group
	RM'000
Approved and contracted for	1,565
Approved but not contracted for	3,000

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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 RM58.82 million for the reporting quarter ended 31 March 2007 as compared to RM38.18 million in the corresponding last quarter, an increase of RM20.64 million or 54.06%. The increased turnover was attributed to the increase production from the 2<sup>nd</sup> Particleboard Line and also the increased revenue from the RTA furniture sector.

The Group registered a loss before tax of RM1.596 million for the reporting quarter as compared to RM0.467 million in the corresponding quarter in 2006, an increase of loss before tax of RM1.129 million. The weakening of the US Dollar against the Malaysian Ringgit had a significant impact on the margin contribution. More than 80% of the Revenue of the Group was transacted in US Dollar. The high costs of raw materials, depreciation and financing coupled with the yet to be achieved optimisation of the output capacity of 2<sup>nd</sup> Particleboard Line had adversely affected the financial performance of the Group.

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

The Group achieved a higher turnover of RM58.82 million in this reporting quarter as compared to RM45.47 million in the preceding quarter. In spite of the higher turnover achieved by the Group, it incurred a loss before tax of RM1.596 million in this reporting quarter as compared to a profit before tax of RM6.41 million in the preceding quarter. The profit before tax in the preceding quarter was attributed mainly from the unrealised exchange gain arising from the year-end translation of the US Dollar denominated term loan taken to finance the plant and equipment for 2<sup>nd</sup> Particleboard Line. The loss before tax in the reporting quarter was mainly due to further lowering of the exchange rate and higher operation costs from the newly started 2<sup>nd</sup> Particleboard Line which has yet to achieve its optimum capacity.

**3. Current Year Prospect**

The board of directors expects the 2<sup>nd</sup> Particleboard Line to achieve the target of 70% of its designed capacity in the current year and a higher revenue from the RTA furniture sector. Lower cost of particleboard production from the 2<sup>nd</sup> Line is envisaged due to the economies of scale and the effectiveness of its energy saving features incorporated. In the RTA furniture manufacturing sector, further automation of the process systems were implemented recently that would boost productivity and efficiency.

Nonetheless, the weakening of particleboard selling prices in this region and the lower USD exchange have been adversely affecting the margin contribution of the Company and the Group despite the lower cost of particleboard production mentioned above. However, inspite of the higher revenue expected from the RTA furniture sector as compared to last year, margin is still a concern due to higher MDF cost.

**4. Variances from Profit Forecasts and Profit Guarantee**

Not applicable.

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**5. Taxation**

	Individual Quarter 3-month Ended		Cumulative Quarter 12-month Ended	
	Current year quarter ended 31.03.2007 RM'000	Preceding year corresponding quarter ended 31.03.2006 RM'000	Current year period to- date 31.03.2007 RM'000	Preceding year corresponding period to-date 31.03.2006 RM'000
Current taxation	170	(2,314)	170	(2,314)
	170	(2,314)	170	(2,314)

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.

HeveaPac enjoys 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.

**6. Unquoted Investment and/or Properties**

There were no disposals of unquoted investment and/or properties in the quarter ended 31 March 2007.

**7. Quoted Investment**

There was no purchase or disposal of quoted investment for the reporting quarter ended 31 March 2007.

**8. Status of Corporate Proposal**

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

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**9. Borrowings and Debt Securities**

The Group's borrowings are as follows:

	As at 31.03.2007 RM'000	As at 31.12.2006 RM'000
Short term borrowings - secured		
- bankers' acceptances	34,355	28,512
- hire purchase payables	4,167	4,357
- term loans	25,028	24,456
- ECR	4,013	5,065
- bank overdraft	7,805	9,082
	<hr/> 75,368	<hr/> 71,472
	<hr/>	<hr/>
Long term borrowings - secured		
- hire purchase payables	9,754	6,857
- term loans	145,978	148,469
	<hr/> 155,732	<hr/> 155,326
	<hr/>	<hr/>

**10. Off Balance Sheet Financial Instruments**

Not Applicable

**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**

No dividend has been declared for the financial period ended 31 March 2007.

**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:-

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**a) Basic**

	31 March 2007		31 March 2006	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	<u>(1,765)</u>	<u>(1,765)</u>	<u>1,847</u>	<u>1,847</u>
Number of ordinary shares in issue ('000)	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
Basic earnings per share (sen)	<u>(2.21)</u>	<u>(2.21)</u>	<u>2.31</u>	<u>2.31</u>

**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.

**14. Authorisation**

This Quarterly Results for the financial period ended 31 March 2007 have been seen and approved by the board of directors of HeveaBoard Berhad for release to the Bursa Securities.