

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 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 slow down, the pace of the company’s business generally moves 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 RM9,523,544.00 for the reporting quarter.

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**7. Dividend Paid**

There were no dividends paid for the financial period ended 30 June 2007.

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

	← Cumulative quarter 12-month ended →			
	Current year period to-date 30.06.2007		Preceding year corresponding period to-date 30.06.2006	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
<b>Manufacturing</b>				
Particleboards	50,790	(1,659)	21,760	1,315
RTA Products*	63,997	2,173	42,741	(1,551)
<b>Trading</b>				
Particleboards	1,663	(34)	3,170	97
RTA Products*	12,774	290	11,289	225
<b>Others</b>	-	(3)	-	(20)
<b>Total</b>	<b>129,224</b>	<b>767</b>	<b>78,960</b>	<b>66</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 quarters. As at 30 June 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 30 June 2007 and 24 August 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 RM39.88 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 17 August 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 30 June 2007 were as follows:

	The Group
	RM'000
Approved and contracted for	0
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 RM70.40 million for the current year quarter ended 30 June 2007 as compared to RM40.78 million in the corresponding quarter in year 2006, an increase of RM29.62 million or 72.63%. The increase in turnover was due mainly to the significant increase in production capacity from the 2<sup>nd</sup> Particleboard Line and also the increased revenue from the RTA furniture sector.

The Group registered a profit before tax of RM2.36 million for the reporting quarter as compared to RM0.53 million in the corresponding quarter in 2006, an increase of RM1.83 million or 343.53%. This increase was largely due to the unrealised exchange gain derived from the translation of the US Dollar denominated term loan taken to finance the 2<sup>nd</sup> particleboard line. But this appreciation of the Malaysian Ringgit against the US Dollar had also significantly lowered the margins of the Group export sales, which comprise 80% of the Group total sales.

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

Higher turnover were achieved by both the particleboard and RTA furniture sector due to the progressively increased output capacity of the 2<sup>nd</sup> particleboard line and the newly installed automated production lines in the RTA furniture factory.

The Group achieved a higher profit before tax of RM2.36 million in this reporting quarter as compared to a loss before tax of RM1.60 million in the preceding quarter in spite of the lower particleboard selling prices. In addition, margin contribution is also lower as a result of lower US Dollars exchange rate as 80% of the Group's total sales are exported and transacted in US Dollars. The profit before tax in the reporting quarter was attributed partly to the increased revenues from the sales of particleboard and RTA furniture. The unrealised exchange gain arising from the mid-year translation of the US Dollar denominated term loan taken to finance the 2<sup>nd</sup> particleboard line is also a significant factor contributing to the profit before tax for the reporting quarter. The margin from RTA furniture sector has been affected by the higher cost of MDF.

**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 but sales volume and selling prices are below expectation. The Company is progressively improving its sales volume to new markets which predominantly source from European manufacturers at higher prices.

The Board of Directors is confident to achieve higher revenue from the RTA furniture sector with the upgrading of more automated process equipment now installed which also improves efficiency and reduces cost of production. The cost of particleboard production from the 2<sup>nd</sup> Line has reduced due to the economies of scale and the effectiveness of its biomass-fuel burner energy saving features incorporated.

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The current weakened particleboard selling prices in this region is affecting the margin contribution of the Company despite the lower cost of particleboard production achieved. The RTA furniture manufacturing sector had also expanded to new markets and in turn had increased its consumption of particleboard supplied in-house.

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

Not applicable.

**5. Taxation**

	Individual Quarter 3-month Ended		Cumulative Quarter 6-month Ended	
	Current year quarter ended 31.03.2007 RM'000	Preceding year corresponding quarter ended 30.06.2006 RM'000	Current year period to- date 30.06.2007 RM'000	Preceding year corresponding period to-date 30.06.2006 RM'000
Current taxation	96	34	266	(2,280)
	96	34	266	(2,280)

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 30 June 2007.

**7. Quoted Investment**

There was no purchase or disposal of quoted investment for the reporting quarter ended 30 June 2007.

**8. Status of Corporate Proposal**

There was 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 30.06.2007 RM'000	As at 31.12.2006 RM'000
Short term borrowings - secured		
- bankers' acceptances	39,506	28,512
- hire purchase payables	3,821	4,357
- term loans	13,021	24,456
- ECR	4,057	5,065
- bank overdraft	10,613	9,082
	<hr/> 71,018	<hr/> 71,472
	<hr/>	<hr/>
Long term borrowings - secured		
- hire purchase payables	14,049	6,857
- term loans	148,469	148,469
	<hr/> 162,518	<hr/> 155,326
	<hr/>	<hr/>

**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	7.52 Million	August 2007 - April 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.

**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 30 June 2007.

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**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**

	30 June 2007		30 June 2006	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	2,267	501	499	2,345
Number of ordinary shares in issue ('000)	80,000	80,000	80,000	80,000
Basic earnings per share (sen)	2.83	0.63	0.62	2.93

**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 30 June 2007 have been seen and approved by the board of directors of HeveaBoard Berhad for release to the Bursa Securities.