

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 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 about RM1.74 million for the reporting quarter.

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7. Dividend Paid

The final dividend of 5.0sen per share, less 27% income tax amounting to RM2,920,000 in respect of the financial period ended 31 December 2006 was paid on 28 August 2007.

8. Segmental Reporting (Analysis by Activities)

	← Cumulative quarter 12-month ended →			
	Current year period to-date 31.12.2007		Preceding year corresponding period to-date 31.12.2006	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
Manufacturing				
Particleboards	131,674	(5,828)	41,804	8,657
RTA Products*	126,570	4,750	93,629	191
Trading				
Particleboards	3,957	300	5,630	103
RTA Products*	23,452	816	22,062	434
Others	-	(3)	-	(5)
Total	285,653	35	163,125	9,380

*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 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 December 2007 and 22 February 2008.

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 RM34.29 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 15 February (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 December 2007 were as follows:

	The Group
Approved and contracted for	RM'000 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 turnover of the Group for the current year quarter ended 31 December 2007 was RM93.60 million, an increase of RM48.13 million or 105.85% higher than the corresponding quarter in 2006. The increased turnover was attributed to the higher particleboard production / sales and the increased RTA furniture sales.

The loss before tax of the Group for the reporting quarter was RM1.36 million as compared with the profit before tax of RM6.41 million in the corresponding quarter in 2006, a decrease of RM7.77 million or 121.18%. Lower selling prices, higher raw material costs and lower US Dollar exchange rate were the main contributing factors to the adverse financial performance which was mitigated by the unrealised exchange gain derived from the translation of the US Dollar denominated term loan. For the year ended 31 December 2007, profit before tax of the Group was RM0.04 million.

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

The turnover for the Group for the current quarter had increased by RM30.76 million or 48.96% over the preceding quarter due mainly to the increase in the RTA furniture sector. The selling prices of particleboard had improved significantly towards the end of the year but the impact would likely be reflected in subsequent quarters as the orders for this quarter was based on old pricing. No other significant material changes in the reporting quarter as compared to the preceding quarter apart from the Malaysian Ringgit having further appreciated against the US Dollar.

3. Current Year Prospect

The current particleboard selling prices have improved by about 15% as compared to the average selling prices in FY2007. The Board expects the particleboard selling prices to further improve in subsequent quarters in 2008. Raw material costs are expected to stabilize although ocean freight costs seem to be on the upward trend. Going forward, the margin contribution should improve with the higher particleboard selling prices and stronger demand for RTA furniture. Foreign exchange exposure is still a concern as the Malaysian Ringgit continues to strengthen against the US Dollar as more than 80% of the Group sales are for the export markets. The Board will continue to monitor the foreign exchange situation and take appropriate steps to manage the situation where necessary.

The Group continues to take various measures in lowering costs and improving production efficiency of the Particleboard and RTA furniture production which eventually would contribute to better margins.

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 31.12.2007 RM'000	Preceding year corresponding quarter ended 31.12.2006 RM'000	Current year period to- date 31.12.2007 RM'000	Preceding year corresponding period to-date 31.12.2006 RM'000
Current taxation	217	195	565	(1,875)
Deferred Taxation	(7,247)	3,500	(7,247)	3,500
	<u>(7,030)</u>	<u>3,695</u>	<u>(6,682)</u>	<u>1,625</u>

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.

The deferred tax reversal of about RM7.0 million in the current quarter is mainly attributable to the eligibility of the second particleboard line to claim capital allowances which have the tax effect of reversing the deferred tax liability.

6. Unquoted Investment and/or Properties

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

7. Quoted Investment

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

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8. Status of Corporate Proposal

a) Proposed Exemption

On 27 April 2007, OSK Investment Bank Berhad (*formerly known as OSK Securities Berhad*) announced on behalf of HeveaBoard, that the Securities Commission (“SC”) had, via its letter dated 29 October 2007 approved the proposed exemption to HeveaWood Industries Sdn Bhd (“HW”) and parties acting-in-concert (“PAC”) from the obligation to undertake a mandatory offer for the remaining ordinary shares of HeveaBoard not already owned by HW and PAC upon the exercise of Warrants owned by HW and PAC (“Proposed Exemption”), subject to the compliance with certain terms and conditions. Pursuant to the approval by the SC, no take-over offer would arise on full exercise of the Warrants by HW and PAC for the period up to 31 December 2009, being the expiry date of the Warrants.

The shareholdings of HW and PAC in HeveaBoard assuming before and after the full exercise of the Warrants by HW and PAC are set out below:-

	As at 22 February 2008				No. of Warrants	Assuming only HW and PAC exercise their Warrants in full			
	Direct		Indirect			Direct		Indirect	
	No. of Shares	%	No. of Shares	%		No. of Shares	%	No. of Shares	%
HW	27,075,000	33.84	2,729,500 ^(a)	3.41	13,537,500	40,612,500	39.38	2,779,500 ^(a)	2.70
<u>PAC</u>									
Gemas Ria Sdn Bhd (“Gemas Ria”)	2,729,500	3.41	-	-	50,000	2,779,500	2.69	-	-
Dato’ Seri Yong Tu Sang	150,000	0.19	29,804,500 ^(b)	37.26	75,000	225,000	0.22	43,392,000 ^(b)	42.08
Dato’ Loo Swee Chew	150,000	0.19	29,804,500 ^(c)	37.26	75,000	225,000	0.22	43,392,000 ^(c)	42.08
Yong Kian Seng @ Yoong Tein Seng	150,000	0.19	34,989,500 ^(d)	43.74	75,000	225,000	0.22	54,002,000 ^(d)	52.37
Liang Chong Wai	188,600	0.24	29,804,500 ^(c)	37.26	3,858,900	4,047,500	3.93	43,392,000 ^(c)	42.08
Yoong Hau Chun	150,000	0.19	34,989,500 ^(e)	43.74	75,000	225,000	0.22	54,002,000 ^(e)	52.37
Yong Hin Siong	-	-	-	-	-	-	-	-	-
Yoong Li Yen	56,000	0.07	-	-	25,000	81,000	0.08	-	-
Yoong Li Mian	26,500	0.03	-	-	12,500	39,000	0.04	-	-
Tenson Holdings Sdn Bhd (“Tenson Holdings”)	-	-	34,783,500 ^(f)	43.48	-	-	-	53,696,000 ^(f)	52.08
Firama Holdings Sdn Bhd (“Firama”)	4,979,000	6.22	29,804,500 ^(c)	37.26	5,325,000	10,304,000	9.99	43,392,000 ^(c)	42.08
Sung Lee Timber Trading Sdn Bhd (“Sung Lee”)	-	-	29,804,500 ^(c)	37.26	-	-	-	43,392,000 ^(c)	42.08
Total	35,654,600	44.57	-	-	23,108,900	58,763,500	56.99	-	-

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Notes:-

- (a) Deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (b) Deemed interested by virtue of Section 6A of the Act (shareholdings held through Sung Lee, a substantial shareholder of HW) and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (c) Deemed interested by virtue of their substantial shareholdings in HW pursuant to Section 6A of the Act and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (d) Deemed interested by virtue of Section 6A of the Act (shareholdings held through Tenson Holdings, a substantial shareholder of HW) and by virtue of his relationship with Yoong Hau Chun, his son and Yoong Li Yen, his daughter and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (e) Deemed interested by virtue of his relationship with Yong Kian Seng @ Yoong Tein Seng, his father and Yoong Li Yen, his sister and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (f) Deemed interested by virtue of its substantial shareholdings in HW and Firama pursuant to Section 6A of the Act and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (g) The percentage shareholding of HW and PAC are calculated based on the following issued and paid-up share capital of HeveaBoard:-

Issued and paid-up share capital	No. of Shares
As at 22 February 2008	80,000,000
Issuance of new Shares pursuant to the exercise of Warrants by HW and PAC	23,108,900
	<u>103,108,900</u>

b) Proposed Private Placement

The Company announced on 11 December 2007 of its proposal to implement a private placement of up to 8,000,000 new ordinary shares of RM1.00 each in HeveaBoard ("Placement Shares"), representing not more than ten percent (10%) of the issued and paid-up share capital of the Company, to investors to be identified assuming all of the 40,000,000 outstanding warrants as at 5 December 2007 remain unexercised ("Proposed Private Placement").

The Securities Commission ("SC") had, vide its letter dated 14 February 2008 (which was received on 18 February 2008), approved the Proposed Private Placement subject to the following conditions:-

- (i) At least thirty percent (30%) of the placement shares must be placed out to Bumiputera investors;
- (ii) OSK and HeveaBoard should fully comply with the relevant provisions in Guidance Note 8C and other relevant requirements under the SC's Policies and Guidelines on Issue/Offer of Securities, in implementing the Proposed Private Placement; and
- (iii) OSK and HeveaBoard should inform the SC upon the completion of the Proposed Private Placement.

In addition thereto, the SC, on behalf of the Equity Compliance Unit of the SC, had also approved the Proposed Private Placement pursuant to the Guideline on the Acquisition of Interests, Mergers and Take-overs by Local and Foreign Interests.

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9. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 31.12.2007 RM'000	As at 31.12.2006 RM'000
Short term borrowings - secured		
- bankers' acceptances	35,307	28,512
- hire purchase payables	5,934	4,357
- term loans	39,275	24,456
- ECR	5,127	5,065
- bank overdraft	12,129	9,082
	<hr/> 97,772	<hr/> 71,472
	<hr/>	<hr/>
Long term borrowings - secured		
- hire purchase payables	13,139	6,857
- term loans	116,368	148,469
	<hr/> 129,507	<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

The Board propose a final tax exempt dividend of 3.0 sen per ordinary share for this reporting quarter and for the financial year ended 31 December 2007.

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:-

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a) Basic

	31 December 2007		31 December 2006	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	5,672	6,718	2,719	7,755
Number of ordinary shares in issue ('000)	80,000	80,000	80,000	80,000
Basic earnings per share (sen)	7.09	8.40	3.40	9.69

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