

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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 2007.

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 2007 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 seasonal or cyclical factors affecting the Group business operation, 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 other than as follows:

- a. The Company had on 4 June 2008 issued and allotted 8,000,000 new ordinary shares of RM1.00 each (“Shares”) pursuant to the Private Placement and the new Shares were granted listing of and quotation on the Main Board of Bursa Malaysia Securities Berhad on 6 June 2008; and

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- b. The Company had, on 23 June 2008, issued and allotted 2,400,000 new Shares pursuant to the conversion of 2,400,000 Warrants and the new Shares were granted listing of and quotation on the Main Board of Bursa Malaysia Securities Berhad on 26 June 2008.

Total repayment of debts amounted to RM1,891,501.00 was recorded in the reporting quarter.

7. Dividend Paid

There were no dividends paid for the financial period ended 30 June 2008.

8. Segmental Reporting (Analysis by Activities)

	← Cumulative quarter 12-month ended →			
	Current year period to-date 30.06.2008		Preceding year corresponding period to-date 30.06.2007	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
Manufacturing				
Particleboards	76,748	2,580	50,790	(1,659)
RTA Products*	81,579	1,584	63,997	2,173
Trading				
Particleboards	1,842	89	1,663	(34)
RTA Products*	11,381	168	12,774	290
Others	-	(36)	-	(3)
Total	171,550	4,385	129,224	767

*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 2008, 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 2008 and 19 August 2008 save for the rebounded US Dollars reversing the gain derived from the unrealized exchange gain recorded in the preceding quarter and the increased production costs resulting from the drastic surge in glue cost and 26% electricity tariff increase imposed from the second half year.

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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 RM35.93 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 19 August 2008 (the latest practicable date not earlier than seven (7) days from the date of issue of this report).

13. Capital Commitments

There were no capital commitments for the purchase of property, plant and equipment as at 30 June 2008.

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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 30 June 2008 was RM95.4 million, an increase of RM24.99 million or 35.50% as compared to the previous corresponding quarter in 2007. The increased turnover was attributed to the higher particleboard production volume and sales. The increased particleboard selling prices and improved revenue from the RTA furniture sector were also the contributing factors to the improvement in turnover.

RM0.90 million loss before tax for the Group was recorded for the reporting quarter as compared with the profit before tax of RM2.36 million in the previous corresponding quarter in 2007. The loss before tax was attributed by the unrealised exchange loss amounting to RM2.50 million derived from the translation of the US Dollar denominated term loan. US Dollar had strengthened against Ringgit Malaysia in this reporting quarter.

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 RM19.25 million or 25.28% over the preceding quarter due mainly to the improved selling prices and increased sales volume of particleboard and RTA furniture. The strengthening of the US dollar had improved margins at both the particleboard and RTA furniture sectors but the gains were reduced by the higher cost of raw materials. The unrealised exchange loss arising from the translation of the US Dollar denominated term loan taken to finance the 2nd Particleboard Line was the key contributing factor to the loss before taxation.

3. Current Year Prospect

The board of directors expects the selling prices of particleboard which have been improving substantially from the lowest level in 2007 to stabilize at the current level in the coming quarters. The 2nd Particleboard Line is achieving close to its designed capacity. The increased production costs attributed by the drastic surge in the cost of resin, wood, fuel and electricity would have an adverse impact on the future earnings although these costs increase could be mitigated by the fuel savings contributed by the successful implementation of biomass energy plant.

The RTA furniture sector is expected to achieve 30% higher revenue this year as a result of improved productivity due to automation in the process systems but profit margin is very much affected by the increased cost of raw materials. Going forward, the profit margin is expected to improve when the new sales orders secured take into account of higher material cost.

4. Variances from Profit Forecasts and Profit Guarantee

Not applicable.

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5. Taxation

	Individual Quarter 3-month Ended		Cumulative Quarter 3-month Ended	
	Current year quarter ended 30.06.2008 RM'000	Preceding year corresponding quarter ended 30.06.2007 RM'000	Current year period to- date 30.06.2008 RM'000	Preceding year corresponding period to-date 30.06.2007 RM'000
Current taxation	71	96	187	266
	71	96	187	266

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 2008.

7. Quoted Investment

There was no purchase or disposal of quoted investment for the reporting quarter ended 30 June 2008.

8. Status of Corporate Proposal

a. Proposed Exemption

On 30 October 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.

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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 19 August 2008				Assuming only HW and PAC exercise their Warrants in full				
	Direct		Indirect		No. of Warrants	Direct		Indirect	
	No. of Shares	%	No. of Shares	%		No. of Shares	%	No. of Shares	%
HW	27,075,000	29.95	2,729,500 ^(a)	3.02	13,537,500	40,612,500	36.55	2,779,500 ^(a)	2.50
PAC									
Gemas Ria Sdn Bhd ("Gemas Ria")	2,729,500	3.02	-	-	50,000	2,779,500	2.50	-	-
Dato' Seri Yong Tu Sang	150,000	0.17	- ^(f)	-	75,000	225,000	0.20	- ^(f)	-
Dato' Loo Swee Chew	150,000	0.17	29,804,500 ^(c)	32.97	75,000	225,000	0.20	43,392,000 ^(c)	39.05
Yong Kian Seng @ Yoong Tein Seng	150,000	0.17	34,989,500 ^(d)	38.71	75,000	225,000	0.20	54,002,000 ^(d)	48.60
Liang Chong Wai	2,588,600	2.86	29,804,500 ^(c)	32.97	1,458,900	4,047,500	3.64	43,392,000 ^(c)	39.05
Yoong Hau Chun	150,000	0.17	34,989,500 ^(e)	38.71	75,000	225,000	0.20	54,002,000 ^(e)	48.60
Yong Hin Siong	-	-	-	-	-	-	-	-	-
Yoong Li Yen	56,000	0.06	-	-	25,000	81,000	0.07	-	-
Yoong Li Mian	26,500	0.03	-	-	12,500	39,000	0.04	-	-
Tenson Holdings Sdn Bhd ("Tenson Holdings")	-	-	34,783,500 ^(g)	38.48	-	-	-	53,696,000 ^(h)	48.33
Firama Holdings Sdn Bhd ("Firama")	4,979,000	5.51	29,804,500 ^(c)	32.97	5,325,000	10,304,000	9.27	43,392,000 ^(c)	39.05
Sung Lee Timber Trading Sdn Bhd ("Sung Lee")	-	-	- ^(f)	-	-	-	-	- ^(f)	-
Total	38,054,600	42.10	-	-	20,708,900	58,763,500	52.89	-	-

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 Companies Act, 1965 ("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) Ceased to have an indirect interest of the shareholdings held through HW and Gemas Ria by virtue of Section 6A (4) of the Act
- (g) 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
- (h) The percentage shareholding of HW and PAC are calculated based on the following issued and paid-up share capital of HeveaBoard:-

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<i>Issued and paid-up share capital</i>	No. of Shares
<i>As at 19 August 2008</i>	90,400,000
<i>Issuance of new Shares pursuant to the Warrants being exercised by HW and PAC</i>	20,708,900
	<u>111,108,900</u>

9. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 30.06.2008 RM'000	As at 31.12.2007 RM'000
Short term borrowings - secured		
- bankers' acceptances	46,510	34,355
- hire purchase payables	4,627	4,167
- term loans	38,071	25,028
- ECR	6,900	4,013
- bank overdraft	10,256	7,805
	<u>106,364</u>	<u>75,368</u>
Long term borrowings - secured		
- hire purchase payables	13,898	9,754
- term loans	112,813	145,978
	<u>126,711</u>	<u>155,732</u>

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 30.20 million	RM96.23 million	August 2008 - July 2009

The foreign currency options and contracts are entered into for hedging the Group's export proceeds 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.

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12. Dividend

No dividend has been declared for the financial period ended 30 June 2008.

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 2008		30 June 2007	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	(968)	4,198	2,267	501
Number of ordinary shares in issue ('000)	90,400	90,400	80,000	80,000
Basic earnings per share (sen)	(1.07)	4.64	2.83	0.63

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 2008 have been seen and approved by the board of directors of HeveaBoard Berhad for release to the Bursa Securities.