

TEKALA CORPORATION BERHAD

(Company no. 357125-D)

(Incorporated in Malaysia)

Interim Financial Report

For The Third Quarter Ended 31 December 2005

TEKALA CORPORATION BERHAD (357125-D)

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Condensed Consolidated Income Statements

	Note	<u>Individual Quarter</u>		<u>Financial Year-to-date</u>	
		<u>3 months ended</u>		<u>9 months ended</u>	
		31/12/2005	31/12/2004	31/12/2005	31/12/2004
		RM'000	RM'000	RM'000	RM'000
Revenue	7	31,771	28,073	94,849	103,167
Cost of sales		<u>(29,648)</u>	<u>(21,817)</u>	<u>(84,688)</u>	<u>(77,330)</u>
Gross profit		2,123	6,256	10,161	25,837
Other operating income		15	97	184	148
Distribution costs		(239)	(243)	(725)	(1,340)
Other operating expenses		(66)	(69)	(178)	(300)
Amortisation of goodwill		0	(375)	0	(1,125)
Administrative expenses		<u>(3,469)</u>	<u>(3,166)</u>	<u>(7,904)</u>	<u>(8,075)</u>
Profit/(loss) from operations		(1,636)	2,500	1,538	15,145
Interest on fixed deposits		438	594	1,498	1,606
Share of profit in associate		<u>619</u>	<u>-</u>	<u>687</u>	<u>-</u>
Profit/(loss) before taxation		(579)	3,094	3,723	16,751
Taxation	12	<u>(298)</u>	<u>(103)</u>	<u>(504)</u>	<u>(515)</u>
Profit/(loss) after taxation		<u>(877)</u>	<u>2,991</u>	<u>3,219</u>	<u>16,236</u>
Earnings/(loss) per share:	13	Sen	Sen	Sen	Sen
- Basic		(0.58)	1.98	2.12	10.74
- Diluted		(0.58)	1.97	2.11	10.70

Condensed Consolidated Balance Sheet

	Note	AS AT 31/12/2005 RM'000	AS AT 31/03/2005 RM'000
Non-current Assets			
Property, plant and equipment		44,293	44,753
Investment in associate	14	25,990	0
Other investments		111	111
		<u>70,394</u>	<u>44,864</u>
Current Assets			
Inventories		17,885	23,042
Trade receivables		16,794	13,759
Other receivables		540	2,061
Tax refundable		2,036	2,050
Fixed deposits		60,745	88,180
Cash and bank balances		4,826	4,624
		<u>102,826</u>	<u>133,716</u>
Current Liabilities			
Trade payables		1,747	2,938
Other payables		2,356	2,708
Provision for taxation		34	104
		<u>4,137</u>	<u>5,750</u>
Net Current Assets		98,689	127,966
		<u>169,083</u>	<u>172,830</u>
Financed by:			
Share capital		152,094	151,408
Reserves		16,490	20,923
Shareholders' equity		<u>168,584</u>	<u>172,331</u>
Deferred taxation		499	499
		<u>169,083</u>	<u>172,830</u>
Net tangible assets per share (RM)		1.11	1.14

Condensed Consolidated Statement of Changes in Equity

	Note	Share Capital RM'000	<i>Non- distributable</i> Share Premium RM'000	<i>Distributable</i> Retained Profits/(Loss) RM'000	Total RM'000
At 1 April 2004		151,120	16,483	(8,225)	159,378
Profit after tax				16,236	16,236
Dividend				(4,533)	(4,533)
At 31 December 2004		<u>151,120</u>	<u>16,483</u>	<u>3,478</u>	<u>171,081</u>
At 1 April 2005		151,408	16,489	4,434	172,331
Exercise of share options		686	14		700
Profit after tax				3,219	3,219
Dividend	15			(7,666)	(7,666)
At 31 December 2005		<u>152,094</u>	<u>16,503</u>	<u>(13)</u>	<u>168,584</u>

Condensed Consolidated Cash Flow Statement

	9 months ended	
	31/12/2005	31/12/2004
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	3,723	16,751
Adjustments for:		
Amortisation of goodwill	0	1,125
Depreciation of property, plant and equipment	3,534	4,315
Interest on fixed deposits	(1,498)	(1,606)
(Profit)/loss on disposal of equipment	(136)	21
Share of profit in associate	(687)	0
Operating profit before working capital changes	<u>4,936</u>	<u>20,606</u>
Decrease/(Increase) in inventories	5,157	(6,623)
(Increase)/Decrease in receivables	(1,514)	2,552
(Decrease)/Increase in payables	(1,543)	111
Cash generated from operations	<u>7,036</u>	<u>16,646</u>
Income tax paid	(347)	(634)
Refund of income tax overpaid	0	41
Net cash generated from operating activities	<u>6,689</u>	<u>16,053</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,087)	(801)
Proceeds from disposal of property, plant and equipment	150	585
Interest on fixed deposits received	1,498	1,606
Investment in associate	(25,517)	0
Net cash (used in)/generated from investing activities	<u>(26,956)</u>	<u>1,390</u>
Cash flows from financing activities		
Dividend paid	(7,666)	(4,533)
Proceeds from issuance of shares	700	0
Net cash used in financing activities	<u>(6,966)</u>	<u>(4,533)</u>
Net (decrease)/increase in cash and cash equivalents	(27,233)	12,910
Cash and cash equivalents at beginning of financial year	92,804	76,521
Cash and cash equivalents at end of period	<u>65,571</u>	<u>89,431</u>

(A) Notes to the interim financial report

This interim financial report is unaudited and has been prepared in accordance with MASB 26, Interim Financial Reporting and paragraph 9.22 of the Bursa Malaysia Securities Berhad's Listing Requirements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 March 2005.

The following notes are significant for an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 March 2005.

1) Basis of preparation

The accounting policies and presentation adopted for the interim financial reporting are consistent with those adopted for the annual financial statements for the year ended 31 March 2005 except for the adoption of the accounting policy on associates for the first time and the change in accounting policy on goodwill for fairer presentation of the Group's financial statements for the current financial year ending 31 March 2006.

Goodwill is retained in the consolidated balance sheet and is stated at cost less impairment losses. Previously, goodwill is amortised on a straight line basis over its estimated useful life or 20 years, whichever is shorter. The change in policy has not given rise to any adjustment to the opening balances of retained profits of the prior years as all goodwill in prior years had been fully amortised.

(i) Associates

Associates are those entities in which the Group exercises significant influence but not control, through participation in the financial and operating policy decisions of the entities.

Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associates. Under the equity method of accounting, the Group's share of profits less losses of associates during the financial year is included in the consolidated income statement. The Group's interest in associates is carried in the consolidated balance sheet at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless cost cannot be recovered.

(ii) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with the accounting policy on Impairment of Assets. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet while goodwill arising on the acquisition of associates is included within the respective carrying amounts of these investments.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

2) Auditors' Report

The auditors' report on the financial statements of the Company for the preceding financial year ended 31 March 2005 was not subject to any qualification.

3) Seasonal and cyclical factors

The Group's operations are not seasonal and cyclical in nature.

4) Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the interim period under review.

5) Changes in estimates of amounts reported

There were no changes in estimates of amounts reported in prior interim periods of the current financial year or the prior financial year that have a material effect in the interim period under review.

6) Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the interim period under review except for the issuance of 685,900 ordinary shares of RM 1.00 each pursuant to the Employees' Share Option Scheme which increased the issued and paid-up share capital of the Company from RM 151,407,700 as at 31 March 2005 to RM 152,093,600 as at 31 December 2005.

7) Segmental information

Business Segments

	9 months ended 31 December 2005					
	Timber processing and log timber trading RM'000	Timber extraction and related services RM'000	Oil and gas RM'000	Investment holding RM'000	Elimination RM'000	Consolidated RM'000
Revenue						
External	78,446	16,403	0	0	0	94,849
Inter-segment	0	0	0	0	0	0
Total	78,446	16,403	0	0	0	94,849
Results						
Segment results	7,915	1,527	0	0	0	9,442
Administrative expenses						(7,904)
Profit from operations						1,538
Interest on fixed deposits						1,498
Share of profit in associate			687			687
Profit before taxation						3,723
Taxation						(504)
Profit after taxation						3,219

8) Valuations of property, plant and equipment

The above is not applicable as the Group's property, plant and equipment are stated at cost less accumulated depreciation and less any impairment losses.

9) Material events subsequent to the end of the interim period

There were no material events subsequent to the end of the interim period.

10) Changes in the composition of the Group

There were no changes in the composition of the Group during the interim period under review other than those pertaining to the investment in Offshoreworks Holdings Sdn Bhd (OHSB) which have been previously announced as follows:

- (i) the acquisition of two shelf companies, namely Gerak Armada Sdn Bhd (GASB) and its wholly owned subsidiary, Rimbun Intan Sdn Bhd (RISB) for a purchase consideration of RM2 each on 1 July 2005. On 11 August 2005, GASB disposed of its entire equity interest in RISB; and
- (ii) the acquisition of 1,830,500 ordinary shares of RM1 each in OHSB representing 25% equity interest for a total consideration of RM15.5 million which was completed on 14 September 2005.

11) Contingent Liabilities

There were no changes to the contingent liabilities including the status of the litigation on the claims from Employees Provident Fund (EPF) Board over EPF contributions for contractors totalling RM2,595,484 since the last balance sheet date, 31 March 2005 to 18 February 2006, the latest practicable date which is not earlier than 7 days from the issue of this interim financial report.

The magistrate's court has allowed the company's preliminary objection and dismissed the charges which was reaffirmed by the High Court on 26 May 2004. The EPF Board has appealed to the Court of Appeal and the matter is now pending.

12) Taxation

	Individual Quarter		Financial Year-to-date	
	3 months ended		9 months ended	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Income tax	85	103	290	515
- Share of taxation in associate	213	-	214	-
	<u>298</u>	<u>103</u>	<u>504</u>	<u>515</u>

The Group's effective income tax rate for the current quarter and interim period was lower than the statutory income tax rate in Malaysia due to the availability of tax losses brought forward to offset against taxable profits.

13) Earnings per share

	Individual Quarter		Financial Year-to-date	
	3 months ended		9 months ended	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
(a) Basic earnings per share				
Net profit/(loss) for the period (RM'000)	(877)	2,991	3,219	16,236
Weighted average number of ordinary shares in issue ('000)	152,094	151,120	151,779	151,120
Basic earnings/(loss) per share (sen)	(0.58)	1.98	2.12	10.74
(b) Diluted earnings per share				
Net profit/(loss) for the period (RM'000)	(877)	2,991	3,219	16,236
Weighted average number of ordinary shares for diluted earnings per share ('000)	152,094	151,728	152,756	151,728
Diluted earnings/(loss) per share (sen)	(0.58)	1.97	2.11	10.70

14) Investment in associate

	As at 31.12.2005
	RM'000
<u>Offshoreworks Holdings Sdn Bhd</u>	
Unquoted shares in Malaysia, at cost	16,017
Share of post-acquisition reserves	473
	<u>16,490</u>
Redeemable Cumulative Preference Shares (RCPS)	9,500
	<u>25,990</u>

Represented by:

Share of net assets other than goodwill in associate	2,665
Share of goodwill in associate	1,056
RCPS	9,500
	<u>13,221</u>
Goodwill on acquisition of ordinary shares	12,769
	<u>25,990</u>

15) Dividend

A final dividend of 4% less income tax of 28% and a special dividend of 3% less income tax of 28% approved by shareholders in respect of year ended 31 March 2005 were paid on 26 Oct 2005.

(B) Additional information required by Bursa Malaysia Securities Berhad's Listing Requirements

1. Review of Performance of the Company and its Principal Subsidiaries

For the current period ended 31 December 2005, the Group recorded a revenue of RM94.85 million and profit before tax of RM3.72 million as compared to the revenue of RM103.17 million and profit before tax of RM16.75 million in the previous corresponding period. The decline in the performance was mainly due to lower plywood selling prices and higher raw material costs for the current period under review.

For the current quarter ended 31 December 2005, the Group recorded a revenue of RM31.77 million as compared to the previous corresponding period of RM28.07 million and loss before taxation of RM0.58 million as compared to profit before taxation of RM3.09 million in the previous corresponding quarter. The loss for the current quarter was mainly due to lower plywood selling prices and higher raw material costs.

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

The Group recorded a loss before taxation of RM0.58 million for the current quarter as compared to the preceding quarter profit before taxation of RM0.31 million. The decrease in results, partly mitigated by the share of profit in associate, was mainly due to lower plywood selling prices and higher raw material costs for the current quarter under review.

3. Current Year Prospects

The directors expect the Group's operating environment for the remaining financial year to be challenging due to tight log supplies.

4. Profits Forecast and Profit Guarantee

The above is not applicable as no profit forecast and profit guarantee were provided.

5. Taxation

This is stated in note 12 to the interim financial report.

6. Profits on sale of Unquoted Investments and/or Properties

There were no sale of unquoted investments and/or properties for the current quarter and interim period ended 31 December 2005.

7. Quoted Securities

(a) There were no purchases or disposals of quoted securities for the current quarter and interim period ended 31 December 2005.

(b) Total investment in quoted securities as at 31 December 2005 is as follows:

	RM'000
(i) At cost	<u>6</u>
(ii) At Book Value	<u>6</u>
(iii) At Market Value	<u>2</u>

8. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 18 February 2006, the latest practicable date which is not earlier than 7 days from the date of issue of this interim financial report except that the Group is awaiting reply to its appeal to the Foreign Investment Committee(FIC) to waive the 30% Bumiputera equity condition imposed on Hartawan Ekuiti Sdn Bhd by the FIC.

9. Group Borrowings and Debt Securities

The Group did not have any borrowings and debt securities as at 31 December 2005.

10. Off Balance Sheet Financial Instruments

The Group did not have any off balance sheet financial instruments as at 18 February 2006, the latest practicable date which is not earlier than 7 days from the date of issue of this interim financial report.

11. Changes in Material Litigation

This is included in note 11 to the interim financial report.

12. Dividends

The directors do not recommend the payment of dividend for the period under review.

13. Earnings per share

This is stated in note 13 to the interim financial report.

(C) Authorisation for issue of interim financial report

The Board of Directors of the Company had authorised this unaudited interim financial report for issue on 24 February 2006.