

TEKALA CORPORATION BERHAD

(Company no. 357125-D)

(Incorporated in Malaysia)

Interim Financial Report

For The Third Quarter Ended 31 December 2007

TEKALA CORPORATION BERHAD (357125-D)
Interim financial report for the third quarter ended 31 December 2007

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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> | |
| | | <u>31/12/2007</u> | <u>31/12/2006</u> | <u>31/12/2007</u> | <u>31/12/2006</u> |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 8 | 29,833 | 42,697 | 91,709 | 115,348 |
| Cost of sales | | <u>(30,784)</u> | <u>(29,351)</u> | <u>(83,696)</u> | <u>(88,219)</u> |
| Gross profit/(loss) | | (951) | 13,346 | 8,013 | 27,129 |
| Other income | | 701 | 29 | 909 | 204 |
| Distribution costs | | (290) | (273) | (748) | (828) |
| Other expenses | | (76) | (112) | (228) | (336) |
| Administrative expenses | | <u>(3,972)</u> | <u>(2,927)</u> | <u>(8,448)</u> | <u>(8,504)</u> |
| Profit/(loss) from operations | | (4,588) | 10,063 | (502) | 17,665 |
| Interest on fixed deposits | | 600 | 604 | 1,840 | 1,626 |
| Share of profit of an associate | | <u>665</u> | <u>1,275</u> | <u>2,161</u> | <u>1,464</u> |
| Profit/(loss) before taxation | | (3,323) | 11,942 | 3,499 | 20,755 |
| Income tax expense | 13 | <u>693</u> | <u>(3,318)</u> | <u>(1,198)</u> | <u>(6,451)</u> |
| Profit/(loss) for the period | | <u>(2,630)</u> | <u>8,624</u> | <u>2,301</u> | <u>14,304</u> |
| Earnings/(loss) per share: | 14 | Sen | Sen | Sen | Sen |
| - Basic | | (1.75) | 5.76 | 1.54 | 9.53 |
| - Diluted | | (1.75) | 5.76 | 1.52 | 9.53 |

The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 March 2007 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Balance Sheets

| ASSETS | Note | AS AT 31/12/2007 RM'000 | AS AT 31/03/2007 RM'000 |
|---|------|-------------------------------|-------------------------------|
| Non-current Assets | | | |
| Property, plant and equipment | | 16,935 | 19,584 |
| Land lease prepayments | | 19,422 | 19,589 |
| Investment in an associate | 15 | 29,817 | 27,656 |
| Other investments | | 131 | 131 |
| | | <u>66,305</u> | <u>66,960</u> |
| Current Assets | | | |
| Inventories | | 25,994 | 34,129 |
| Trade receivables | | 17,795 | 14,889 |
| Other receivables | | 591 | 1,232 |
| Tax refundable | | 2,634 | 1,988 |
| Fixed deposits | | 72,320 | 72,395 |
| Cash and bank balances | | 1,297 | 4,738 |
| | | <u>120,631</u> | <u>129,371</u> |
| Total Assets | | <u>186,936</u> | <u>196,331</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | | 152,983 | 152,094 |
| Reserves | | 27,119 | 30,669 |
| Treasury shares | 7(b) | (2,788) | (2,395) |
| Total Equity | | <u>177,314</u> | <u>180,368</u> |
| Non-current Liability | | | |
| Deferred tax liabilities | | 1,299 | 1,599 |
| Current Liabilities | | | |
| Trade payables | | 4,367 | 5,695 |
| Other payables | | 3,954 | 4,106 |
| Provision for taxation | | 2 | 4,563 |
| | | <u>8,323</u> | <u>14,364</u> |
| Total Liabilities | | <u>9,622</u> | <u>15,963</u> |
| Total Equity and Liabilities | | <u>186,936</u> | <u>196,331</u> |
| Net assets per share (RM) | | 1.18 | 1.21 |

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 March 2007 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Changes in Equity

| | Note | Non-distributable | | | Distributable | Total Equity | |
|--|-------|-------------------|---------------|----------------|-----------------|--------------|--|
| | | Share Capital | Share Premium | Other Reserves | Treasury Shares | | Retained Profits/ (Accumulated Losses) |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | |
| At 1 April 2006 | | 152,094 | 16,503 | - | (1,019) | (1,632) | 165,946 |
| Income recognized directly in equity | | - | - | - | - | - | - |
| Expense recognised directly equity | | - | - | - | - | - | - |
| Net income/(expense) recognised directly in equity | | - | - | - | - | - | - |
| Profit for the period | | - | - | - | - | 14,304 | 14,304 |
| Total recognised income and expense for the period | | - | - | - | - | 14,304 | 14,304 |
| Purchase of treasury shares | | - | - | - | (1,293) | - | (1,293) |
| Share-based payment under ESOS | | - | - | 151 | - | - | 151 |
| Dividends | 16(b) | - | - | - | - | (7,481) | (7,481) |
| At 31 December 2006 | | 152,094 | 16,503 | 151 | (2,312) | 5,191 | 171,627 |
| At 1 April 2007 | | 152,094 | 16,503 | 185 | (2,395) | 13,981 | 180,368 |
| Income recognized directly in equity | | - | - | - | - | - | - |
| Expense recognized directly equity | | - | - | - | - | - | - |
| Net income/(expense) recognised directly in equity | | - | - | - | - | - | - |
| Profit for the period | | - | - | - | - | 2,301 | 2,301 |
| Total recognised income and expense for the period | | - | - | - | - | 2,301 | 2,301 |
| Issue of ordinary shares pursuant to ESOS | 7(a) | 889 | 12 | - | - | - | 901 |
| Purchase of treasury shares | 7(b) | - | - | - | (393) | - | (393) |
| Share-based payment under ESOS | | - | - | 147 | - | - | 147 |
| Dividend | 16(a) | - | - | - | - | (6,010) | (6,010) |
| At 31 December 2007 | | 152,983 | 16,515 | 332 | (2,788) | 10,272 | 177,314 |

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 March 2007 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Cash Flow Statement

| | 9 months ended | |
|---|-----------------------|----------------------|
| | 31/12/2007 | 31/12/2006 |
| | RM'000 | RM'000 |
| Cash flows from operating activities | | |
| Profit before taxation | 3,499 | 20,755 |
| Adjustments for: | | |
| Amortisation of land lease prepayments | 167 | 167 |
| Depreciation of property, plant and equipment | 2,940 | 3,215 |
| Interest on fixed deposits | (1,840) | (1,626) |
| Profit on disposal of property, plant and equipment | (771) | (12) |
| Plant and equipment scrapped | 9 | - |
| Share of profit of an associate | (2,161) | (1,464) |
| Share-based payment under ESOS | 147 | 151 |
| Operating profit before working capital changes | <u>1,990</u> | <u>21,186</u> |
| Decrease/(Increase) in inventories | 8,135 | (8,973) |
| Increase in receivables | (2,264) | (6,886) |
| (Decrease)/Increase in payables | <u>(1,480)</u> | <u>3,580</u> |
| Cash generated from operations | 6,381 | 8,907 |
| Income tax paid | <u>(6,705)</u> | <u>(281)</u> |
| Net cash (used in)/generated from operating activities | <u>(324)</u> | <u>8,626</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (553) | (294) |
| Proceeds from disposal of property, plant and equipment | 1,023 | 13 |
| Interest on fixed deposits received | <u>1,840</u> | <u>1,626</u> |
| Net cash generated from investing activities | <u>2,310</u> | <u>1,345</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of ordinary shares | 901 | - |
| Purchase of treasury shares | (393) | (1,293) |
| Dividends paid | <u>(6,010)</u> | <u>(4,489)</u> |
| Net cash used in financing activities | <u>(5,502)</u> | <u>(5,782)</u> |
| Net (decrease)/increase in cash and cash equivalents | (3,516) | 4,189 |
| Cash and cash equivalents at beginning of financial year | 77,133 | 71,527 |
| Cash and cash equivalents at end of period | <u>73,617</u> | <u>75,716</u> |

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 March 2007 and the accompanying explanatory notes attached to the interim financial report.

(A) Notes to the interim financial report

1) Basis of preparation

This interim financial report is unaudited and has been prepared in accordance with the requirement of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements for the year ended 31 March 2007. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 March 2007.

2) Change in Accounting Policy

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 March 2007 except for the adoption of the new Financial Reporting Standard FRS 124: Related Party Disclosures effective for financial year beginning 1 April 2007, the adoption of which is not likely to have any significant impact on the Group.

3) Auditors' report on preceding annual financial statements

The auditors' report on the financial statements of the Company for the preceding financial year ended 31 March 2007 was not subject to any qualification.

4) Seasonal and cyclical factors

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

5) Unusual items

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

6) 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.

7) 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 following:

(a) Employee Share Options Scheme ("ESOS")

During the interim period, the Company issued 889,700 ordinary shares of RM1 each for cash pursuant to the Company's ESOS at exercise prices of RM1.00 and RM1.02 per ordinary share.

7) Debt and equity securities (Cont'd)**(b) Share Buy-back**

During the interim period, the Company repurchased 404,800 of its issued ordinary shares from the open market at an average price of RM0.96 per share. The total consideration paid for the repurchase including transaction costs was RM392,795 and this was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965.

As at 31 December 2007, 2,968,100 out of the total 152,983,300 issued and fully paid ordinary shares were held as treasury shares by the Company and the total consideration paid including transaction costs was RM2,787,985. The number of outstanding ordinary shares in issue and fully paid is therefore 150,015,200 ordinary shares of RM1 each.

8) Segmental information*Business Segments*

| | 9 months ended 31 December 2007 | | | | |
|---------------------------------|--|------------------------------|-------------------------------|--------------------|---------------------|
| | Timber processing | Timber extraction | Investment holding | Elimination | Consolidated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | | | | | |
| External | 82,109 | 9,600 | - | - | 91,709 |
| Inter-segment | - | - | - | - | - |
| Total | 82,109 | 9,600 | - | - | 91,709 |
| Results | | | | | |
| Segment results | 8,593 | (647) | - | - | 7,946 |
| Administrative expenses | | | | | (8,448) |
| Profit from operations | | | | | (502) |
| Interest on fixed deposits | | | | | 1,840 |
| Share of profit of an associate | | | | | 2,161 |
| Profit before taxation | | | | | 3,499 |
| Income tax expense | | | | | (1,198) |
| Profit for the period | | | | | 2,301 |

9) 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.

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

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

11) Changes in the composition of the Group

There were no changes in the composition of the Group during the interim period under review.

12) Contingent Liabilities

Since the last balance sheet date, 31 March 2007 to 22 February 2008, the latest practicable date which is not earlier than 7 days from the issue of this interim financial report, there were no changes to the contingent liabilities other than the status of the litigation on the claims from Employees Provident Fund (EPF) Board over EPF contributions for contractors totalling RM2,595,484 as noted below:

As reported previously, 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 and on 27 August 2007, the Court of Appeal further upheld the High Court's decision in dismissing the charges against the Company.

13) Income tax expense

| | Individual Quarter | | Financial Year-to-date | |
|-------------------------------|--------------------|--------------|------------------------|--------------|
| | 3 months ended | | 9 months ended | |
| | 31.12.2007 | 31.12.2006 | 31.12.2007 | 31.12.2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| In respect of current period: | | | | |
| - Income tax | (583) | 3,318 | 1,498 | 5,611 |
| - Deferred tax | (110) | 0 | (300) | 840 |
| | <u>(693)</u> | <u>3,318</u> | <u>1,198</u> | <u>6,451</u> |

The Group's effective tax rate for the interim period was higher than the statutory income tax rate in Malaysia principally due to the losses of a subsidiary which cannot be set off against taxable profits made by other subsidiaries, and certain expenses which are not deductible for tax purposes.

14) Earnings/(loss) per share

| | Individual Quarter | | Financial Year-to-date | |
|--|--------------------|------------|------------------------|------------|
| | 3 months ended | | 9 months ended | |
| | 31.12.2007 | 31.12.2006 | 31.12.2007 | 31.12.2006 |
| (a) Basic earnings per share | | | | |
| Profit/(loss) for the period (RM'000) | (2,630) | 8,624 | 2,301 | 14,304 |
| Weighted average number of ordinary shares in issue, excluding treasury shares ('000) | 149,930 | 149,623 | 149,862 | 150,052 |
| Basic earnings/(loss) per share (sen) | (1.75) | 5.76 | 1.54 | 9.53 |
| (b) Diluted earnings per share | | | | |
| Profit/(loss) for the period (RM'000) | (2,630) | 8,624 | 2,301 | 14,304 |
| Adjusted weighted average number of ordinary shares in issue and issuable for dilutive effects of share options granted ('000) | 149,989 | 149,639 | 150,993 | 150,052 |
| Diluted earnings/(loss) per share (sen) | (1.75) | 5.76 | 1.52 | 9.53 |

15) Investment in an associate

| | As at 31.12.2007 |
|--|-----------------------------|
| | RM'000 |
| <u>Offshoreworks Holdings Sdn Bhd</u> | |
| Unquoted shares in Malaysia, at cost | 16,017 |
| Share of post-acquisition reserves | 4,300 |
| | <u>20,317</u> |
| 300% Redeemable Cumulative 3 Year Preference Shares (RCPS) | 9,500 |
| | <u>29,817</u> |
| Represented by: | |
| Share of net assets other than goodwill in associate | 6,812 |
| Share of goodwill in associate | 725 |
| RCPS | 9,500 |
| | <u>17,037</u> |
| Goodwill on acquisition of ordinary shares | 12,780 |
| | <u>29,817</u> |

16) Dividends

| | RM'000 |
|---|---------------|
| (a) Final tax exempt dividend of 4% on 150,243,200 ordinary shares (netted off 2,740,100 treasury shares) in respect of financial year ended 31 March 2007, paid on 30 October 2007 | <u>6,010</u> |
| (b) First interim tax exempt dividend of 2% on 149,617,300 ordinary shares (netted off 2,476,300 treasury shares) in respect of financial year ended 31 March 2007, paid on 8 February 2007 | 2,992 |
| Final tax exempt dividend of 3% on 149,627,300 ordinary shares (netted off 2,466,300 treasury shares) in respect of financial year ended 31 March 2006, paid on 30 October 2006 | 4,489 |
| | <u>7,481</u> |

(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 quarter ended 31 December 2007, the Group recorded a lower revenue of RM29.83 million as compared to the previous corresponding quarter of RM42.70 million and a loss before taxation of RM3.32 million as compared to RM11.94 million in the previous corresponding quarter mainly due to lower plywood selling prices for the current quarter under review.

For the current period ended 31 December 2007, the Group recorded a revenue of RM91.71 million and profit before taxation of RM3.50 million as compared to the revenue of RM115.35 million and profit before taxation of RM20.76 million in the previous corresponding period. The decline in performance was mainly due to lower plywood selling prices and sales volume for the current period under review.

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

The Group recorded a loss before taxation of RM3.32 million for the current quarter as compared to the immediate preceding quarter profit before taxation of RM0.61 million mainly due to lower plywood selling prices for the current quarter under review.

3. Commentary on Prospects

The Directors expect the Group's performance for the current financial year to be lower as compared to the previous financial year in view of the soft Japanese plywood market coupled with the strengthening of the exchange rate of Ringgit Malaysia. This is notwithstanding the positive contribution from the Group's associated company engaged in the provision of services to the oil and gas industry.

4. Profits Forecast and Profit Guarantee

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

5. Income Tax Expense

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

6. 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 2007.

7. Quoted Securities

(a) There were no purchases or disposals of quoted securities for the current quarter and interim period ended 31 December 2007.

(b) Total investment in quoted securities as at 31 December 2007 is as follows:

| | RM'000 |
|-----------------------|---------------|
| (i) At cost | <u>6</u> |
| (ii) At Book Value | <u>6</u> |
| (iii) At Market Value | <u>5</u> |

8. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 22 February 2008, the latest practicable date which is not earlier than 7 days from the date of issue of this interim financial report.

9. Group Borrowings and Debt Securities

The Group did not have any borrowings and debt securities as at 31 December 2007.

10. Off Balance Sheet Financial Instruments

The Group did not have any off balance sheet financial instruments as at 22 February 2008, 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 12 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 14 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 27 February 2008.