

**NOTES TO THE QUARTERLY FINANCIAL REPORT
FOR THE PERIOD ENDED 30 SEPTEMBER 2007**

1. Basis of Preparation

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

The condensed interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2006.

2. Changes in Accounting Policy

The accounting policies and methods of computation used in the preparation of the interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2006 except for the adoption of the revised/amendments to the FRS 117: Leases effective 1st January 2007.

The adoption of the revised FRS 117 does not have any significant financial impact on the Group in this financial year, other than the changes discussed below:-

FRS: 117 Leases

The adoption of the revised FRS 117 has resulted in the retrospective changes in the accounting policies relating to the classification of leasehold land. Prior to 1st January 2007, leasehold land was classified as property, plant and equipment and was stated at valuation less accumulated depreciation and impairment losses. The leasehold land was last revalued in 2004. With adoption of the revised FRS, leasehold interest in land is considered as an operating lease and the unamortized amount of leasehold land is now presented as prepaid lease payments and are amortised on a straight line basis over the remaining lease term of the land.

The summary of the financial effects of changes in accounting policy arising from the above on the balance sheet of the Group as at 30 September 2007 and prior year comparatives are as follows: -

	As at 30.09.2007	As at 31.12.2006 (Restated)
	RM'000	RM'000
Property, plant and equipment	(10,914)	(11,238)
Prepaid lease land payments	10,914	11,238

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3. Qualified audit report

The preceding financial statements for the year ended 31 December 2006 were report on without any qualification.

4. Seasonal or cyclical factors

The principal business operations of the Group has historically shown moderate seasonality, where production and sales of furniture are generally lower in the beginning of the calendar year due to the festive period as well as the summer holiday in the middle of the year.

5. Unusual items

There were no unusual items affecting the Group for the financial period ended 30 September 2007

6. Changes in estimates

There is no significant change in estimates of amounts reported in prior interim periods of the current or previous financial year.

7. Debts and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt or equity securities for the financial period ended 30 September 2007.

8. Dividend Paid

The Company on 26 July 2007 had made the payment of first and final tax exempt dividend of 1.5 sen per share amounted to RM900,000 in respect of financial year ended 31 December 2006 to depositors registered in the Records of Depositors at close of business on 10 July 2007

9. Segmental reporting

The Group is principally engaged in the manufacture and sale of furniture in Malaysia, hence, no segmental information on business and geographical location is presented.

10. Valuation of property, plant and equipment

The properties, which were revalued on 2004 have been brought forward from the previous financial statements and there were no valuations of property, plant and equipment for the period ended 30 September 2007

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11. Subsequent events

There were no material events subsequent to 30 September 2007 at the date of this quarterly report.

12. Changes in the composition of the Group

There were no changes in the composition of the Company for the period ended 30 September 2007 except for the incorporation of a wholly owned subsidiary, Lii Hen Plantation Sdn Bhd on 9th October 2007..

13. Changes in contingent liabilities

As at the date of this report, the Group has contingent liabilities as follows:-

	RM'000
Counter indemnities to banks for bank guarantees issued	
- Secured	3,300
- unsecured	-
Corporate guarantees for credit facilities granted to subsidiary companies (unsecured)	48,036

14. Capital Commitments

There is no capital commitment incurred in the interim financial report as at 30 September 2007.

15. Significant Related Party Transactions

Subsidiaries	Transacting Parties	Relationship	Nature of Transactions	Current quarter ended 30.09.07	Cumulative Quarter ended 30.09.2007
(a) Recurring Lii Hen Furniture Sdn Bhd	Chua Lee Seng Tok Heng Leong Soo Tee Heng (f) Tok Heng Hwa (f)	Directors(and /or substantial shareholder of LIIHEN	Rental of hostel	RM8,247	RM24,741
Favourite Design Sdn Bhd	Domain Partners Sdn Bhd	A company in which Chua Lee Seng, Tok Heng Leong , Tan Bee Eng and Chua Yong Haup have interest.	Renting of buildings	RM64,020	RM192,060
(b) Other EF Furniture Sdn Bhd	Domain Partners Sdn Bhd	- same as above -	Disposal of land held under under Geran Mukim No.,9,Lot 905 Mukim Sg Raya, District Muar, Johor	RM1.03 million	Not applicable
The above disposal of land was announced on 11 May 2007 and duly approved in the Annual General Meeting held on 21 June 2007					

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ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

16	Review of performance	Revenue RM'000	Profit before tax RM'000	Profit after tax RM'000
	9 months ended 30 Sept 2007	106,687	794	601
	9 months ended 30 Sept 2006	101,259	1,427	378

The Group's turnover registered at RM106.69 million, increased 5.36% compared to RM101.26 million of the same period of last year. Irrespective of the increase in turnover, the group's profit before tax decreased 44.75% compared to the profit before tax of RM1.43 million of the preceding year. The main reason for the lower profit compared to last year was due to the weakening of the US dollar against the Ringgit Malaysia. In the current year the Group had incurred loss on foreign exchange amounted to RM1.54 million compared to gain on foreign exchange of RM0.3 million of last year.

17. Quarterly analysis

	Revenue RM'000	Profit before tax RM'000	Profit after tax RM'000
Third quarter ended 30 Sept 2007	36,422	978	536
Second quarter ended 30 June 2007	39,137	386	371

The Group's turnover recorded at RM36.42 million in the current quarter, a reduction of 6.95% compared to the preceding quarter of RM39.14 million.

The profit before tax for the current quarter recorded at RM0.98 million, increased 151% compared to the profit before tax of RM0.39 million of the preceding quarter. The improved in profit before tax in the current quarter was mainly due to the gain on disposal of land to a related party amounted to RM0.51 million as disclosed in note 15 (b)

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18. Current year prospects

The prevailing global market conditions shall continue to have impact on the Group's export and local operations. The continuing weakening of the USD Dollar against the Ringgit Malaysian will exert an adverse impact on the performance of the Group. However the Group will take appropriate steps to mitigate the foreign exchange risk faces by the Group. Appropriate cost saving measures and efforts will continue to be employed in order to improve on the Group's operation efficiencies.

19. Profit forecast

There was no profit forecast issued for the quarter under review.

20. Taxation

Taxation charged for the quarter and year to date comprise of: -

	Current Quarter RM'000	Year to Date RM'000
Current taxation		
- provision for the period	247	480
- under/(over) provision in prior year	-	(52)
- deferred taxation	<u>195</u>	<u>(235)</u>
	<u>442</u>	<u>193</u>

The higher effective tax rate for the current quarter under review was due to profit of certain subsidiary companies were separately assessed without group relief against losses of other subsidiary companies and reversal of deferred tax for a loss making subsidiary.

21. Sale of unquoted investments or properties

There were no sales of unquoted investments and/or properties in the current quarter and financial year to date

22. Purchase or disposal of quoted securities

There were no purchase or disposal of Quoted Securities for the current financial period ended 30 September 2007.

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23. Corporate proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

24. Group Borrowings and Debt Securities

The Group's borrowings as at 30 September 2007 are as follows: -

	Secured RM'000	Unsecured RM'000	Total RM'000
Short Term	4,148	-	4,148
Long Term	3,992	-	3,992
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	8,140	-	8,140
	=====	=====	=====

25 Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk during the financial period ended 30 September 2007 other than the following forward contracts to sell US Dollar in relation to the Group's confirmed sales: -

Currency	Outstanding Contracts in '000	Average Exchange Rate	Equivalent in RM'000	Expiry Date
US Dollar	1,480	3.3503	4,958	Dec 2007
Euro	150	4.8110	722	Nov 2007

The related accounting policies for the off balance sheet financial statements are as disclosed in the audited financial statements for the year ended 31 December 2006.

26 Material Litigations

The Group is not engaged in any material litigation as at the date of this announcement.

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27. Dividends

No dividend was declared for the period ended 30 September 2007.

28. Basic Earning per Share

	Current Quarter		Year to Date	
	30 September		30 September	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Profit attributable to shareholders	536	305	601	378
Weighted average number of shares	60,000	60,000	60,000	60,000
Basic Earning per Share	0.89	0.51	1.00	0.63

For and on behalf of the Board
Lii Hen Industries Bhd.

Tan Wang Giap, MACS 00523
Secretary