



ADVENTA BERHAD
(Company No : 618533-M)
(Incorporated in Malaysia)
SECOND QUARTER REPORT ENDED 31 JULY 2006
UNAUDITED NOTES TO FINANCIAL STATEMENTS

PART A - EXPLANATORY NOTES PURSUANT TO FRS 134

1. BASIS OF PREPARATION

The interim financial statements have been prepared under the historical cost convention except for the revaluation of freehold land included within property, plant and equipment and the following assets and liabilities that are stated at fair values: financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments and investment properties.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and Chapter 9 paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 January 2006. These explanatory notes attached to the interim financial statements 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 January 2006.

2. CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 January 2006 except for the adoption of the new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 February 2006.

The adoption of new/revised FRSs does not have significant financial impact on the Group except for the FRSs disclosed as follows:

(a) Employee share option scheme (FRS 2: Share-based Payment)

FRS 2 requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.



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The Company operates an equity-settled, share-based compensation plan for the employees of the Group, Adventa Berhad Employee Share Options Scheme (“ESOS”). Prior to 1 February 2006, no compensation expense was recognised in profit or loss for share options granted. With the adoption of FRS 2, the compensation expenses relating to share options is recognised in profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expenses is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using a Black-Scholes Option model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

The new accounting policy is to be applied retrospectively with comparatives restated in accordance with FRS 2, however the Group has taken advantage of transitional provisions set out in paragraph 53 of FRS under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to employees on or before 31 December 2004; and
- (ii) all options granted to employees after 31 December 2004 but which had vested before 1 January 2006.

No adjustments to the opening balance as at 1 February 2005 are required as no options existed at that time which were unvested at 1 January 2006.

The amount charged to the income statement as a result of the adoption of FRS 2 is an increased of administrative expenses for the second quarter ended 31 July 2006 by RM224,601 (2nd quarter ended 31 July 2005: Nil), with the corresponding amounts credited to the capital reserve.

- (b) **Amortisation of positive and negative goodwill (FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets)**

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138.



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The adoption of these new FRSs has resulted in the Group ceasing annual goodwill amortisation. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed. Prior to 1 February 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 10 years.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as "negative goodwill"), after reassessment, is now recognised immediately in profit or loss. Prior to 1 February 2006, negative goodwill, not exceeding the fair values of the non-monetary assets acquired, was recognised in the income statement over its estimated useful life of not more than 10 years. The carrying amount of goodwill as at 1 February 2006 of RM2.48 million ceased to be amortised. No impairment loss on goodwill has been recognised in the current quarter ended 31 July 2006.

In addition, the useful lives of other intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Prior to 1 February 2006, intangible assets were considered to have a finite useful life and were stated at cost less accumulated amortisation and impairment losses. Under the new FRS 138, the intangible assets are regarded to have an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which asset is expected to generate net cash inflows for the Group. Intangible assets with indefinite useful lives are not amortised but instead, are tested for impairment annually. The intangible assets of the Group are all with finite useful lives, and continue to be stated at cost less accumulated amortisation and impairment losses.

The above changes in accounting policy have been accounted for prospectively and in accordance with the transitional provisions of FRS 3. The Group has taken goodwill on consolidation as at 31 January 2006 to retained profits as follows:

	As previously reported	Effect	As Restated
Balance Sheet	RM'000	RM'000	RM'000
Retained profits brought forward	23,436	9,870	33,306
Goodwill on consolidation	9,870	(9,870)	-
Minority interest	569	-	-

The Group has ceased amortisation of its goodwill and has reduced the total amortisation charges by RM148,232 in the current quarter ended 31 July 2006.



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(c) Changes in presentation (*FRS 101: Presentation of Financial Statements and FRS 127, Consolidated and Separate Financial Statements*) - Minority Interests

The adoption of the revised FRS 101 and FRS 127 has affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 and FRS 127 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101 and FRS 127, with the comparatives restated to conform with the current period's presentation.

3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The preceding audited financial statements for the period ended 31 January 2006 were not subject to any qualification.

4. COMMENTS ABOUT SEASONAL, CYCLICAL AND EXCEPTIONAL FACTORS

The Group's operation is not subject to seasonal or cyclical fluctuations. However the main raw material, latex, is affected by the season, weather and supply-demand conditions. Latex price has increased by 15% over last quarter which have some impact on profits directly and indirectly.

5. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no other unusual items affecting assets, liabilities, equity, net income and cash flows during the financial period ended 31 July 2006.



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6. CHANGES IN ESTIMATES

There were no changes in estimates that have had a material effect in the current quarter results.

7. DEBTS AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter.

On 29 November 2005, 32,045,000 share options were granted to employees of the Company under the Company's Employees' Share Options Scheme ("ESOS"). Each option gives the holder the right to subscribe for one ordinary share of RM0.10 each of the Company at the exercise price of RM0.275.

On 30 June 2006, the number of options changed to 8,972,600 after the implementation of the Shares Consolidation and Bonus Issue. Each option gives the holder the right to subscribe for one ordinary share of RM0.50 each of the Company at the new exercise price of RM0.9821. The scheme is to be in force for a period of 5 years from the date of implementation until year 2010. The number of options vested as at the date of the current quarter is 3,589,040.

There have been no options exercised during the period from date of implementation until the end of this quarter.

8. DIVIDENDS PAID

On 20 June 2006 the Company has paid a final dividend for the financial year ended 31 January 2006 of 0.7 sen per share comprising 0.7 sen tax exempt on the enlarged capital of RM45,000,000 representing 450,000,000 ordinary shares of RM0.10 each amounting to RM3.15 million which was approved by the shareholders at an Annual General Meeting ("AGM") held on 31 May 2006.



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9. SEGMENTAL INFORMATION

	2nd Quarter		Cumulative	
	31.07.2006	31.07.2005	31.07.2006	31.07.2005
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Healthcare products	84,616	48,674	144,440	86,466
Energy provider	2,028	2,421	4,134	2,421
Others	195	245	390	530
Total revenue including inter-segment sales	86,839	51,340	148,964	89,417
Elimination of inter-segment sales	(47,433)	(15,239)	(69,313)	(20,299)
Total	39,406	36,101	79,651	69,118

	2nd Quarter		Cumulative	
	31.07.2006	31.07.2005	31.07.2006	31.07.2005
	RM'000	RM'000	RM'000	RM'000
Segment Results				
Healthcare products	2,975	3,214	6,767	7,903
Energy provider	608	617	1,167	617
Others	(278)	(238)	(455)	(221)
Elimination	(53)	(53)	(442)	(107)
Total	3,252	3,540	7,037	8,192

10. CARRYING AMOUNT OF REVALUED ASSETS

The Company did not carry out any revaluation on its property, plant and equipment in the current quarter to date. The values of property, plant and equipment have been brought forward, without any amendments from the previous audited annual financial statements.



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11. SUBSEQUENT EVENTS

There were no material events subsequent to the end of the current quarter.

12. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the current quarter under review.

13. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 31 July 2006, the Company has outstanding contingent liabilities amounting to RM114.1 million (2006 : RM40.7 million) being corporate guarantees given to financial institutions and suppliers for banking facilities and material supplies to the Group's subsidiaries.

14. CAPITAL COMMITMENTS

The amount of commitments for the purchase of property, plant and equipment not provided for in the financial statements as at 31 July 2006 is as follows:

	RM'000
Approved and contracted for	<u>11,915</u>

15. PERFORMANCE REVIEW

The Group revenue of RM39.41 million for the current quarter under review was 9% higher compared with RM36.10 million for the same quarter of the previous year. Group profit before tax for the current quarter at RM2.69 million was 22% lower compared to RM3.45 million of same quarter of the previous year.

The increase in revenue compared to the same quarter of the previous year is from increase in sales and production output. However profit before tax is lower due to substantially higher raw material prices, which has increased 70.9 % over the same period



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16. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Company recorded sales revenue of RM39.41 million for the current quarter as compared to RM40.25 million in preceding quarter, showing a slight decrease of 2%. The decreased is due to several low margin products were discontinued.

Profit before tax for the current quarter was RM2.69 million compared to RM3.48 million in preceding quarter.

The decrease in profit for the quarter is due to substantial increase in latex price which is a historical 18 years high. The percentages listed below is the increase over the respective preceding quarter. In the second quarter, the Company suffered an increase of almost RM 2.53 million in latex cost compared to Q1 2007.

Quarter	Q3 2006	Q4 2006	Q1 2007	Q2 2007
Increase over last quarter	14%	7%	20%	15%

The Company has, in mitigating the high cost of latex, reduced the production of several low margin and unprofitable products. As a result, although the revenue is lower the profits did not suffer much. The management is focused on keeping the Company profitable.

The cost of startup at our overseas operation is also a factor that reduced the margins as the new factory has yet to achieve breakeven level and optimum efficiency.

17. COMMENTARY ON CURRENT YEAR PROSPECTS

High price of latex has affected the profit, even though the cost is passed to the customers. There is a time lag between adjustments and the increased cost, typically two to three months. This is a timing difference that we do not see as a concern. The price of latex is not expected to increase much more higher than its current level. This will only reduce the cost of production .

The Company is confident of the future and is pursuing a fast expansion of production capacity of all its profitable products. The expansion should come on stream in Q4 this year. At the same time the overseas plant is also expected to be fully commissioned and contribute to the revenue despite the short startup time. During the same period, the Kota Bharu plant will be able to generate all of its electrical power needs. The installation is in progress.

The Company is optimistically confident that it will remain profitable for this financial year under review unless unforeseen circumstances intervened.



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18. PROFIT FORECAST

No profit forecast was announced hence there was no comparison between actual results and forecast.

19. TAXATION

	2nd Quarter		Cumulative	
	31.07.2006	31.07.2005	31.07.2006	31.07.2005
	RM'000	RM'000	RM'000	RM'000
Tax expense	56	59	96	63
Deferred tax	(504)	150	(946)	541
	<u>(448)</u>	<u>209</u>	<u>(850)</u>	<u>604</u>

Two of the subsidiaries have been granted pioneer status under the Promotion of Investments Act, 1986 for a period of 5 years. The profits made are therefore exempted from income tax.

The effective tax rate of the Group is lower than that of the statutory tax rate due to tax incentives claimed of reinvestment allowances and profits exempted under pioneer status.

20. SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

There was no sale of unquoted investments and properties during the financial period under review.

21. MARKETABLE SECURITIES

There was no purchase or disposal of marketable securities during the financial period ended under review.

22. CORPORATE PROPOSALS

Status of Corporate Proposals

There were no corporate proposals announced which remain uncompleted at the end of the financial period ended 31 July 2006 except the Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of the Company from the Second Board to the Main Board of Bursa Malaysia Securities Berhad ("Proposed Transfer to the Main Board") which was completed on 1 August 2006.



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23. BORROWINGS AND DEBT SECURITIES

	As at 31.07.2006	As at 31.01.2006
	RM'000	RM'000
Short Term Borrowings		
Secured	27,468	20,672
Unsecured	-	-
	27,468	20,672
Long Term Borrowings:		
Secured	20,899	8,894
Unsecured	-	-
	20,899	8,894
Total Borrowings	48,367	29,566

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no financial instruments with material off balance sheet risk at the date of this quarterly report except for the following:

(i) Forward Foreign Currency Exchange Contracts

	Contracted Amount in United States Dollar (‘000)	Equivalent Amount in Ringgit Malaysia (‘000)
Forward Foreign Currency Exchange Contracts	2,230	8,095

The Company entered into forward foreign currency exchange contracts to hedge against foreign currency exchange risk. All the above contracts mature within two to three months from the date of this quarterly report.



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(ii) Commodity Contracts

	Contracted Quantity Kg'000
Raw Material contracts: Within one year	3,736

The Group entered into contracts to purchase specified amounts of latex to cover its physical requirements. At the date of this report, the value of outstanding contracts cannot be determined as the contracts entered into are at contract uplift prevailing rate plus a pre-determined premium.

The Company's principal objective of entering into the above contracts is to minimise the Company's exposure to risks and/or costs associated with the operating activities of the Company.

25. CHANGES IN 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 as at the date of this report.

26. DIVIDEND PAYABLE

No interim ordinary dividend has been declared for the financial period ended 31 July 2006.

27. EARNINGS PER SHARE

(a) Basis

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the total number of ordinary shares in issue during the period.



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	2nd Quarter		Cumulative	
	31.07.2006	31.07.2005	31.07.2006	31.07.2005
Profit attributable to ordinary equity holders of the parent (RM'000)	3,120	3,218	6,995	7,271
Number of ordinary shares in issue ('000)	126,000	126,000	126,000	126,000
Basic earnings per share (sen)	2.48	2.55	5.55	5.77

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the period attributable to ordinary equity holders of the parent and the total number of ordinary shares in issue during the period have been adjusted for the dilutive effects of all potential ordinary shares, i.e. share options granted to employees.

	2nd Quarter		Cumulative	
	31.07.2006	31.07.2005	31.07.2006	31.07.2005
Profit attributable to ordinary equity holders of the parent (RM'000)	3,120	3,218	6,995	7,271
Number of ordinary shares in issue ('000)	126,000	-	126,000	-
Effects of dilution:				
Share options ('000)	99	-	99	-
Adjusted number of ordinary shares in issue and issuable ('000)	126,099	-	126,099	-
Diluted earnings per share (sen)	2.47	-	5.55	-



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28. AUTHORISED FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 27 July 2006.

By Order of the Board
Adventa Berhad

CHUA SIEW CHUAN
Company Secretary MAICSA 0777689