

TEKALA CORPORATION BERHAD

(Company no. 357125-D)

(Incorporated in Malaysia)

Interim Financial Report

For The Second Quarter Ended 30 September 2007

TEKALA CORPORATION BERHAD (357125-D)

Interim financial report for the second quarter ended 30 September 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>6 months ended</u>	
		<u>30/09/2007</u>	<u>30/09/2006</u>	<u>30/09/2007</u>	<u>30/09/2006</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Revenue	8	28,991	40,725	61,876	72,651
Cost of sales		<u>(27,210)</u>	<u>(31,193)</u>	<u>(52,912)</u>	<u>(58,868)</u>
Gross profit		1,781	9,532	8,964	13,783
Other income		147	60	208	175
Distribution costs		(235)	(290)	(458)	(555)
Other expenses		(76)	(112)	(152)	(224)
Administrative expenses		<u>(2,286)</u>	<u>(3,525)</u>	<u>(4,476)</u>	<u>(5,577)</u>
Profit/(loss) from operations		(669)	5,665	4,086	7,602
Interest on fixed deposits		652	548	1,240	1,022
Share of profit/(loss) of an associate		<u>629</u>	<u>(14)</u>	<u>1,496</u>	<u>189</u>
Profit before taxation		612	6,199	6,822	8,813
Income tax expense	13	<u>(270)</u>	<u>(2,164)</u>	<u>(1,891)</u>	<u>(3,133)</u>
Profit for the period		<u>342</u>	<u>4,035</u>	<u>4,931</u>	<u>5,680</u>
Earnings per share:	14	Sen	Sen	Sen	Sen
- Basic		0.23	2.69	3.29	3.78
- Diluted		0.22	2.69	3.26	3.78

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 30/09/2007 RM'000	AS AT 31/03/2007 RM'000
Non-current Assets			
Property, plant and equipment		17,764	19,584
Land lease prepayments		19,477	19,589
Investment in an associate	15	29,152	27,656
Other investments		131	131
		<u>66,524</u>	<u>66,960</u>
Current Assets			
Inventories		34,457	34,129
Trade receivables		17,778	14,889
Other receivables		775	1,232
Tax refundable		1,988	1,988
Fixed deposits		78,770	72,395
Cash and bank balances		1,150	4,738
		<u>134,918</u>	<u>129,371</u>
Total Assets		<u>201,442</u>	<u>196,331</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		152,983	152,094
Reserves		35,684	30,669
Treasury shares	7(b)	(2,567)	(2,395)
Total Equity		<u>186,100</u>	<u>180,368</u>
Non-current Liability			
Deferred tax liabilities		1,409	1,599
Current Liabilities			
Trade payables		8,197	5,695
Other payables		2,597	4,106
Provision for taxation		3,139	4,563
		<u>13,933</u>	<u>14,364</u>
Total Liabilities		<u>15,342</u>	<u>15,963</u>
Total Equity and Liabilities		<u>201,442</u>	<u>196,331</u>
Net assets per share (RM)		1.24	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	<u>Non-distributable</u>			<i>Distributable</i>	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 recognised directly in equity		-	-	-	-	-	-
Expense recognised directly equity		-	-	-	-	-	-
Net income/(expense) recognised directly in equity		-	-	-	-	-	-
Profit for the period		-	-	-	-	5,680	5,680
Total recognised income and expense for the period		-	-	-	-	5,680	5,680
Purchase of treasury shares		-	-	-	(1,283)	-	(1,283)
Share-based payment under ESOS		-	-	60	-	-	60
At 30 September 2006		152,094	16,503	60	(2,302)	4,048	170,403
At 1 April 2007		152,094	16,503	185	(2,395)	13,981	180,368
Income recognised directly in equity		-	-	-	-	-	-
Expense recognized directly equity		-	-	-	-	-	-
Net income/(expense) recognised directly in equity		-	-	-	-	-	-
Profit for the period		-	-	-	-	4,931	4,931
Total recognised income and expense for the period		-	-	-	-	4,931	4,931
Issue of ordinary shares pursuant to ESOS	7(a)	889	12	-	-	-	901
Purchase of treasury shares	7(b)	-	-	-	(172)	-	(172)
Share-based payment under ESOS		-	-	72	-	-	72
At 30 September 2007		152,983	16,515	257	(2,567)	18,912	186,100

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

	6 months ended	
	30/09/2007	30/09/2006
	RM'000	RM'000
Cash flows from operating activities		
Profit before taxation	6,822	8,813
Adjustments for:		
Amortisation of land lease prepayments	111	111
Depreciation of property, plant and equipment	2,015	2,176
Interest on fixed deposits	(1,240)	(1,022)
Profit on disposal of property, plant and equipment	(88)	(11)
Plant and equipment scrapped	5	-
Share of profit of an associate	(1,496)	(189)
Share-based payment under ESOS	72	60
Operating profit before working capital changes	<u>6,201</u>	<u>9,938</u>
Increase in inventories	(328)	(3,323)
Increase in receivables	(2,432)	(6,107)
Increase in payables	993	2,273
Cash generated from operations	<u>4,434</u>	<u>2,781</u>
Income tax paid	(3,505)	(179)
Net cash generated from operating activities	<u>929</u>	<u>2,602</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(199)	(119)
Proceeds from disposal of property, plant and equipment	88	12
Interest on fixed deposits received	1,240	1,022
Net cash generated from investing activities	<u>1,129</u>	<u>915</u>
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	901	-
Purchase of treasury shares	(172)	(1,283)
Net cash generated from/(used in) financing activities	<u>729</u>	<u>(1,283)</u>
Net increase in cash and cash equivalents	2,787	2,234
Cash and cash equivalents at beginning of financial year	77,133	71,527
Cash and cash equivalents at end of period	<u>79,920</u>	<u>73,761</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 176,800 of its issued ordinary shares from the open market at an average price of RM0.97 per share. The total consideration paid for the repurchase including transaction costs was RM172,389 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 30 September 2007, 2,740,100 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 RM2,567,579. The number of outstanding ordinary shares in issue and fully paid is therefore 150,243,200 ordinary shares of RM1 each.

8) Segmental information*Business Segments*

	6 months ended 30 September 2007				
	Timber processing	Timber extraction	Investment holding	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External	54,792	7,084	-	-	61,876
Inter-segment	-	-	-	-	-
Total	54,792	7,084	-	-	61,876
Results					
Segment results	8,876	(314)	-	-	8,562
Administrative expenses					(4,476)
Profit from operations					4,086
Interest on fixed deposits					1,240
Share of profit of an associate					1,496
Profit before taxation					6,822
Income tax expense					(1,891)
Profit for the period					4,931

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 23 November 2007, 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 3 months ended		Financial Year-to-date 6 months ended	
	30.09.2007 RM'000	30.09.2006 RM'000	30.09.2007 RM'000	30.09.2006 RM'000
In respect of current period:				
- Income tax	330	2,164	2,081	2,293
- Deferred tax	(60)	0	(190)	840
	<u>270</u>	<u>2,164</u>	<u>1,891</u>	<u>3,133</u>

The Group's effective tax rate for the current quarter and 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 per share

	Individual Quarter 3 months ended		Financial Year-to-date 6 months ended	
	30.09.2007	30.09.2006	30.09.2007	30.09.2006
(a) Basic earnings per share				
Profit for the period (RM'000)	342	4,035	4,931	5,680
Weighted average number of ordinary shares in issue, excluding treasury shares ('000)	150,013	149,845	149,713	150,268
Basic earnings per share (sen)	0.23	2.69	3.29	3.78
(b) Diluted earnings per share				
Profit for the period (RM'000)	342	4,035	4,931	5,680
Adjusted weighted average number of ordinary shares in issue and issuable for dilutive effects of share options granted ('000)	152,204	149,845	151,397	150,268
Diluted earnings per share (sen)	0.22	2.69	3.26	3.78

15) Investment in an associate

	As at 30.09.2007 RM'000
<u>Offshoreworks Holdings Sdn Bhd</u>	
Unquoted shares in Malaysia, at cost	16,017
Share of post-acquisition reserves	<u>3,635</u>
	19,652
300% Redeemable Cumulative 3 Year Preference Shares (RCPS)	<u>9,500</u>
	<u>29,152</u>
Represented by:	
Share of net assets other than goodwill in associate	5,816
Share of goodwill in associate	1,056
RCPS	<u>9,500</u>
	16,372
Goodwill on acquisition of ordinary shares	<u>12,780</u>
	<u>29,152</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 30 September 2007, the Group recorded a lower revenue of RM28.99 million as compared to the previous corresponding quarter of RM40.73 million and a lower profit before taxation of RM0.61 million as compared to RM6.20 million in the previous corresponding quarter mainly due to lower plywood selling prices and sales volume for the current quarter under review.

For the current period ended 30 September 2007, the Group recorded a revenue of RM61.88 million and profit before taxation of RM6.82 million as compared to the revenue of RM72.65 million and profit before taxation of RM8.81 million in the previous corresponding period. The decrease in performance was mainly due to lower plywood 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 lower profit before taxation of RM0.61 million for the current quarter as compared to the immediate preceding quarter profit before taxation of RM6.21 million mainly due to lower plywood selling prices for the current quarter under review.

3. Commentary on Prospects

In view of the softened Japanese plywood market, the Directors expect the Group's operating environment for the remaining financial year to be challenging.

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 30 September 2007.

7. Quoted Securities

(a) There were no purchases or disposals of quoted securities for the current quarter and interim period ended 30 September 2007.

(b) Total investment in quoted securities as at 30 September 2007 is as follows:

	RM'000
(i) At cost	<u>6</u>
(ii) At Book Value	<u>6</u>
(iii) At Market Value	<u>3</u>

8. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 23 November 2007, 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 30 September 2007.

10. Off Balance Sheet Financial Instruments

The Group did not have any off balance sheet financial instruments as at 23 November 2007, 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 28 November 2007.