

TEKALA CORPORATION BERHAD

(Company no. 357125-D)

(Incorporated in Malaysia)

Interim Financial Report

For The Third Quarter Ended 31 December 2006

TEKALA CORPORATION BERHAD (357125-D)
Interim financial report for the third quarter ended 31 December 2006

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Condensed Consolidated Income Statements

	Note	<u>Individual Quarter</u>		<u>Financial Year-to-date</u>	
		3 months ended		9 months ended	
		31/12/2006	31/12/2005	31/12/2006	31/12/2005
		RM'000	RM'000	RM'000	RM'000
Revenue	9	42,697	31,771	115,348	94,849
Cost of sales		<u>(29,351)</u>	<u>(29,648)</u>	<u>(88,219)</u>	<u>(84,688)</u>
Gross profit		13,346	2,123	27,129	10,161
Other income		29	15	204	184
Distribution costs		(273)	(239)	(828)	(725)
Other expenses		(112)	(66)	(336)	(178)
Administrative expenses		<u>(2,927)</u>	<u>(3,469)</u>	<u>(8,504)</u>	<u>(7,904)</u>
Profit/(loss) from operations		10,063	(1,636)	17,665	1,538
Interest on fixed deposits		604	438	1,626	1,498
Share of profit of an associate		<u>1,275</u>	<u>619</u>	<u>1,464</u>	<u>687</u>
Profit before taxation		11,942	(579)	20,755	3,723
Income tax expense	14	<u>(3,318)</u>	<u>(298)</u>	<u>(6,451)</u>	<u>(504)</u>
Profit for the period		<u>8,624</u>	<u>(877)</u>	<u>14,304</u>	<u>3,219</u>
Earnings per share:	15	Sen	Sen	Sen	Sen
- Basic		5.76	(0.58)	9.53	2.12
- Diluted		5.76	(0.58)	9.53	2.11

The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 March 2006 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Balance Sheet

	Note	AS AT 31/12/2006 RM'000	AS AT 31/03/2006 RM'000 (restated)
Non-current Assets			
Property, plant and equipment		20,561	23,483
Land lease prepayments		19,644	19,811
Investment in an associate	17	27,181	25,717
Other investments		111	111
		<u>67,497</u>	<u>69,122</u>
Current Assets			
Inventories		28,157	19,184
Trade receivables		16,946	9,887
Other receivables		483	655
Tax refundable		2,032	2,013
Fixed deposits		74,060	61,560
Cash and bank balances		1,656	9,967
		<u>123,334</u>	<u>103,266</u>
Total Assets		<u>190,831</u>	<u>172,388</u>
Non-current Liability			
Deferred tax liabilities		<u>1,849</u>	<u>1,009</u>
Current Liabilities			
Trade payables		3,616	3,345
Other payables		5,364	2,055
Provision for taxation		5,383	33
Dividend payable		2,992	0
		<u>17,355</u>	<u>5,433</u>
Total Liabilities		<u>19,204</u>	<u>6,442</u>
Net Assets		<u>171,627</u>	<u>165,946</u>
Equity attributable to equity holders of the parent			
Share capital		152,094	152,094
Reserves		21,845	14,871
Treasury shares	8	<u>(2,312)</u>	<u>(1,019)</u>
Total Equity		<u>171,627</u>	<u>165,946</u>
Net assets per share (RM)		1.15	1.10

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 March 2006 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 2005		151,408	16,489	-	-	4,434	172,331
Income recognised directly in equity		-	-	-	-	-	-
Expense recognised directly equity		-	-	-	-	-	-
Net income/(expense) recognised directly in equity	2(b)	-	-	-	-	-	-
Profit for the period		-	-	-	-	3,219	3,219
Total recognised income and expense for the period	2(b)	-	-	-	-	3,219	3,219
Dividends	16(b)					(7,665)	(7,665)
Issue of ordinary shares pursuant to ESOS		686	14	-	-	-	700
At 31 December 2005		152,094	16,503	-	-	(12)	168,585
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	2(b)	-	-	-	-	-	-
Profit for the period		-	-	-	-	14,304	14,304
Total recognised income and expense for the period	2(b)	-	-	-	-	14,304	14,304
Dividends	16(a)					(7,481)	(7,481)
Purchase of treasury shares	8	-	-	-	(1,293)	-	(1,293)
Share-based payment under ESOS	2(a)	-	-	151	-	-	151
At 31 December 2006		152,094	16,503	151	(2,312)	5,191	171,627

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 March 2006 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Cash Flow Statement

	9 months ended	
	31/12/2006	31/12/2005
	RM'000	RM'000
Cash flows from operating activities		
Profit before taxation	20,755	3,723
Adjustments for:		
Amortisation of land lease prepayments	167	-
Depreciation of property, plant and equipment	3,215	3,534
Interest on fixed deposits	(1,626)	(1,498)
Profit on disposal of equipment	(12)	(136)
Share of profit of an associate	(1,464)	(687)
Share-based payment under ESOS	151	-
Operating profit before working capital changes	<u>21,186</u>	<u>4,936</u>
(Increase)/Decrease in inventories	(8,973)	5,157
Increase in receivables	(6,886)	(1,514)
Increase/(Decrease) in payables	3,580	(1,543)
Cash generated from operations	<u>8,907</u>	<u>7,036</u>
Income tax paid	(281)	(347)
Net cash generated from operating activities	<u>8,626</u>	<u>6,689</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(294)	(3,088)
Proceeds from disposal of property, plant and equipment	13	150
Interest on fixed deposits received	1,626	1,498
Investment in an associate	-	(25,517)
Net cash generated from/(used in) investing activities	<u>1,345</u>	<u>(26,957)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	-	700
Purchase of treasury shares	(1,293)	-
Dividends paid	(4,489)	(7,665)
Net cash used in financing activities	<u>(5,782)</u>	<u>(6,965)</u>
Net increase/(decrease) in cash and cash equivalents	4,189	(27,233)
Cash and cash equivalents at beginning of financial year	71,527	92,804
Cash and cash equivalents at end of period	<u>75,716</u>	<u>65,571</u>

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 March 2006 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 2006. 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 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 March 2006 except for the adoption of the following applicable new/revised Financial Reporting Standards (FRSs) effective for financial period beginning 1 April 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

In addition to the above, the Group has also taken the option of early adoption of FRS 117 “Leases” for the financial period beginning 1 April 2006.

The adoption of FRS 3, 102, 108, 110, 116, 121, 127, 128, 132, 133, 136, and 138 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:

(a) FRS 2: Share-based Payment

This FRS 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.

(a) FRS 2: Share-based Payment (Contd.)

The Company operates an equity-settled, share-based compensation plan for the employees of the Group, the Tekala Corporation Berhad Employees' Share Options Scheme ("ESOS"). Prior to 1 April 2006, no compensation expense was recognised in profit or loss for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised in profit or loss over the vesting periods of the grants with a corresponding increase in equity (included within other reserves). The total amount to be recognised as compensation expense 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 binomial 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.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The application is retrospective. However, the comparative amount as at 31 March 2006 is insignificant to be restated to reflect this application.

The financial impact to the Group arising from this change in accounting policy is as follows:

	3 months ended		9 months ended	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Decrease in profit for the period	(91)	-	(151)	-

(b) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of share of net after-tax results of associates and other disclosures. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expense for the period.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101.

(c) FRS 117: Leases

The adoption of the revised FRS 117 has resulted in change in the accounting policy relating to the classification of leasehold land. The up-front payments made for the leasehold land represent prepaid lease payments and are amortised on a straight-line basis over the remaining lease term. A lease of land and building is apportioned into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Prior to 1 April 2006, leasehold land was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses.

The reclassification of leasehold land as land lease prepayments has been accounted for retrospectively and as disclosed in Note 3, certain comparative amounts as at 31 March 2006 have been restated.

3) Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

	Previously stated RM'000	Adjustment FRS 117 Note 2(c) RM'000	Restated RM'000
At 31 March 2006			
Property, plant and equipment	43,294	(19,811)	23,483
Land lease prepayments	-	19,811	19,811

4) 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 2006 was not subject to any qualification.

5) Seasonal and cyclical factors

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

6) Unusual items

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

7) 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.

8) 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 share Buy-back:

Share Buy-back

During the interim period, the Company repurchased 1,403,200 of its issued ordinary shares from the open market at an average price of RM0.92 per share. The total consideration paid for the repurchase including transaction costs was RM1,293,661 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 2006, 2,476,300 out of the total 152,093,600 issued and fully paid ordinary shares were held as treasury shares by the Company and the total consideration paid including transaction costs was RM2,312,279. The number of outstanding ordinary shares in issue and fully paid is therefore 149,617,300 ordinary shares of RM1 each.

9) Segmental information

Business Segments

	9 months ended 31 December 2006				
	Timber processing RM'000	Timber extraction RM'000	Investment holding RM'000	Elimination RM'000	Consolidated RM'000
Revenue					
External	104,699	10,649	-	-	115,348
Inter-segment	0	0	3,842	(3,842)	0
Total	104,699	10,649	3,842	(3,842)	115,348
Results					
Segment results	26,778	(609)	-	-	26,169
Administrative expenses					(8,504)
Profit from operations					17,665
Interest on fixed deposits					1,626
Share of profit of an associate					1,464
Profit before taxation					20,755
Income tax expense					(6,451)
Profit for the period					14,304

10) 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.

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

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

12) Changes in the composition of the Group

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

13) 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 2006 to 21 February 2007, 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 a decision by the Court of Appeal.

14) Income tax expense

	Individual Quarter		Financial Year-to-date	
	3 months ended		9 months ended	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Income tax	3,318	85	5,611	290
- Deferred tax	0	213	840	214
	<u>3,318</u>	<u>298</u>	<u>6,451</u>	<u>504</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.

15) Earnings per share

	Individual Quarter		Financial Year-to-date	
	3 months ended		9 months ended	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
(a) Basic earnings per share				
Profit for the period (RM'000)	8,624	(877)	14,304	3,219
Weighted average number of ordinary shares in issue, excluding treasury shares ('000)	149,623	152,094	150,052	151,779
Basic earnings per share (sen)	5.76	(0.58)	9.53	2.12

(b) Diluted earnings per share

Profit for the period (RM'000)	8,624	(877)	14,304	3,219
Adjusted weighted average number of ordinary shares in issue and issuable for dilutive effects of share options granted ('000)	149,639	152,094	150,052	152,756
Diluted earnings per share (sen)	5.76	(0.58)	9.53	2.11

16) Dividends

	RM,000
(a) 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 ending 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) Final dividend of 4% less 28% tax and special dividend of 3% less 28% tax on 152,093,600 ordinary shares in respect of financial year ended 31 March 2005, paid on 26 October 2005	7,665

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17) Investment in an associate

	As at 31.12.2006 RM'000
<u>Offshoreworks Holdings Sdn Bhd</u>	
Unquoted shares in Malaysia, at cost	16,017
Share of post-acquisition reserves	<u>1,664</u>
	17,681
300% Redeemable Cumulative 3 Year Preference Shares (RCPS)	<u>9,500</u>
	<u>27,181</u>
Represented by:	
Share of net assets other than goodwill in associate	3,845
Share of goodwill in associate	1,056
RCPS	<u>9,500</u>
	14,401
Goodwill on acquisition of ordinary shares	<u>12,780</u>
	<u>27,181</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 2006, the Group recorded a revenue of RM42.70 million as compared to the previous corresponding quarter of RM31.77 million and profit before taxation of RM11.94 million as compared to loss before taxation of RM0.58 million in the previous corresponding quarter.

For the current period ended 31 December 2006, the Group recorded a revenue of RM115.35 million and profit before taxation of RM20.76 million as compared to the revenue of RM94.85 million and profit before taxation of RM3.72 million in the previous corresponding period.

The improvement in performance was mainly due to better plywood selling prices fetched despite the increase in round log raw material costs for the current quarter and period under review.

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

The Group recorded a higher profit before taxation of RM11.94 million for the current quarter as compared to the preceding quarter profit before taxation of RM6.20 million. The increase in profit before taxation was mainly due to better plywood selling prices fetched for the current quarter under review.

3. Current Year Prospects

The directors expect the Group's performance for the current financial year to be significantly better as compared to the previous financial year.

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 14 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 2006.

7. Quoted Securities

(a) There were no purchases or disposals of quoted securities for the current quarter and interim period ended 31 December 2006.

(b) Total investment in quoted securities as at 31 December 2006 is as follows:

	RM'000
(i) At cost	<u>6</u>
(ii) At Book Value	<u>6</u>
(iii) At Market Value	<u>1</u>

8. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 21 February 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 31 December 2006.

10. Off Balance Sheet Financial Instruments

The Group did not have any off balance sheet financial instruments as at 21 February 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 13 to the interim financial report.

12. Dividends

(a) The Directors do not recommend the payment of dividend for the current quarter under review.

(b) The total dividend for the current financial year ending 31 March 2007 is 2% tax exempt dividend.

13. Earnings per share

This is stated in note 15 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 2007.