

TEKALA CORPORATION BERHAD

(Company no. 357125-D)

(Incorporated in Malaysia)

Interim Financial Report

For The First Quarter Ended 30 June 2007

TEKALA CORPORATION BERHAD (357125-D)
Interim financial report for the first quarter ended 30 June 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>3 months ended</u>	
		<u>30/06/2007</u>	<u>30/06/2006</u>	<u>30/06/2007</u>	<u>30/06/2006</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Revenue	8	32,885	31,926	32,885	31,926
Cost of sales		<u>(25,702)</u>	<u>(27,675)</u>	<u>(25,702)</u>	<u>(27,675)</u>
Gross profit		7,183	4,251	7,183	4,251
Other income		61	115	61	115
Distribution costs		(223)	(265)	(223)	(265)
Other expenses		(76)	(112)	(76)	(112)
Administrative expenses		<u>(2,190)</u>	<u>(2,052)</u>	<u>(2,190)</u>	<u>(2,052)</u>
Profit from operations		4,755	1,937	4,755	1,937
Interest on fixed deposits		588	474	588	474
Share of profit of an associate		<u>867</u>	<u>203</u>	<u>867</u>	<u>203</u>
Profit before taxation		6,210	2,614	6,210	2,614
Income tax expense	13	<u>(1,621)</u>	<u>(969)</u>	<u>(1,621)</u>	<u>(969)</u>
Profit for the period		<u>4,589</u>	<u>1,645</u>	<u>4,589</u>	<u>1,645</u>
Earnings per share:	14	Sen	Sen	Sen	Sen
- Basic		3.07	1.08	3.07	1.08
- Diluted		3.05	1.08	3.05	1.08

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 30/06/2007 RM'000	AS AT 31/03/2007 RM'000
Non-current Assets			
Property, plant and equipment		18,590	19,584
Land lease prepayments		19,533	19,589
Investment in an associate	15	28,523	27,656
Other investments		131	131
		<u>66,777</u>	<u>66,960</u>
Current Assets			
Inventories		31,152	34,129
Trade receivables		15,523	14,889
Other receivables		1,049	1,232
Tax refundable		1,988	1,988
Fixed deposits		79,170	72,395
Cash and bank balances		2,180	4,738
		<u>131,062</u>	<u>129,371</u>
Total Assets		<u>197,839</u>	<u>196,331</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		152,275	152,094
Reserves		35,293	30,669
Treasury shares	7(b)	(2,567)	(2,395)
Total Equity		<u>185,001</u>	<u>180,368</u>
Non-current Liability			
Deferred tax liabilities		1,469	1,599
Current Liabilities			
Trade payables		4,101	5,695
Other payables		3,190	4,106
Provision for taxation		4,078	4,563
		<u>11,369</u>	<u>14,364</u>
Total Liabilities		<u>12,838</u>	<u>15,963</u>
Total Equity and Liabilities		<u>197,839</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 RM'000	
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Treasury Shares RM'000		Retained Profits/ (Accumulated Losses) 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		-	-	-	-	1,645	1,645
Total recognised income and expense for the period		-	-	-	-	1,645	1,645
Purchase of treasury shares		-	-	-	(606)	-	(606)
Share-based payment under ESOS		-	-	39	-	-	39
At 30 June 2006		152,094	16,503	39	(1,625)	13	167,024
At 1 April 2007		152,094	16,503	185	(2,395)	13,980	180,367
Income recognised directly in equity		-	-	-	-	-	-
Expense recognised directly equity		-	-	-	-	-	-
Net income/(expense) recognised directly in equity		-	-	-	-	-	-
Profit for the period		-	-	-	-	4,589	4,589
Total recognised income and expense for the period		-	-	-	-	4,589	4,589
Issue of ordinary shares pursuant to ESOS	7(a)	181	2	-	-	-	183
Purchase of treasury shares	7(b)	-	-	-	(172)	-	(172)
Share-based payment under ESOS		-	-	34	-	-	34
At 30 June 2007		152,275	16,505	219	(2,567)	18,569	185,001

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

	3 months ended	
	30/06/2007	30/06/2006
	RM'000	RM'000
Cash flows from operating activities		
Profit before taxation	6,210	2,614
Adjustments for:		
Amortisation of land lease prepayments	56	56
Depreciation of property, plant and equipment	1,008	1,111
Interest on fixed deposits	(588)	(474)
Profit on disposal of property, plant and equipment	-	(11)
Share of profit of an associate	(867)	(203)
Share-based payment under ESOS	34	39
Operating profit before working capital changes	<u>5,853</u>	<u>3,132</u>
Decrease in inventories	2,977	2,240
Increase in receivables	(451)	(4,004)
Decrease in payables	<u>(2,510)</u>	<u>(992)</u>
Cash generated from operations	5,869	376
Income tax paid	<u>(2,237)</u>	<u>(86)</u>
Net cash generated from operating activities	<u>3,632</u>	<u>290</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(14)	(4)
Proceeds from disposal of property, plant and equipment	-	12
Interest on fixed deposits received	588	474
Net cash generated from investing activities	<u>574</u>	<u>482</u>
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	183	-
Purchase of treasury shares	<u>(172)</u>	<u>(606)</u>
Net cash generated from/(used in) financing activities	<u>11</u>	<u>(606)</u>
Net increase in cash and cash equivalents	4,217	166
Cash and cash equivalents at beginning of financial year	77,133	71,527
Cash and cash equivalents at end of period	<u>81,350</u>	<u>71,693</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 181,100 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 June 2007, 2,740,100 out of the total 152,274,700 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 149,534,600 ordinary shares of RM1 each.

8) Segmental information

Business Segments

	3 months ended 30 June 2007				
	Timber processing	Timber extraction	Investment holding	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External	29,150	3,735	-	-	32,885
Inter-segment	-	-	-	-	-
Total	29,150	3,735	-	-	32,885
Results					
Segment results	7,082	(137)	-	-	6,945
Administrative expenses					(2,190)
Profit from operations					4,755
Interest on fixed deposits					588
Share of profit of an associate					867
Profit before taxation					6,210
Income tax expense					(1,621)
Profit for the period					4,589

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 27 August 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 the EPF Board has appealed to the Court of Appeal.

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		3 months ended	
	30.06.2007	30.06.2006	30.06.2007	30.06.2006
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Income tax	1,751	129	1,751	129
- Deferred tax	(130)	840	(130)	840
	<u>1,621</u>	<u>969</u>	<u>1,621</u>	<u>969</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		Financial Year-to-date	
	3 months ended		3 months ended	
	30.06.2007	30.06.2006	30.06.2007	30.06.2006
(a) Basic earnings per share				
Profit for the period (RM'000)	4,589	1,645	4,589	1,645
Weighted average number of ordinary shares in issue, excluding treasury shares ('000)	149,409	151,769	149,409	151,769
Basic earnings per share (sen)	3.07	1.08	3.07	1.08
(b) Diluted earnings per share				
Profit for the period (RM'000)	4,589	1,645	4,589	1,645
Adjusted weighted average number of ordinary shares in issue and issuable for dilutive effects of share options granted ('000)	150,471	151,769	150,471	151,769
Diluted earnings per share (sen)	3.05	1.08	3.05	1.08

15) Investment in an associate

	As at 30.06.2007 RM'000
<u>Offshoreworks Holdings Sdn Bhd</u>	
Unquoted shares in Malaysia, at cost	16,017
Share of post-acquisition reserves	<u>3,006</u>
	19,023
300% Redeemable Cumulative 3 Year Preference Shares (RCPS)	<u>9,500</u>
	<u><u>28,523</u></u>
Represented by:	
Share of net assets other than goodwill in associate	5,187
Share of goodwill in associate	1,056
RCPS	<u>9,500</u>
	15,743
Goodwill on acquisition of ordinary shares	<u>12,780</u>
	<u><u>28,523</u></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 and period ended 30 June 2007, the Group recorded a revenue of RM32.89 million as compared to the previous corresponding quarter and period of RM31.93 million and profit before taxation of RM6.21 million as compared to profit before taxation of RM2.61 million in the previous corresponding quarter and period.

The improvement in performance was mainly due to better plywood margins for the current quarter and period under review as compared to the corresponding quarter and period in the previous year.

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

The Group recorded a lower profit before taxation of RM6.21 million for the current quarter as compared to the immediate preceding quarter profit before taxation of RM12.02 million mainly due to lower plywood sales volume and selling prices for the current quarter under review.

3. Commentary on Prospects

Barring any unforeseen circumstances, the Directors expect the Group to deliver satisfactory financial results for the current financial year.

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 June 2007.

7. Quoted Securities

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

(b) Total investment in quoted securities as at 30 June 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 27 August 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 June 2007.

10. Off Balance Sheet Financial Instruments

The Group did not have any off balance sheet financial instruments as at 27 August 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 29 August 2007.