

HeveaBoard Berhad
(Company No. 275512-A)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

A. DISCLOSURE REQUIREMENTS AS PER FINANCIAL REPORTING STANDARDS (“FRS”) 134 (FORMERLY KNOWN AS MALAYSIAN ACCOUNTING STANDARDS BOARD (“MASB”) 26)

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in compliance with the reporting requirements as set out in Financial Reporting Standards (“FRS”) No. 134 – “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. It should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2007.

2. Audit Report of Preceding Annual Financial Statements

The audit report of the Group’s most recent annual audited financial statements for the financial year ended 31 December 2007 was not qualified.

3. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows that were unusual because of their nature, size or incidence during the quarter under review.

4. Seasonal or Cyclical Factors

The company’s business generally moves in tandem with the global economy.

5. Material Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter.

6. Debts and Equity Securities

During the financial period, there were no issuances, cancellations, repurchases and resale of debts and equity securities other than as follows:

- a. The Company had on 4 June 2008 issued and allotted 8,000,000 new ordinary shares of RM1.00 each (“Share(s)”) pursuant to the Private Placement and the new Shares were granted listing of and quotation on the Main Board of Bursa Malaysia Securities Berhad on 6 June 2008; and

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- b. The Company had, on 23 June 2008, issued and allotted 2,400,000 new Shares pursuant to the conversion of 2,400,000 Warrants and the new Shares were granted listing of and quotation on the Main Board of Bursa Malaysia Securities Berhad on 26 June 2008.

Total repayment of debts amounted to RM 3.75 million was recorded in the reporting quarter.

7. Dividend Paid

A final tax-exempt dividend of 3.0 sen per Share amounted to RM2,712,000.00 was paid on 11 July 2008.

8. Segmental Reporting (Analysis by Activities)

	← Cumulative quarter 12-month ended →			
	Current year period to-date 31.12.2008		Preceding year corresponding period to-date 31.12.2007	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
Manufacturing				
Particleboards	140,669	(8,098)	108,174	(5,853)
RTA Products*	173,328	7,030	126,655	4,950
Trading				
Particleboards	4,617	378	3,957	300
RTA Products*	23,529	511	23,452	741
Others	-	(3)	-	(3)
Total	342,143	(182)	262,238	135

*RTA - Ready-To-Assemble

9. Valuations of Investment and Property, Plant and Equipment

There were no revaluations of property, plant and equipment during the current quarters. As at 31 December 2008, all property, plant and equipment were stated at cost less accumulated depreciation.

10. Event Subsequent to the End of the Period

There were no material events affecting the earnings of the Group between 31 December 2008 and 18 February 2009.

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11. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group for the current financial year to date.

12. Contingent Liabilities

Corporate guarantees of RM36.51 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 18 February 2009 (the latest practicable date not earlier than seven (7) days from the date of issue of this report).

13. Capital Commitments

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 December 2008 were as follows:

	The Group
	RM'000
Approved and contracted for	-
Approved but not contracted for	3,000

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES LISTING REQUIREMENTS

1. Review of performance
Quarter on Quarter review

The revenue of the Group for the current quarter ended 31 December 2008 was RM81.75 million, a decrease of RM 11.85 million or 12.7 % as compared with the corresponding quarter in 2007. In spite of the increased revenue from the RTA furniture sector, the Group revenue declined significantly in the particleboard manufacturing sector due to a drastic drop in demand and selling prices as a result of the prevailing global recession.

The loss before tax of the Group for the reporting quarter was RM2.19 million as compared with RM1.36 million in the corresponding quarter in 2007, an increase of RM0.84million or 61.7 %.

Year on Year review

Group revenue in FY2008 increased by 30.5 % from RM262.24 million to RM 342.14 million despite the slow-down experienced in the last quarter by the particleboard sector but this was mitigated by the RTA furniture sector which had achieved higher revenue for the year.

The Group loss before tax for the year amounted to RM0.18 million as compared to a profit before tax of RM0.14 million in FY2007.

2. Material change in profit before taxation for the quarter against the immediate preceding quarter.

The loss before tax for the Group for the current quarter is at RM2.19 million, a decrease of RM0.18 million or 7.7 % over the preceding quarter. The decline in the loss before tax is attributed to the improved performance from the RTA furniture sector.

3. Prospect for the current financial year

The rapid deterioration in the global economy that began in the second half of 2008 will continue to adversely affect the business of the Group in 2009. Visibility into the timing of recovery remains poor and challenging conditions are expected to persist at least through the first half of 2009. Notwithstanding the slowdown, the Group continues in its research and development capability and in its effort to obtain certifications of higher grade product to improve on its competitiveness. Various measures have also been taken to reduce costs and improve production efficiency.

In the meantime, the significant reduction in sales volume and the reduction in profit margin have affected HeveaBoard's cashflow and its ability to meet its financial obligations on a timely basis, and this is likely to continue in 2009 and 2010. To ensure that the Group is able to continue its operations during this trying time, HeveaBoard has been in discussion with major lenders to undertake a restructuring proposal for the repayment of debts to all its creditors in accordance with the provisions of the Companies Act, 1965.

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4. Variances from Profit Forecasts and Profit Guarantee

Not applicable.

5. Taxation

	Individual Quarter 3-month Ended		Cumulative Quarter 3-month Ended	
	Current year quarter ended 31.12.2008 RM'000	Preceding year corresponding quarter ended 31.12.2007 RM'000	Current year period to- date 31.12.2008 RM'000	Preceding year corresponding period to-date 31.12.2007 RM'000
Current taxation	561	217	915	565
Deferred Taxation	(1,991)	(7,247)	(1,991)	(7,247)
	<u>(1,430)</u>	<u>(7,030)</u>	<u>(1,076)</u>	<u>(6,682)</u>

The Ministry of Finance has exempted the Company from the payment of tax in respect of the statutory income derived from its approved business, i.e. manufacturing of plain and laminated particleboard, under Section 127 of the Income Tax Act 1967. The tax exemption granted is equivalent to the Investment Tax Allowance ("ITA") based on 100% of the qualifying capital expenditure incurred to be incurred in the 5-year period effective FY 2005.

HeveaPac enjoys tax incentive under Allowance for Increased Export ("AIE") which allows the Company to claim 100% of the value of the increased export for the period 2003 to 2004 to set-off against 70% of its statutory business income. The AIE is effective from 1 January 2004.

6. Unquoted Investment and/or Properties

There were no disposals of unquoted investment and/or properties in the quarter ended 31 December 2008.

7. Quoted Investment

There was no purchase or disposal of quoted investment for the reporting quarter ended 31 December 2008.

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8. Status of Corporate Proposal

a. Proposed Exemption

On 30 October 2007, OSK Investment Bank Berhad announced on behalf of HeveaBoard, that the Securities Commission (“SC”) had, via its letter dated 29 October 2007 approved the proposed exemption to HeveaWood Industries Sdn Bhd (“HW”) and parties acting-in-concert (“PAC”) from the obligation to undertake a mandatory offer for the remaining Shares of HeveaBoard not already owned by HW and PAC upon the exercise of Warrants owned by HW and PAC (“Proposed Exemption”), subject to the compliance with certain terms and conditions. Pursuant to the approval by the SC, no take-over offer would arise on full exercise of the Warrants by HW and PAC for the period up to 31 December 2009, being the expiry date of the Warrants. This proposed exemption has since November 2008, no longer applicable due to a disqualifying transaction by a member of the PAC with HW.

The shareholdings of HW and PAC in HeveaBoard assuming before and after the full exercise of the Warrants by HW and PAC are set out below:-

	As at 20 February 2009					Assuming only HW and PAC exercise their Warrants in full				
	Direct		Indirect			Direct		Indirect		
	No. of Shares	%	No. of Shares	%	No. of Warrants	No. of Shares	%	No. of Shares	%	
HW	27,075,000	29.95	962,400 ^(a)	1.06	13,537,500	40,612,500	36.55	1,012,400 ^(a)	0.91	
PAC										
Gemas Ria Sdn Bhd (“Gemas Ria”)	962,400	1.06	-	-	50,000	1,012,400	0.91	-	-	
Dato’ Seri Yong Tu Sang	150,000	0.17	- ^(b)	-	75,000	225,000	0.20	- ^(b)	-	
Dato’ Loo Swee Chew	150,000	0.17	28,037,400 ^(c)	31.01	75,000	225,000	0.20	41,624,900 ^(c)	37.46	
Yong Kian Seng @ Yoong Tein Seng	150,000	0.17	35,102,400 ^(d)	38.83	75,000	225,000	0.20	52,224,900 ^(d)	47.00	
Liang Chong Wai	2,588,600	2.86	28,037,400 ^(c)	31.01	1,458,900	4,047,500	3.64	41,624,900 ^(c)	37.46	
Yoong Hau Chun	150,000	0.17	35,102,400 ^(e)	38.83	75,000	225,000	0.20	52,224,900 ^(e)	47.00	
Yong Hin Siong	-	-	-	-	-	-	-	-	-	
Yoong Li Yen	56,000	0.06	-	-	25,000	81,000	0.07	-	-	
Yoong Li Mian	26,500	0.03	-	-	12,500	39,000	0.04	-	-	
Tenson Holdings Sdn Bhd (“Tenson Holdings”)	-	-	34,896,400 ^(f)	38.60	-	-	-	51,918,900 ^(f)	46.73	
Firama Holdings Sdn Bhd (“Firama”)	4,969,000	5.50	29,927,400 ^(c)	33.11	5,325,000	10,294,000	9.26	41,624,900 ^(c)	37.46	
Sung Lee Timber Trading Sdn Bhd (“Sung Lee”)	-	-	- ^(b)	-	-	-	-	- ^(b)	-	
Total	36,277,500	40.13	-	-	20,708,900	56,986,400	51.29	-	-	

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Notes:-

- (a) Deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (b) Ceased to have an indirect interest of the shareholdings held through HW and Gemas Ria by virtue of Section 6A (4) of the Companies Act, 1965 ("the Act")
- (c) Deemed interested by virtue of their substantial shareholdings in HW pursuant to Section 6A of the Act and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (d) Deemed interested by virtue of Section 6A of the Act (shareholdings held through Tenson Holdings, a substantial shareholder of HW) and by virtue of his relationship with Yoong Hau Chun, his son and Yoong Li Yen, his daughter and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (e) Deemed interested by virtue of his relationship with Yong Kian Seng @ Yoong Tein Seng, his father and Yoong Li Yen, his sister and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (f) Deemed interested by virtue of its substantial shareholdings in HW and Firam pursuant to Section 6A of the Act and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (g) The percentage shareholding of HW and PAC are calculated based on the following issued and paid-up share capital of HeveaBoard:-

Issued and paid-up share capital

No. of Shares

As at 20 February 2009

90,400,000

Issuance of new Shares pursuant to the exercise of Warrants by HW and PAC

20,708,900

111,108,900

b. Status of Utilisation of Proceeds

On 6 June 2008, the Company had completed its private placement of 8,000,000 ordinary shares of RM1.00 each, representing ten percent (10%) of the issued and paid-up share capital of the Company.

The details of the utilisation of the proceeds from the private placement up to 31 December 2008 are as follows:

Description	Proposed Utilisation	Actual Utilisation	Balance Unutilised
	RM'000	RM'000	RM'000
Working capital, general capital expenditure and/or repayment of bank borrowings ⁽¹⁾	8,160	8,160	0
Private placement expenses	80	80	0
Total	8,240	8,240	0

Note:-

- (1) The working capital of the Group will be used to finance the day-to-day operations of the Group.

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9. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 31.12.2008 RM'000	As at 31.12.2007 RM'000
Short term borrowings - secured		
- bankers' acceptances	30,851	35,307
- hire purchase payables	6,787	5,934
- term loans	7,676	15,509
- ECR	6,669	5,127
- RS Financing	2,276	-
- bank overdraft	12,987	12,129
	67,246	74,006
Long term borrowings - secured		
- hire purchase payables	9,591	13,139
- term loans	142,114	140,134
	151,705	153,273

10. Off Balance Sheet Financial Instruments

As at the date of this report, the Group had entered into the following forward foreign currency contracts to hedge its sales in USD:-

<u>Foreign Currency</u>	<u>Contract Amount</u>	<u>Maturity Date</u>
USD	18.0 million	Feb 2009 - Aug 2009

As the foreign currency contracts are entered into to hedge the Group's export proceeds in foreign currency, the contracted rates will be used to convert the foreign currency into Ringgit as and when they are taken up, on or before the maturity dates.

11. 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, which might materially and adversely affect the financial position or business of the Group.

12. Dividend

No dividend has been declared for the financial period ended 31 December 2008.

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13. Earnings per Share

The earnings per Share is calculated by dividing the Group's profit attributable to shareholders by the number of ordinary shares in issue in the respective periods as follows:-

a) Basic

	31 December 2008		31 December 2007	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	(761)	895	5,674	6,817
Number of ordinary shares in issue ('000)	90,400	90,400	80,000	80,000
Basic earnings per Share (sen)	(0.84)	0.99	7.09	8.52

b) Diluted

There is no dilutive effect arising from the Company's unexercised warrants as the exercise price is above the average market price of the Company's Shares during the period.

14. Authorisation

This Quarterly Results for the financial period ended 31 December 2008 have been seen and approved by the board of directors of HeveaBoard Berhad for release to the Bursa Securities.