

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2009

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

1. *Basis of Preparation*

The Quarterly Report has been prepared in accordance with the reporting requirements as outlined in the Financial Reporting Standards (“FRS”) No. 134 – “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2008.

2. *Declaration of audit qualification*

The preceding annual financial statements of the Group were reported on without any qualification.

3. *Nature and amount of unusual items*

There were no extraordinary items for the current interim period.

4. *Seasonal or Cyclical Factors*

There have been no material seasonal or cyclical factors affecting the results of the quarter under review.

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. Total repayment of debts amounted to RM1.82 million for the reporting quarter.

7. *Dividend Paid*

No dividend was paid in respect of the current financial year to date.

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8. Segmental Reporting (Analysis by Activities)

| | Cumulative quarter 12-month ended | | | |
|----------------------|--|-------------------------------------|--|-------------------------------------|
| | ← Current year period to-date 31.12.2009 | | Preceding year corresponding period to-date 31.12.2008 → | |
| | Revenue RM'000 | Profit Before Taxation RM'000 | Revenue RM'000 | Profit Before Taxation RM'000 |
| Manufacturing | | | | |
| Particleboards | 118,762 | (9,882) | 140,669 | (8,098) |
| RTA Products* | 183,857 | 26,424 | 173,328 | 7,030 |
| Trading | | | | |
| Particleboards | 5,063 | (149) | 4,617 | 378 |
| RTA Products* | 19,734 | 514 | 23,529 | 511 |
| Others | - | (3) | - | (3) |
| Total | 327,417 | 16,903 | 342,143 | (182) |

*RTA - Ready-To-Assemble

9. Valuations of Investment and Property, Plant and Equipment

No valuations are conducted during the period on the Group's property, plant and equipment.

10. Event Subsequent to the End of the Period

There were no material events subsequent to the end of the period reported that have not been reflected in the financial statement for the said period.

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 RM15.69 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 17 February 2010 (the latest practicable date not earlier than seven (7) days from the date of issue of this report).

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES LISTING REQUIREMENTS

1. Review of performance

The revenue of the Group for the current quarter ended 31 December 2009 was RM93.58 million, an increase of RM11.83 million or 14.5% as compared with the corresponding quarter in 2008. The increased revenue was contributed mainly from RTA furniture sector. For the 12-month ended 31 December 2009, the Group had recorded a total revenue of RM327.41 million.

The profit before taxation ("PBT") of the Group for the reporting quarter was RM5.68 million as compared with a loss before taxation of RM2.19 million in the corresponding quarter in 2008, an increase of RM7.87 million. This was attributed mainly to the RTA furniture sector due to improved productivity, lower raw materials cost and higher sales volume. In addition, the selling prices and demand of particleboard had also improved. For the 12-month ended 31 December 2009, the Group recorded a PBT of RM16.90 million and profit after taxation of RM19.08 million.

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

The Group reported a PBT of RM5.68 million for the current quarter as compared to the PBT of RM10.40 million over the immediate preceding quarter ended 30 September 2009. The lower US dollar exchange had inevitably reduced the margins of both the particleboard and RTA furniture sectors as more than 80% of the Group sales are derived from the export market.

3. Prospect for the current financial year

The current business environment remains challenging but the Directors expect the selling prices of particleboard to improve over time before the production lines return to full capacity. The demand for RTA furniture is very encouraging but additional output capacity is constrained by the restricted foreign labour intake approval.

4. Variances from Profit Forecasts and Profit Guarantee

Not applicable.

5. Taxation

| | Individual Quarter 3-month Ended | | Cumulative Quarter 12-month Ended | |
|------------------|---|--|--|---|
| | Current year quarter ended 31.12.2009 RM'000 | Preceding year corresponding quarter ended 31.12.2008 RM'000 | Current year period to-date 31.12.2009 RM'000 | Preceding year corresponding period to-date 31.12.2008 RM'000 |
| Current taxation | 4,046 | 1,430 | 2,174 | 1,076 |
| | <u>4,046</u> | <u>1,430</u> | <u>2,174</u> | <u>1,076</u> |

Income tax expenses for the current quarter and financial year to date arose mainly from the Group business operations after taking into consideration the following tax allowances:

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The Ministry of Finance had granted the Company under Section 127 of the Income Tax Act 1967, the Investment Tax Allowance ("ITA") based on 100% of all qualifying capital expenditure incurred during the 5-year period from FY 2005 to FY2009.

HeveaPac was awarded tax incentive under Allowance for Increased Export ("AIE") which the Company was entitled 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 acquisitions or disposals of unquoted investment and/or properties in the quarter ended 31 December 2009.

7. Quoted Investment

There were no purchases or disposals of quoted investments by the Group as at 31 December 2009.

8. (a) Status of corporate proposals announced but not completed

The Company announced the implementation of the Renounceable rights issue of up to 42,666,667 new warrants in HeveaBoard Berhad ("HeveaBoard" or the "Company") ("New Hevea Warrants") to all the shareholders of HeveaBoard on the basis of one (1) New Hevea Warrant for every three (3) existing ordinary shares of RM1.00 each held in HeveaBoard ("Hevea Shares" or "Shares") as at 5.00 p.m. on 2 February 2010 ("Entitlement Date") ("Rights Issue"); and

Restricted issue of up to 12,533,333 New Hevea Warrants to the holders of the unexercised 2004/2009 Warrants on 31 December 2009, being the expiry date of the 2004/2009 Warrants ("Expiry Date") on the basis of one (1) New Hevea Warrant for every three (3) unexercised 2004/2009 Warrants held on the Expiry Date ("Restricted Issue")

Listing date of the Rights Securities will be on 8 March 2010 and details of the Corporate Proposal were announced by OSK INVESTMENT BANK BERHAD to Bursa Securities on 18 January 2010.

(b) Status of utilization of proceeds raised from any corporate proposal for the quarter under review.

Utilization of proceeds raised is pending completion of the corporate proposal mentioned under 8 (a) above.

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9. Borrowings and Debt Securities

The Group's borrowings are as follows:

| | As at 31.12.2009 RM'000 | As at 31.12.2008 RM'000 |
|---------------------------------|-------------------------------|-------------------------------|
| Short term borrowings – secured | | |
| - bankers' acceptances | 1,783 | 30,852 |
| - hire purchase payables | 5,864 | 6,787 |
| - term loans | 6,941 | 7,676 |
| - ECR | 3,970 | 6,669 |
| - RS Financing | - | 2,276 |
| - bank overdraft | 2,553 | 12,986 |
| | <u>21,111</u> | <u>67,246</u> |
| Long term borrowings – secured | | |
| - hire purchase payables | 3,711 | 9,591 |
| - term loans | 177,635 | 142,114 |
| | <u>181,346</u> | <u>151,705</u> |

10. Off Balance Sheet Financial Instruments

Not Applicable

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 2009.

13. Earnings per Share

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

a) Basic

| | 31 December 2009 | | 31 December 2008 | |
|--|------------------|--------------------|------------------|----------------|
| | Quarter ended | Period to- date | Quarter ended | Period to-date |
| Profit attributable to the shareholders (RM'000) | <u>9,721</u> | <u>19,077</u> | <u>(761)</u> | <u>895</u> |
| Number of ordinary shares in issue ('000) | <u>90,400</u> | <u>90,400</u> | <u>90,400</u> | <u>90,400</u> |
| Basic earnings per Share (sen) | <u>10.75</u> | <u>21.10</u> | <u>(0.84)</u> | <u>0.99</u> |

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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 2009 have been seen and approved by the Board of Directors of HeveaBoard Berhad for release to the Bursa Securities.