

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

QUARTERLY REPORT – THIRD FINANCIAL QUARTER ENDED 30 SEPTEMBER 2011

A. EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134, INTERIM FINANCIAL REPORTING AND BURSA LISTING REQUIREMENTS

A1. Basis of Preparation

These interim financial statements are unaudited and have been prepared in accordance with the requirements of 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. The interim financial statements should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2010 and the explanatory notes attached to the interim financial statements which provide an explanation on events and transactions that are significant for the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2010.

A2. Significant accounting policies

The accounting policies and methods of computation adopted in these interim financial statements are consistent with those of audited financial statements for the financial year ended 31 December 2010, except for the adoption of the following Financial Reporting Standards (“FRSs”), Amendments to FRSs and Interpretations which were adopted by the Group with effect from 1 January 2011:-

FRS 7	Financial instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements (revised)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRSs	FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 2	Share-based Payment: Vesting Conditions and Cancellations
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRSs	FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures and IC Interpretations 9: Reassessment of Embedded Derivatives
Amendments to FRSs Improvements to FRSs (2009)	
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions
IC Interpretation 14	FRS 119 – The limit on a Defined Benefit Assets, Minimum Funding Requirements and their interaction

Except for the application of FRS 101 and FRS 139, the application of the above FRSs, Amendments to FRSs and Interpretation did not result in any significant changes in the accounting policies and presentations of the financial statement of the Group.

(a) FRS 101: Presentation of Financial Statements (revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity includes only details of transactions with owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. This FRS only entails revision in presentation aspects and does not have any impact on the financial position and results of the Group.

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(b) Amendment to FRS 117, Leases

The Group has adopted the amendment to FRS 117. The Group has changed the classification of long leasehold lands to property, plant and equipment. This change in classification has no effect to the profit or loss of the current quarter 30 September 2011 or the comparative of prior periods.

(c) FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instrument: Disclosures and Amendments to FRS 139: Financial Instruments: Recognition and Measurement, Amendments to FRS 7: Financial Instruments: Disclosures

FRS 139 sets out new requirements for the recognition and measurement of the Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the balance sheet date reflects the designation of the financial instruments.

FRS 7 deals with new disclosure in relation to the financial instruments. These FRSs entail increased disclosures both quantitative and qualitative of the Group's exposure to risks, enhanced disclosure on components of the Group's financial position and performance, and possible changes to the manner of which certain items are to be presented in the financial statements.

Financial assets

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) and financial assets that are specifically designated into this category upon initial recognition. Financial assets acquired principally for the purpose of selling in the near term.

Derivative that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

(ii) Held-to-maturity

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has the positive intention and ability to hold to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss.

(iii) Available-for-sale

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment loss. Other financial assets categorised as available-for-sale subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains or losses arising from a monetary items and gains or losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or

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loss. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, receivables and cash and cash equivalents. Such financial assets less impairment losses, if any are carried at amortised cost using the effective interest rate method.

Financial Liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

The adoption of FRS 139 does not have any significant impact on the profit for the financial year-to-date.

A3. Declaration of audit qualification

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

A4. Nature and amount of unusual items

There were no extraordinary items for the current interim period.

A5. Seasonal or Cyclical Factors

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

A6. 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.

A7. 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 RM7.40 million for the reporting quarter.

A8. Dividend Paid

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

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A9. Segmental Reporting (Analysis by Activities)

	← Cumulative 9-month quarter ended →			
	Current year period to-date 30.09.2011		Preceding year corresponding period to-date 30.09.2010	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
Manufacturing				
Particleboards	126,925	(1,058)	118,024	12,027
RTA Products*	132,361	1,333	127,820	5,844
Trading				
Particleboards	2,420	151	2,675	167
RTA Products*	15,154	225	12,950	219
Others	-	-	-	(3)
Total	276,860	650	261,469	18,254

*RTA - Ready-To-Assemble

A10. Subsequent events

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

A11. Valuations of Investment and Property, Plant and Equipment

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

A12. 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.

A13. Contingent Liabilities

Corporate guarantees of RM9.48 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 25 November 2011 (the latest practicable date not earlier than seven (7) days from the date of issue of this report).

A14. Capital Commitments

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 September 2011 were as follows:

	The Group
	RM'000
Approved and contracted	5,074
Approved but not contracted for	5,000

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES LISTING REQUIREMENTS

B1. Review of performance

The revenue of the Group for the current quarter ended 30 September 2011 was RM89.93 million, an increase of RM13.60 million or 18% as compared with the corresponding quarter in 2010. For the nine months ended 30 September 2011, the Group achieved total revenue of RM276.86 million as compared with RM261.47 million in the corresponding period in 2010, an increase of RM15.39 million or 6% as selling prices for particleboard had improved compared to last year.

The loss before taxation (“LBT”) of the Group for the reporting quarter was RM0.89 million, a decrease of RM 6.0 million or 118% as compared with the corresponding quarter in 2010. The loss incurred in the current quarter was mainly due to the unrealized exchange loss arising from the translation of the US Dollar denominated term loan.

For the nine months ended 30 September 2011, the Group reported PBT of RM 0.65 million as compared with a PBT of RM12.98 million in the corresponding period in 2010 or a decrease of 96%. The disparity in profit was due mainly to the margin erosion from the fluctuation of the USD exchange rate and translation of the USD denominated term loan. The prolonged rainy season in the early part of this year had affected the logs supply which resulted in lower production volume at the particleboard sector. The production capacity of the RTA sector had been constrained by a shortage of workers and this will hopefully be mitigated with the installation of the automated line by early next year.

B2. Material change in profit before taxation for the quarter against the immediate preceding quarter

The Group reported a LBT of RM0.89 million for the current quarter as compared to a PBT of RM1.06 million for the immediate preceding quarter ended 30 June 2011. The pre-tax loss was due mainly to the unrealized exchange loss arising from the translation of the USD denominated term loan.

B3. Prospect for the current financial year

The current business environment remains challenging but the Company expects the demand and selling prices of particleboard and RTA furniture to maintain at current level for this year.

The Company had on 12 October 2011 announced that a sealed copy of the order of the High Court of Malaya sanctioning the Termination of the Restructuring Scheme pursuant to Section 176 of the Companies Act, 1965 had been lodged with the Registrar of Companies on 12 October 2011.

B4. Variances from Profit Forecasts and Profit Guarantee

Not applicable.

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B5. Taxation

	Current Quarter		Cumulative Quarter	
	30.09.2011 RM'000	30.09.2010 RM'000	30.09.2011 RM'000	30.09.2010 RM'000
Current Taxation:				
- For the financial year	(5)	(165)	(197)	(579)
- Over Provision in prior year	-	-	-	-
	<u>(5)</u>	<u>(165)</u>	<u>(197)</u>	<u>(579)</u>
Deferred Taxation:				
- For the financial year	5,050	3,079	1,150	-
- Over Provision in prior year	-	-	-	-
	<u>5,050</u>	<u>3,079</u>	<u>1,150</u>	<u>-</u>

Income tax expenses for the current quarter and financial year to date arose mainly from the Group business operations. The Group has unabsorbed capital allowances, unabsorbed investment tax allowances, unabsorbed Re-investment Allowances, and unabsorbed Allowance for Increased Export available for offset against taxable statutory income.

B6. Realised and Unrealised Profits Disclosures

	As at
	30.09.2011
	RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	82,042
- Unrealised	2,767
	<u> </u>
Total group retained profits as per consolidated accounts	<u>84,809</u>

B7. Unquoted Investment and/or Properties

There were no acquisitions or disposals of unquoted investment and/or properties in the quarter ended 30 September 2011.

B8. Quoted Investment

There were no purchases or disposals of quoted investments by the Group as at 30 September 2011.

B9. Status of corporate proposals announced but not completed

None

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B10. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 30.09.2011 RM'000	As at 30.09.2010 RM'000
Short term borrowings – secured		
- bankers' acceptances/ trade bills financing	-	3,123
- hire purchase payables	896	3,358
- term loans	21,443	1,794
- ECR	3,871	2,879
- MBB OFCL Financing	12,091	-
- bank overdraft	-	1,933
	<hr/> 38,301	<hr/> 13,087
	<hr/>	<hr/>
Long term borrowings – secured		
- hire purchase payables	1,693	2,491
- term loans	119,833	164,549
	<hr/> 121,526	<hr/> 167,040
	<hr/>	<hr/>

B11. Off Balance Sheet Financial Instruments

In order to hedge its exposure against foreign exchange risks, the Group has entered into forward contracts to hedge some of its sales proceeds in USD:-

<u>Foreign Currency</u>	<u>Contract Amount</u>	<u>Maturity Date</u>
USD	2.1 million	Nov 2011 - Feb 2012

Where the instrument is used to hedge against anticipated future transactions, gains and losses are not recognised until the transaction occurs. The foreign exchange currency forward contracts are entered into for a period not exceeding 3 months.

B12. 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.

B13. Dividend

No dividend has been declared for the financial period ended 31 December 2010.

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B14. 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

	30 September 2011		30 September 2010	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	(895)	454	5,105	17,675
Number of ordinary shares in issue ('000)	90,400	90,400	90,400	90,400
Basic earnings per Share (sen)	(0.99)	0.50	5.65	19.55

b) Diluted

There is no dilutive effect arising from the Company's unexercised warrants.

B15. Authorisation

These Quarterly Results for the financial period ended 30 September 2011 have been seen and approved by the Board of Directors of HeveaBoard Berhad for release to the Bursa Securities.