

HeveaBoardBerhad
(Company No. 275512-A)
(Incorporated in Malaysia)

QUARTERLY REPORT – SECOND FINANCIAL QUARTER ENDED 30 JUNE 2012

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

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the reporting requirements of MFRS 134: Interim Financial Reporting and the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”). For the periods up to and including the year ended 31 December 2011, the Group prepared its financial report in accordance with Financial Reporting Standards (“FRS”).

The interim financial report should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2011. The explanatory notes attached to the interim financial statements 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 2011.

A2. Significant accounting policies

MASB Approved Accounting Standards, MFRSs

In conjunction with the planned convergence of FRSs with International Financial Reporting Standards as issued by the International Accounting Standards Board on 1st January 2012, the MASB had on 19th November 2011 issue a new MASB approved accounting standards, MFRSs (“MFRSs Framework”) for application in the annual periods beginning on or after 1st January 2012.

The MFRSs Framework is mandatory for adoption by all Entities Other Than Private Entities for annual periods beginning on or after 1st January 2012, with the exception of entities subject to the application of MFRS 141 *Agriculture* and/or IC Int 15 *Agreements for the Construction of Real Estate (“Transitioning Entities”)*. The Transitioning Entities are given an option to defer adoption of the MFRSs framework for an additional one year. Transitioning Entities also includes those entities that consolidate or equity account or proportionately consolidate another entity that has chosen to continue to apply the FRSs framework for annual periods beginning on or after 1st January 2012.

Accordingly, the Group and the Company which are not Transitioning Entities are required to adopt the MFRSs framework for the next financial year, being the first set of financial statements prepared in accordance with the MFRSs framework.

Application of MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (“MFRS 1”)

MFRS 1 requires comparative information to be restated as if the requirements of MFRSs effective for annual periods beginning on or after 1st January 2012 have always been applied, except when

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MFRS 1 allows certain elective exemptions from such full retrospective application or prohibits retrospective application of some aspects of MFRSs.

The initial applications of the MFRSs do not have any significant impact on the financial statements of the Group and the Company.

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 RM7.76 million for the reporting quarter.

A8. Dividend Paid

A first and final tax-exempt dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2011 amounted to RM904,000.00 was declared on 9 May 2012 and paid on 6 July 2012.

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A9. Segmental Reporting (Analysis by Activities)

	← Cumulative 6-month quarter ended →			
	Current year period to-date 30.06.2012		Preceding year corresponding period to-date 30.06.2011	
	Revenue RM'000	Profit Before Taxation RM'000	Revenue RM'000	Profit Before Taxation RM'000
Manufacturing				
Particleboards	86,571	(1,384)	81,820	594
RTA Products*	104,355	5,784	93,397	604
Trading				
Particleboards	948	96	1,325	120
RTA Products*	9,103	217	10,385	222
Others	-	-	-	-
Total	200,976	4,713	186,927	1,540

*RTA - Ready-To-Assemble

Particleboard Manufacturing Sector

This sector had achieved 5.8% higher revenue or RM4.8 million in the six-month reporting period as compared with the corresponding period in 2011, due mainly to higher average selling price and USD exchange rate to Ringgit. Despite the higher revenue, the particleboard sector had incurred a Loss Before Tax of only RM1.4 million in the 1st half of 2012 as compared with a Profit Before Tax of RM0.6 million in the same period in 2011 due to the higher raw materials costs and in 2011 the unrealised exchange gain was RM2.5 million while we had only RM1.1 million unrealized exchange gain in 2012 from the translation of USD dominated loan.

RTA Manufacturing Sector

This sector had achieved a higher revenue and a higher Profit Before Tax in the reporting period as compared with the corresponding period in 2011, RM11.0 million and RM5.2 million respectively. These were attributed mainly to higher output by the two automated lines installed in early 2012, increased productivity and higher sales volume.

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.

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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 RM11.57 million are given to financial institutions for banking facilities and hire purchase facilities granted to subsidiaries as at 10 August 2012 (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 10 August 2012 were as follows:

	The Group
	RM'000
Approved but not contracted for	12,500

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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 June 2012 was RM96.56 million, an increase of RM6.0 million or 7% as compared with the corresponding quarter in 2011. For the six months ended 30 June 2012, the Group achieved a total revenue of RM201.0 million as compared with RM186.9 million in 2011, an increase of RM14.1 million or 7.5%. This higher revenue achieved was attributed from both Particleboard and RTA furniture sectors.

The profit before taxation (“PBT”) of the Group for the reporting quarter was RM0.69 million, a decrease of RM0.37 million or 35% as compared with the corresponding quarter in 2011. For the six months ended 30 June 2012, the Group reported a PBT of RM4.7 million as compared to RM1.5 million for the same period in 2011, an increase of RM3.2 million. The higher PBT achieved by the Group was mainly contributed by the RTA furniture sector which had achieved a higher productivity due to the newly implemented automated line.

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

The Group reported a PBT of RM0.69 million for the current quarter as compared to RM4.02 million for the immediate preceding quarter ended 31 March 2012, a decrease of RM3.3 million or 82%. This was due mainly to the reduction of the unrealized exchange gain by RM2.3 million arising from the translation of the USD denominated term loan as the USD exchange to Ringgit had strengthened in the reporting since mid-May 2012.

B3. Prospect for the current financial year

The current business environment remains challenging for both particleboard and RTA furniture sectors in view of the uncertainties in the external environment. The RTA furniture sector expects a drastic increase in labor cost due to the minimum wage policy announced recently by the Malaysian Government and it will further embark on automating its production line to reduce the dependency on foreign manual workers.

For the particleboard sector, the company will continue with its R&D to produce higher value products and continuous improvement in its manufacturing process to increase productivity.

B4. Variances from Profit Forecasts and Profit Guarantee

Not applicable.

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B5. Taxation

	Current Quarter		Cumulative Quarter	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
	RM'000	RM'000	RM'000	RM'000
Current Taxation:				
- For the financial year	(268)	(51)	(548)	(192)
	(268)	(51)	(548)	(192)

Income tax expenses for the current quarter and financial year to date arose mainly from the Group business operations. The Group has about RM466.4 million tax allowances in 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 30.06.2012 RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	90,780
- Unrealised	1,082
	<hr/>
Total group retained profits as per consolidated accounts	<u>91,862</u>

B7. Status of corporate proposals announced but not completed

None

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B8. Borrowings and Debt Securities

The Group's borrowings are as follows:

	As at 30.06.2012 RM'000	As at 31.12.2011 RM'000
Short term borrowings – secured		
- hire purchase payables	1,078	2,557
- term loans	41,993	26,373
- ECR	791	3,180
- MBB OFCL Financing	9,247	10,951
- bank overdraft	4,998	4,437
	<u>58,107</u>	<u>47,498</u>
Long term borrowings – secured		
- hire purchase payables	5,958	4,492
- term loans	83,038	112,492
	<u>88,996</u>	<u>116,984</u>

B9. 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.

B10. Dividend

The Directors did not recommend any dividend for the current financial quarter ended 30 June 2012. (Nil for the financial quarter ended 30 June 2011).

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B11. 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 June 2012		30 June 2011	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	424	4,165	1,009	1,348
Number of ordinary shares in issue ('000)	90,400	90,400	90,400	90,400
Basic earnings per Share (sen)	0.47	4.61	1.12	1.49

b) Diluted

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

B12. Authorisation

These Quarterly Results for the financial period ended 30 June 2012 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.