

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

QUARTERLY REPORT – THIRD FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

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

A1. Basis of Preparation

The interim financial report has been prepared in accordance with the reporting requirements outlined in the MFRS 134 issued by the Malaysian Accounting Standard Board (“MASB”) and the applicable disclosure provisions of the 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 2016.

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual audited financial statements for the year ended 31 December 2016.

The Group has adopted all the new and revised MFRSs and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1 January, 2017. The adoption of these new and revised MFRSs and IC Interpretations have not resulted in any material impact on the financial statements of the Group.

A2. Declaration of audit qualification

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

A3. Nature and amount of unusual items

There were no extraordinary items for the current interim period.

A4. Seasonal or Cyclical Factors

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

A5. 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.

A6. 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 RM5.24 million for the reporting quarter.

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A7. Dividend Paid

A single-tier 3rd interim dividend of 2.0 sen and a single-tier final dividend of 2.5 sen per ordinary share in respect of the financial year ended 31 December 2016 were paid on 30 March 2017 and 29 June 2017 respectively.

A single-tier 1st interim dividend of 1.6 sen per ordinary share in respect of the financial year ended 31 December 2017 was paid on 09 October 2017 respectively.

A8. Segmental Reporting (Analysis by Activities)

	← Cumulative 9-month quarter ended →			
	Current year period to-date 30.09.2017		Preceding year corresponding period to-date 30.09.2016	
	Revenue RM'000	Profit / (Loss) Before Taxation RM'000	Revenue RM'000	Profit / (Loss) Before Taxation RM'000
Operating Segments				
Particleboards	171,163	28,531	160,695	28,221
RTA Products*	240,824	27,086	234,130	32,513
Total	411,987	55,617	394,825	60,734

*RTA - Ready-To-Assemble

Particleboard Manufacturing Sector

The revenue reported for this period increased by RM10.47 million or 6.51 % as compared to the same period last year. The higher revenue achieved was due mainly to higher selling price, increased sales of higher grade products, increased sales in value added products despite higher raw material cost during this reporting period.

The profit before tax reported for this period was RM28.53 million as compared to RM28.22 million in 2016, an increase of RM0.31 million or 1.10 % due mainly to better margins contributed by factors as described above despite being impacted by much higher raw material costs and higher exchange loss as compared to the same period last year.

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RTA Manufacturing Sector

The revenue reported for this period increased by RM6.69 million or 2.86 % as compared to the same period last year. The RTA Sector's continuous effort in enhancing and automating its processes had resulted in higher efficiency and also the capability to produce higher value and wider range of products.

The profit before tax reported for this period was RM27.09 million as compared to RM32.51 million in 2016, a decrease of RM5.43 million or 16.69 % as compared to the same period last year due mainly to the shortage of foreign workers during the 3rd quarter and this had resulted in higher operational costs as optimum production capacity was not achieved.

A9. Subsequent events

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

A10. Valuation of Investment and Property, Plant and Equipment

No valuation was conducted during the period on the Group's property, plant and equipment.

A11. Effect of Changes in the Composition of the Group

The company had announced on 1 March 2017, the incorporation of a new wholly-owned subsidiary namely HeveaGro Sdn Bhd.

A12. Contingent Liabilities

Corporate guarantees of RM 19.35 million were given to financial institutions for term loan and hire purchase facilities granted to subsidiaries as at 15 Nov 2017 (the latest practicable date not earlier than seven (7) days from the date of issue of this report).

A13. Capital Commitments

The commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 September 2017 were as follows:

	The Group
	RM'000
Approved and contracted for	17,235

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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 2017 was RM118.01 million, a decrease of RM9.14 million or 7.19 % as compared with the corresponding quarter in FY2016. For the 9 months ended 30 September 2017, the revenue for the Group was RM411.99 million, an increase of RM17.16 million or 4.35% as compared with the corresponding period. The decrease in revenue for the reporting quarter was due to the planned annual preventive maintenance at the particleboard sector and also the shortage of foreign workers at the RTA sector which had resulted in higher operational costs as optimum production capacity could not be achieved.

The profit before taxation ("PBT") of the Group for the reporting quarter was RM8.04 million, a decrease of RM11.15 million or 58.12 % as compared with the corresponding quarter in FY2016. For the 9 months ended 30 September 2017, the Group reported a PBT of RM55.62 million, a decrease of RM5.12 million or 8.43% as compared with the corresponding period in FY2016. The decrease in PBT was due to reasons as stated in the Segmental Reporting A8.

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

The Group reported a PBT of RM8.04 million for the current quarter as compared to RM 17.98 million for the immediate preceding quarter ended 30 June 2017, a decrease of RM 9.94 million or 55.28 % due mainly to the planned annual preventive maintenance at the particleboard sector, shortage of foreign workers faced by RTA sector and a lower USD exchange rate during the reporting quarter.

B3. Prospect for the current financial year

The global business environment is full of uncertainties and challenges, and in addition, we are also facing challenges pertaining to the shortage of foreign workers at the RTA sector. Despite all these, the Board is of the opinion that with the particleboard sector continuing to focus on developing higher value products, and the RTA sector is actively working on the workers' issue, continuing to embark on further automation and producing wider range of higher value products, the Group should be able to manage the challenges ahead.

B4. Variances from Profit Forecasts and Profit Guarantee

Not applicable.

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B5. Profit/(Loss) Before Taxation

Profit/(Loss) before taxation is arrived at after charging/(crediting):-

	Current Quarter Ended 30/09/2017 RM'000	Corresponding Quarter Ended 30/09/2016 RM'000	Current Year to date Ended 30/09/2017 RM'000	Corresponding Year to date Ended 30/09/2016 RM'000
Interest income	(758)	(909)	(2,763)	(2,465)
Interest expense	586	547	1,329	1,808
Depreciation and amortization	5,618	6,563	16,773	19,463
Net realized foreign exchange (gain)/loss	566	877	367	(888)
Net unrealized foreign exchange (gain)/loss	459	(201)	1,248	(254)

B6. Taxation

	Current Quarter		Cumulative Quarter	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
Current Taxation:				
- For the financial year	(870)	(1,952)	(6,819)	(8,072)
	<u>(870)</u>	<u>(1,952)</u>	<u>(6,819)</u>	<u>(8,072)</u>

The income tax expenses of the Group for the reporting quarter and financial year to date was RM0.87 and RM6.82 million respectively. The RTA sector had exhausted its tax incentive on Allowance in Increased Export ("AIE") to offset against taxable statutory income since mid-2015. The Group, however, under the particleboard sector still has unabsorbed capital allowances, unabsorbed investment tax allowance (ITA), reinvestment allowance (RA) and unutilized tax losses available to offset against the taxable statutory income.

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B7. Realised and Unrealised Profits Disclosures

	As at 30.09.2017 RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	304,048
- Unrealised	(1,248)
Total group retained profits as per consolidated accounts	<u>302,800</u>

B8. Corporate Proposal

There was no corporate proposal announced during the financial period to date.

B9. Borrowings, Debt Securities and Trade Finance

The Group's borrowings are as follows:

	As at 30.09.2017 RM'000	As at 31.12.2016 RM'000
Short term borrowings -secured		
- hire purchase payables	5,387	2,399
- term loans	1,434	5,113
	<u>6,821</u>	<u>7,512</u>
Long term borrowings – secured		
- hire purchase payables	1,832	3,772
- term loans	15,002	4,205
	<u>16,834</u>	<u>7,977</u>

B10. 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.

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B11. Dividend

A Single-Tier 2nd Interim Dividend of 1.6 sen per ordinary share in respect of the financial year ending 31 December 2017 is declared on 23rd November 2017.

B12. Earnings per Share

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

a) **Basic**

	30 September 2017		30 September 2016	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	7,165	48,798	17,233	52,662
Weighted average number of shares (units '000)	538,521	538,521	466,115	466,115
Basic earnings per Share (sen)	1.33	9.06	3.70	11.30

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b) *Diluted*

The diluted earnings per share for the current financial period ended 30 September 2017 has been calculated by dividing the Group's net profit for the period by the weighted average number of shares that would have been issued upon full exercise of the remaining warrants, adjusted for the number of such shares that would have been issued at fair value, calculated as below.

	30 September 2017		30 September 2016	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit for financial year attributable to owners of the company (units '000)	7,165	48,798	17,233	52,662
Weighted average number of shares (units '000)	538,521	538,521	466,115	466,115
Add: Effect of dilution of Warrants (units '000)	10,894	10,894	75,564	75,564
	549,415	549,415	541,679	541,679
Diluted earnings per share (sen)	1.30	8.88	3.18	9.72

B13. Authorisation

These Quarterly Results for the financial period ended 30 September 2017 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.