

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

QUARTERLY REPORT – FORTH FINANCIAL QUARTER ENDED 31 DECEMBER 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 RM0.74 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 and 2nd interim dividend of 1.6 sen per ordinary share in respect of the financial year ended 31 December 2017 were paid on 09 October 2017 and 05 January 2018 respectively.

A8. Segmental Reporting (Analysis by Activities)

	← Cumulative 12-month quarter ended →			
	Current year period to-date 31.12.2017		Preceding year corresponding period to-date 31.12.2016	
	Revenue RM'000	Profit / (Loss) Before Taxation RM'000	Revenue RM'000	Profit / (Loss) Before Taxation RM'000
Operating Segments				
Particleboards	234,332	36,808	225,112	44,402
RTA Products*	310,331	29,651	314,933	45,915
Others	-	(644)	-	(22)
Total	544,663	65,815	540,045	90,295

*RTA - Ready-To-Assemble

Particleboard Manufacturing Sector

The revenue reported for this period increased by RM9.22 million or 4.10 % 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 RM36.81 million as compared to RM44.40 million in 2016, a decrease of RM7.59 million or 17.10 % due mainly to higher raw material costs, weaker USD exchange rate and higher exchange losses as compared to the same period last year.

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RTA Manufacturing Sector

The revenue reported for this period decreased by RM4.60 million or 1.46 % as compared to the same period last year. The shortage of foreign workers had resulted in optimum production efficiency not being achieved. In addition, the start of the new factory had also resulted in the need for more workers which exacerbated the shortage of workers even further during this period, thus impacting the existing and also new operation at the RTA sector.

The profit before tax reported for this period was RM29.65 million as compared to RM45.92 million in 2016, a decrease of RM16.26 million or 35.42 % as compared to the same period last year due mainly to the shortage of foreign workers which started during the 3rd quarter with effects spilling over to the current reporting quarter with 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 for the production of gourmet fungi.

A12. Contingent Liabilities

Corporate guarantees of RM 18.13 million were given to financial institutions for term loan and hire purchase facilities granted to subsidiaries as at 20 Feb 2018 (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 financial statements as at 31 December 2017 were as follows:

	The Group
	RM'000
Approved and contracted for	15,104
Approved and not contracted for	13,000

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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 31 December 2017 was RM132.68 million, a decrease of RM12.54 million or 8.64 % as compared with the corresponding quarter in FY2016. The decrease in revenue for the reporting quarter was due mainly to the shortage of foreign workers at the RTA sector which had impacted the operation of the plant as optimum production capacity could not be achieved.

For the 12 months ended 31 December 2017, the revenue for the Group was RM544.66 million, an increase of RM4.62 million or 0.86 % as compared with the corresponding period. The increase was contributed from the Particleboard sector and the reasons for the increase are indicated in the Segmental Reporting A8.

The profit before taxation ("PBT") of the Group for the reporting quarter was RM10.20 million, a decrease of RM19.36 million or 65.50 % as compared with the corresponding quarter in FY2016. The decrease was contributed by both the Particleboard and RTA sectors and the reasons for decrease are indicated in the Segmental Reporting A8.

For the 12 months ended 31 December 2017, the Group reported a PBT of RM65.82 million, a decrease of RM24.28 million or 27.11 % 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 RM10.20 million for the current quarter as compared to RM8.04 million for the immediate preceding quarter ended 30 September 2017, an increase of RM2.16 million or 26.93 % due mainly to the better performance at the particleboard sector as the planned annual preventive maintenance was done in the previous quarter.

B3. Prospect for the current financial year

The global business environment is full of uncertainties and challenges but the Board is of the opinion that with the particleboard sector continuing to focus on developing higher value products, and the shortage of workers at RTA sector is currently being resolved, 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 31/12/2017 RM'000	Corresponding Quarter Ended 31/12/2016 RM'000	Current Year to date Ended 31/12/2017 RM'000	Corresponding Year to date Ended 31/12/2016 RM'000
Interest income	(721)	(859)	(3,484)	(3,324)
Interest expense	801	241	2,130	2,049
Depreciation and amortization	5,935	6,072	22,708	25,535
Net realized foreign exchange (gain)/loss	597	(2,078)	963	(2,966)
Net unrealized foreign exchange (gain)/loss	2,310	(1,484)	3,558	(1,738)

B6. Taxation

	Current Quarter		Cumulative Quarter	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Current Taxation:				
- For the financial year	(1,192)	(1,555)	(8,012)	(9,627)
- Deferred Taxation	4,340	-	4,340	-
	<u>5,308</u>	<u>(1,555)</u>	<u>(1,512)</u>	<u>(9,627)</u>

The income tax expenses of the Group for the financial year to date was RM1.51 million. 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.

During the year, the Group had recognised RM6.5million (2016: RM Nil) deferred tax assets arising principally from unabsorbed allowances on investment tax allowances available to the Company less temporary differences in respect of excess of capital allowance over book depreciation. The deferred tax asset has been recognised to the extent that it is probable that future taxable profits will be available to offset the temporarily differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax liabilities of RM2.16million (2016: RM776,800) had been recognised by the Group during the year, arising principally from the taxable temporary differences.

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B7. Realised and Unrealised Profits Disclosures

	As at 31.12.2017 RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	312,953
- Unrealised	(3,558)
Total group retained profits as per consolidated accounts	<u>309,395</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 31.12.2017 RM'000	As at 31.12.2016 RM'000
Short term borrowings -secured		
- hire purchase payables	3,496	2,399
- term loans	3,502	5,113
	<u>6,998</u>	<u>7,512</u>
Long term borrowings – secured		
- hire purchase payables	3,785	3,772
- term loans	11,822	4,205
	<u>15,607</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 3rd Interim Dividend of 1.6 sen per ordinary share in respect of the financial year ending 31 December 2017 is declared on 27 February 2018.

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**

	31 December 2017		31 December 2016	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	<u>15,506</u>	<u>64,304</u>	<u>28,006</u>	<u>80,669</u>
Weighted average number of shares (units '000)	<u>538,657</u>	<u>538,657</u>	<u>467,180</u>	<u>467,180</u>
Basic earnings per Share (sen)	<u>2.88</u>	<u>11.94</u>	<u>5.99</u>	<u>17.27</u>

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b) *Diluted*

The diluted earnings per share for the current financial period ended 31 December 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.

	31 December 2017		31 December 2016	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit for financial year attributable to owners of the company (units '000)	<u>15,506</u>	<u>64,304</u>	<u>28,006</u>	<u>80,669</u>
Weighted average number of shares (units '000)	538,657	538,657	467,180	467,180
Add: Effect of dilution of Warrants (units '000)	<u>9,849</u>	<u>9,849</u>	<u>67,275</u>	<u>67,275</u>
	<u>548,505</u>	<u>548,505</u>	<u>534,455</u>	<u>534,455</u>
Diluted earnings per share (sen)	<u>2.83</u>	<u>11.72</u>	<u>5.24</u>	<u>15.09</u>

B13. Authorisation

These Quarterly Results for the financial period ended 31 December 2017 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.