

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

QUARTERLY REPORT – THIRD FINANCIAL QUARTER ENDED 30 SEPTEMBER 2018

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 2017.

A1.1 Accounting Policies

The significant accounting policies and methods of computation adopted by HeveaBoard Berhad in the condensed interim financial statements are consistent with those adopted in the audited consolidated financial statements of HeveaBoard Berhad for the financial year ended 31 December 2017 other than the application of a new MFRS and amendments to MFRSs which became effective for annual period beginning 1 January 2018.

		Effective for financial periods beginning on or after
<u>New MFRSs</u>		
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 16	Leases	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021

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A1. Basis of Preparation (Continued)

A1.1 Accounting Policies (Continued)

<u>Amendments/Improvements to MFRSs</u>		Effective for financial periods beginning on or after
MFRS 1	First-time adoption of MFRSs	1 January 2018
MFRS 2	Share-based Payment	1 January 2018/ 1 January 2020
MFRS 3	Business Combinations	1 January 2019/ 1 January 2020
MFRS 4	Insurance Contracts	1 January 2018
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020
MFRS 9	Financial Instruments	1 January 2019
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 11	Joint Arrangements	1 January 2019
MFRS 14	Regulatory Deferral Accounts	1 January 2020
MFRS 101	Presentation of Financial Statements	1 January 2020
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020
MFRS 112	Income Taxes	1 January 2019
MFRS 119	Employee Benefits	1 January 2019
MFRS 123	Borrowing Costs	1 January 2019
MFRS 128	Investments in Associates and Joint Ventures	1 January 2018/ 1 January 2019/ Deferred
MFRS 134	Interim Financial Reporting	1 January 2020
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020
MFRS 138	Intangible Assets	1 January 2020
MFRS 140	Investment Property	1 January 2018

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A1. Basis of Preparation (Continued)

A1.1 Accounting Policies (Continued)

		Effective for financial periods beginning on or after
<u>New IC Int</u>		
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IC Int 23	Uncertainty over Income Tax Treatments	1 January 2019
<u>Amendments to IC Int</u>		
IC Int 12	Service Concession Arrangements	1 January 2020
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020
IC 132	Intangible Assets – Web Site Costs	1 January 2020

The Group will adopt the aforementioned pronouncements when they become effective in the respective financial periods. The initial application of these new MFRS and amendments to MFRSs has no material impact on the financial statements in the period of initial applications.

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.

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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 RM1.40 million for the reporting quarter.

A7. Dividend Paid

A single-tier second interim dividend and a single-tier third interim dividend of 1.6 sen per ordinary share each, and a single-tier final dividend of 2.0 sen in respect of the financial year ended 31 December 2017 were paid on 5 January 2018 (RM8.92 million), 9 April 2018 (RM8.92 million) and 5 July 2018 (RM11.18 million) respectively.

A single-tier 1st interim dividend of 1.2 sen per ordinary share in respect of the financial year ended 31 December 2018 was paid on 01 October 2018 (RM6.71 million).

A8. Segmental Reporting (Analysis by Activities)

	← Cumulative 9-month quarter ended →			
	Current year period to-date 30.9.2018		Preceding year corresponding period to date 30.9.2017	
	Revenue RM'000	Profit/(loss) before taxation RM'000	Revenue RM'000	Profit before taxation RM'000
Operating Segments				
Particleboards	139,996	10,537	171,163	28,916
RTA Products	182,852	743	240,824	27,086
Fungi Cultivation	237	(1,107)	-	(385)
	323,085	10,173	411,987	55,617

Particleboard Manufacturing Sector

The revenue and profit before tax reported for this period decreased by RM31.17 million or 18.21% and RM18.38 million or 63.56% as compared to the same period last year. The lower revenue and profit before tax were mainly due to the soft particleboard market sentiment caused by the trade war between USA and China, weakened USD/MYR exchange rate and the increase in raw material cost during this reporting period as compared to the same period last year.

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A8. Segmental Reporting (Analysis by Activities) (Continued)

RTA Manufacturing Sector

The revenue and profit before tax reported for this period decreased by RM57.97 million or 24.07% and RM26.34 million or 97.26% as compared to the same period last year. The lower revenue and profit before tax were mainly due to the critical shortage of foreign workers during the period and had resulted in higher operational costs as optimum production capacity could not be achieved and firm orders not met. In addition, the weakened USD/MYR exchange rate had also impacted the revenue and profit during this reporting period as compared to the same period last year.

Fungi Cultivation

The revenue and loss before tax reported for this period were RM0.24 million and RM1.11 million. The low revenue and loss before tax were mainly due to the start-up cost and the commercial harvest had only commenced in June 2018.

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

There were no changes in the composition of the Group during the current period and year to date.

A12. Contingent Liabilities

Corporate guarantees of RM19.08 million were given to financial institutions for term loan and hire purchase facilities granted to subsidiaries as at 15 November 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 30 September 2018 were as follows:

Approved and not contracted for

The Group
RM'000
2,000

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ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES LISTING REQUIREMENTS

B1. Review of performance

The revenue and profit before tax of the Group for the current quarter ended 30 September 2018 were RM101.71 million and RM3.39 million, a decrease of RM16.30 million or 13.82% and RM4.65 million or 57.83% respectively as compared with the corresponding quarter in FYE 2017.

For the 9 months ended 30 September 2018, the revenue and profit before tax for the Group were RM323.10 million and RM10.17 million, a decrease of RM88.90 million or 21.58% and RM45.44 million or 81.71% respectively as compared to the corresponding period in FYE 2017.

The decrease was from both the particleboard and RTA sectors and the reasons for the decrease are 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 RM3.39 million for the current quarter as compared to RM4.39 million for the immediately preceding quarter ended 30 June 2018, a decrease of RM1.00 million or 22.78% due mainly to the spillover effect of labour shortage situation at RTA sector as mentioned in Segmental Reporting A8.

B3. Prospect for the current financial year

The global business environment is currently challenging due to additional particleboard capacities coming on stream and the macroeconomic condition is also highly uncertain with the trade war prevailing between US and China. The Board is however of the opinion that with the particleboard sector continuing to focus on developing higher value products, better managing cost and efficiencies, the Group should be able to manage the challenges ahead.

As for the RTA sector, labour shortage issue is now resolved and we hope to be able to get back to our desired momentum soonest.

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 30.9.2018 RM'000	Corresponding Quarter Ended 30.9.2017 RM'000	Current Year To Date Ended 30.9.2018 RM'000	Corresponding Year to date Ended 30.9.2017 RM'000
Interest income	(835)	(758)	(2,041)	(2,763)
Interest expense	561	586	1,504	1,329
Depreciation and amortisation	7,489	5,618	20,038	16,773
Net realised foreign exchange (gain)/loss	(699)	566	(1,871)	367
Net unrealised foreign exchange (gain)/loss	(224)	459	(866)	1,248

B6. Taxation

	Current Quarter		Cumulative Quarter	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Taxation				
- Income tax	(219)	(870)	(408)	(6,819)
- Deferred tax	-	-	-	-
	<u>(219)</u>	<u>(870)</u>	<u>(408)</u>	<u>(6,819)</u>

The income tax expenses of the Group for the reporting quarter and financial year to date were RM0.22 million and RM0.41 million respectively. 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. The RTA sector still has reinvestment allowance (RA) to partially offset against the taxable statutory income.

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B7. Corporate Proposal

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

B8. Loans and Borrowings

The Group's borrowings are as follows:

	As at 30.09.2018 RM'000	As at 31.12.2017 RM'000
Short term borrowings - secured		
-finance lease liabilities	6,744	3,496
-term loans	2,964	3,502
	<u>9,708</u>	<u>6,998</u>
Long term borrowings - secured		
-finance lease liabilities	2,478	3,785
-term loans	9,567	11,822
	<u>12,045</u>	<u>15,607</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

A Single-Tier 2nd Interim dividend of 1.2 sen per ordinary share in respect of the financial year ending 31 December 2018 is declared on 22 November 2018.

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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 weighted number of ordinary shares in issue in the respective periods as follows:-

a) Basic

	30 September 2018		30 September 2017	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	3,169	9,765	7,165	48,798
Weighted average number of shares (units '000)	559,774	559,774	538,521	538,521
Basic earnings per share (sen)	0.57	1.74	1.33	9.06

b) Diluted

The diluted earnings per share for the current financial period ended 30 September 2018 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 2018		30 September 2017	
	Quarter ended	Period to date	Quarter ended	Period to date
Profit for the financial year attributable to owners of the Company (units '000)	3,169	9,765	7,165	48,798
Weighted average number of shares (units '000)	559,774	559,774	538,521	538,521
Add: Effect of dilution of Warrants (units '000)	8,012	8,012	10,894	10,894
	567,786	567,786	549,415	549,415
Basic earnings per share (sen)	0.56	1.72	1.30	8.88

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B12. Authorisation

These Quarterly Results for the financial period ended 30 September 2018 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.