

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

**QUARTERLY REPORT – FOURTH FINANCIAL QUARTER ENDED 31 DECEMBER 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.

		<b>Effective for financial periods beginning on or after</b>
<u>New MFRSs</u>		
MFRS 16	Leases	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021
<u>Amendments/Improvements to MFRSs</u>		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2021 <sup>#</sup>
MFRS 2	Share-based Payment	1 January 2020*
MFRS 3	Business Combinations	1 January 2019/ 1 January 2020*
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021 <sup>#</sup>
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7	Financial Instruments: Disclosures	1 January 2021 <sup>#</sup>
MFRS 9	Financial Instruments	1 January 2019

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**A1. Basis of Preparation (Continued)**

**A1.1 Accounting Policies (Continued)**

		<b>Effective for financial periods beginning on or after</b>
<u>Amendments/Improvements to MFRSs (Continued)</u>		
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 11	Joint Arrangements	1 January 2019
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 15	Revenue from Contracts with Customers	1 January 2021 <sup>#</sup>
MFRS 101	Presentation of Financial Statements	1 January 2020*
MFRS 107	Statements of Cash Flows	1 January 2021 <sup>#</sup>
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020*
MFRS 112	Income Taxes	1 January 2019
MFRS 116	Property, Plant and Equipment	1 January 2021 <sup>#</sup>
MFRS 119	Employee Benefits	1 January 2019
MFRS 123	Borrowing Costs	1 January 2019
MFRS 128	Investments in Associates and Joint Ventures	1 January 2019/ Deferred
MFRS 132	Financial instruments: Presentation	1 January 2021 <sup>#</sup>
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 136	Impairment of Assets	1 January 2021 <sup>#</sup>
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*
MFRS 138	Intangible Assets	1 January 2020*
MFRS 140	Investment Property	1 January 2021 <sup>#</sup>

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**A1. Basis of Preparation (Continued)**

**A1.1 Accounting Policies (Continued)**

	<b>Effective for financial periods beginning on or after</b>
<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 Int 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 RM1.41 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 first interim dividend and a single-tier second interim dividend of 1.2 sen per ordinary share in respect of the financial year ended 31 December 2018 were paid on 1 October 2018 (RM6.71 million) and 7 January 2019 (RM6.71 million).

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

	←———— Cumulative 12-month quarter ended —————→			
	Current year period to-date 31.12.2018		Preceding year corresponding period to date 31.12.2017	
	Revenue RM'000	Profit/(loss) before taxation RM'000	Revenue RM'000	Profit before taxation RM'000
<b>Operating Segments</b>				
Particleboards	190,412	13,296	234,352	36,786
RTA Products	258,286	2,258	310,119	29,651
Fungi Cultivation	417	(1,975)	-	(492)
	449,115	13,579	544,471	65,945

**Particleboard Manufacturing Sector**

The revenue and profit before tax reported for this period decreased by RM43.94 million or 18.75% and RM23.49 million or 63.86% respectively 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 direct 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 RM51.83 million or 16.71% and RM27.39 million or 92.38% as compared to the same period last year. The lower revenue and profit before tax during this financial year were mainly due to the critical shortage of foreign workers in first half of 2018, weakened USD/MYR exchange rate and also the write down of slow-moving inventory of RM4.57 million. The slow-moving inventory was a result of lower business volume, and also in preparation for operation of the new factory, additional materials were purchased but some orders were cancelled due to non-delivery, these were mainly due to the effect of the earlier workers shortage.

**Fungi Cultivation**

The revenue and loss before tax reported for this period were RM0.42 million and RM1.98 million. The low revenue was due to low production volume as some improvements and retrofication were needed at the production line, and loss before tax were mainly due to start-up cost, high marketing and promotional cost needed to promote the mushroom in the market.

**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 RM19.78 million were given to financial institutions for term loan and hire purchase facilities granted to subsidiaries as at 21 February 2019 (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 2018 were as follows:

	The Group RM'000
Approved and not contracted for	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 31 December 2018 were RM126.03 million and RM3.41 million, a decrease of RM6.65 million or 5.01% and RM6.79 million or 66.60% respectively as compared with the corresponding quarter in FYE 2017.

For the 12 months ended 31 December 2018, the revenue and profit before tax for the Group were RM449.12 million and RM13.58 million, a decrease of RM95.36 million or 17.51% and RM52.37 million or 79.42% respectively as compared to the corresponding period in FYE 2017. The profit after tax for the Group was RM16.66 million, a decrease of RM47.78 million or 74.15% as compared to the corresponding period in FYE2017.

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 immediately preceding quarter**

The Group reported a PBT of RM3.41 million for the current quarter as compared to RM3.39 million for the immediately preceding quarter ended 30 September 2018, an increase of RM0.02 million or 0.59% despite a write down of slow-moving inventory at RTA sector as explained 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 cost management 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 are also actively pursuing productivity and efficiencies enhancement activities to bring improvements to the operation.

**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 31.12.2018 RM'000	Corresponding Quarter Ended 31.12.2017 RM'000	Current Year To Date Ended 31.12.2018 RM'000	Corresponding Year to date Ended 31.12.2017 RM'000
Interest income	(387)	(721)	(2,095)	(3,491)
Interest expense	571	801	2,076	1,543
Depreciation and amortisation	6,995	5,935	26,546	22,709
Net realised foreign exchange (gain)/loss	(621)	597	(1,929)	963
Net unrealised foreign exchange (gain)/loss	(1)	2,310	(909)	3,559

**B6. Taxation**

	Current Quarter		Cummulative Quarter	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Taxation				
- Income tax	3,487	(1,193)	3,079	(5,860)
- Deferred tax	-	6,500	-	4,349
	<u>3,487</u>	<u>5,307</u>	<u>3,079</u>	<u>(1,511)</u>

The income tax expenses of the Group for the reporting quarter and financial year to date were RM3.49 million and RM3.08 million respectively. At the RTA sector, over provision of prior year corporate tax by RM4.6 million was now adjusted.

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 31.12.2018 RM'000	As at 31.12.2017 RM'000
Short term borrowings - secured		
-finance lease liabilities	5,214	3,496
-term loans	2,287	3,502
	<u>7,501</u>	<u>6,998</u>
Long term borrowings - secured		
-finance lease liabilities	5,153	3,785
-term loans	9,527	11,822
	<u>14,680</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 third interim dividend of 1.2 sen per ordinary share in respect of the financial year ending 31 December 2018 is declared on 28 February 2019.



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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**

	31 December 2018		31 December 2017	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	6,893	16,658	15,505	64,434
Weighted average number of shares (units '000)	559,803	559,803	538,657	538,657
Basic earnings per share (sen)	1.23	2.98	2.88	11.96

**b) Diluted**

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

	31 December 2018		31 December 2017	
	Quarter ended	Period to date	Quarter ended	Period to date
Profit for the financial year attributable to owners of the Company (units '000)	6,893	16,658	15,505	64,434
Weighted average number of shares (units '000)	559,803	559,803	538,657	538,657
Add: Effect of dilution of Warrants (units '000)	7,792	7,792	9,849	9,849
	567,595	567,595	548,506	548,506
Basic earnings per share (sen)	1.21	2.93	2.83	11.75

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**B12. Authorisation**

These Quarterly Results for the financial period ended 31 December 2018 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.