

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

QUARTERLY REPORT – THIRD FINANCIAL QUARTER ENDED 30 SEPTEMBER 2019

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 2018.

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 2018 other than the application of a new MFRS and amendments to MFRSs which became effective for annual period beginning 1 January 2019.

		Effective for financial periods beginning on or after
<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 [#]
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 [#]
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7	Financial Instruments: Disclosures	1 January 2021 [#]
MFRS 9	Financial Instruments	1 January 2019

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A1. Basis of Preparation (Continued)

A1.1 Accounting Policies (Continued)

		Effective for financial periods beginning on or after
<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 [#]
MFRS 101	Presentation of Financial Statements	1 January 2020*
MFRS 107	Statements of Cash Flows	1 January 2021 [#]
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 [#]
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 [#]
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 2021 [#]
<u>New IC Int</u>		
IC Int 23	Uncertainty over Income Tax Treatments	1 January 2019

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A1. Basis of Preparation (Continued)

A1.1 Accounting Policies (Continued)

	Effective for financial periods beginning on or after
<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 RM1.80 million for the reporting quarter.

A7. Dividend Paid

A single-tier second interim dividend and a single-tier third interim dividend of 1.2 sen per ordinary share each, and a single-tier final dividend of 1.4 sen in respect of the financial year ended 31 December 2018 were paid on 7 January 2019 (RM6.71 million), 8 April 2019 (RM6.71 million) and 9 July 2019 (RM7.84 million) respectively.

A single-tier 1st interim dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2019 was paid on 07 October 2019 (RM5.61 million).

A8. Segmental Reporting (Analysis by Activities)

	← Cumulative 9-month quarter ended →			
	Current year period to-date 30.9.2019		Preceding year corresponding period to date 30.9.2018	
	Revenue RM'000	Profit/loss before taxation RM'000	Revenue RM'000	Profit/(loss) before taxation RM'000
Operating Segments				
Particleboards	106,284	2,096	139,996	10,537
RTA Products	190,363	8,443	182,852	743
Fungi Cultivation	602	(1,719)	237	(1,107)
	297,249	8,820	323,085	10,173

Particleboard Manufacturing Sector

The revenue and profit before tax reported for this period decreased by RM33.71 million or 24.08% and RM8.44 million or 80.11% 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. Apart from this the major shut down for preventive maintenance of over 3 weeks during the early part of this year had also resulted in lower production and sales volumes.

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

RTA Manufacturing Sector

The revenue and profit before tax reported for this period increased by RM7.51 million or 4.11% and RM7.70 million or 1036.34% as compared to the same period last year. The higher revenue and profit before tax were mainly contributed by higher production efficiencies and better cost management resulting in lower operational costs. In addition, better USD/ MYR exchange had also impacted positively on the profit margin.

Fungi Cultivation

The revenue reported for this period increased by RM0.37 million or 154.00% as compared to the same period last year. The higher loss before tax was due to higher expenses incurred to retrofit the production line and also higher R&D costs, marketing and promotional costs to create awareness of the eryngii mushroom in the local 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 for the current financial year to date.

A12. Contingent Liabilities

Corporate guarantees of RM15.07 million were given to financial institutions for term loan and hire purchase facilities granted to subsidiaries as at 14 November 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 30 September 2019 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 2019 were RM97.29 million and RM4.24 million, a decrease of RM4.42 million or 4.34% and an increase of RM0.85 million or 25.00% respectively as compared with the corresponding quarter in FYE 2018.

For the 9 months ended 30 September 2019, the revenue and profit before tax for the Group were RM297.25 million and RM8.82 million, a decrease of RM25.84 million or 8.00% and RM1.35 million or 13.30% respectively as compared to the corresponding period in FYE 2018.

The decrease was from the particleboard sector whereas RTA sector had increased and the reasons 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 RM4.24 million for the current quarter as compared to RM1.03 million for the immediate preceding quarter ended 30 June 2019, an increase of RM3.21 million or 311.65% mainly due to the improved financial performance at both Particleboard and RTA sectors.

B3. Prospect for the current financial year

The global business environment remains challenging as the macroeconomic conditions are highly uncertain with the trade war prevailing between US and China. The management of the particleboard sector will continue to focus on developing higher value products, better cost management and efficiencies.

As for the RTA sector, we are actively pursuing new product and market developments, further automation to improve productivity and efficiencies, better cost management and general improvements to the overall factory operations.

The Board is cautiously optimistic to face 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 30.9.2019 RM'000	Corresponding Quarter Ended 30.9.2018 RM'000	Current Year To Date Ended 30.9.2019 RM'000	Corresponding Year to date Ended 30.9.2018 RM'000
Interest income	(718)	(835)	(2,048)	(2,041)
Interest expense	281	561	879	1,504
Depreciation and amortisation	7,223	7,489	21,415	20,038
Net realised foreign exchange gain	(186)	(699)	(416)	(1,871)
Net unrealised foreign exchange loss/(gain)	(23)	(224)	(83)	(866)

B6. Taxation

	Current Quarter		Cummulative Quarter	
	30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Taxation				
- Income tax	(787)	(219)	(2,047)	(408)
- Deferred tax	-	-	-	-
	<u>(787)</u>	<u>(219)</u>	<u>(2,047)</u>	<u>(408)</u>

The income tax expenses of the Group for the reporting quarter had increased to RM0.79 million, an increase of RM0.57 million as compared to the corresponding quarter last year. For the 9 months ended 30 September 2019, the income tax expense for the Group was RM2.05 million, an increase of RM1.64 million as compared to the same period last year due mainly to better financial performance at the RTA sector, the profit of which is now taxable at standard rate.

The particleboard sector still has unabsorbed investment tax allowance (ITA), reinvestment allowance (RA) and unutilized tax losses available to offset against the statutory business income.

B7. Corporate Proposal

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

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B8. Loans and Borrowings

The Group's borrowings are as follows:

	As at 30.9.2019 RM'000	As at 31.12.2018 RM'000
Short term borrowings - secured		
-finance lease liabilities	4,591	5,214
-term loans	2,130	2,287
	<u>6,721</u>	<u>7,501</u>
Long term borrowings - secured		
-finance lease liabilities	1,936	5,153
-term loans	7,909	9,527
	<u>9,845</u>	<u>14,680</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 second interim dividend of 1.0 sen per ordinary share in respect of the financial year ending 31 December 2019 is declared on 21 November 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

	30 September 2019		30 September 2018	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	3,448	6,773	3,169	9,765
Weighted average number of shares (units '000)	561,472	561,472	559,774	559,774
Basic earnings per share (sen)	0.61	1.21	0.57	1.74

b) Diluted

The diluted earnings per share for the current financial period ended 30 September 2019 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 2019		30 September 2018	
	Quarter ended	Period to date	Quarter ended	Period to date
Profit for the financial year attributable to owners of the Company (units '000)	3,448	6,773	3,169	9,765
Weighted average number of shares (units '000)	561,472	561,472	559,774	559,774
Add: Effect of dilution of Warrants (units '000)	5,822	5,822	8,012	8,012
	567,294	567,294	567,786	567,786
Basic earnings per share (sen)	0.61	1.19	0.56	1.72

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B12. Authorisation

These Quarterly Results for the financial period ended 30 September 2019 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.