

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

QUARTERLY REPORT – FOURTH FINANCIAL QUARTER ENDED 31 DECEMBER 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 RM1.70 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 first interim dividend and a single-tier second interim dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2019 were paid on 7 October 2019 (RM5.61 million) and 22 January 2020 (RM5.63 million).

A8. Segmental Reporting (Analysis by Activities)

	←———— Cumulative 12-month quarter ended —————→			
	Current year period to-date 31.12.2019		Preceding year corresponding period to date 31.12.2018	
	Revenue RM'000	Profit/loss before taxation RM'000	Revenue RM'000	Profit/(loss) before taxation RM'000
Operating Segments				
Particleboards	152,706	3,171	190,029	13,296
RTA Products	265,641	15,296	257,447	2,258
Fungi Cultivation	845	(2,477)	417	(1,976)
	419,192	15,990	447,893	13,578

***RTA - Ready-To-Assemble**

Particleboard Manufacturing Sector

The revenue and profit before tax reported for this period decreased by RM37.32 million or 19.64% and RM10.13 million or 76.15% respectively as compared to the same period last year. The lower revenue was due to and profit before tax were mainly due to soft market sentiment caused by the trade war between US and China, and also higher inter-company sales to the RTA sector which was eliminated on consolidation. The lower profit was due to lower average selling price caused by the challenging market conditions.

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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 RM8.19 million or 3.18% and RM13.04 million or 577.41% as compared to the same period last year. The higher revenue and profit before tax were mainly contributed by the improved 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 RM0.43 million or 102.64% as compared to the same period last year. The higher loss before tax was due to higher expenses incurred in retrofitting the production line and also higher R&D, 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 RM13.50 million were given to financial institutions for term loan and hire purchase facilities granted to subsidiaries as at 19 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 2019 were as follows:

	The Group RM'000
Approved and not contracted for	5,200
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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 2019 were RM121.94 million and RM7.17 million, a decrease of RM4.09 million or 3.24% and an increase of RM3.76 million or 110.51% respectively as compared with the corresponding quarter in FYE 2018.

For the 12 months ended 31 December 2019, the revenue and profit before tax for the Group were RM419.19 million and RM15.99 million, a decrease of RM28.70 million or 6.41% and an increase of RM2.41 million or 17.76% respectively as compared to the corresponding period in FYE 2018.

The decrease was from the particleboard sector whereas the 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 RM7.17 million for the current quarter as compared to RM4.24 million for the immediate preceding quarter ended 30 September 2019, an increase of RM2.93 million or 69.10% mainly due to the improved financial performance at the RTA sector.

B3. Prospect for the current financial year

The global business environment remains challenging as the macroeconomic conditions are highly uncertain with the trade war and currently further exacerbated by the Covid-19 outbreak. The management will practise cautiousness in its decision making, to monitor cost and to ensure wastage is kept to a minimum. Continuous efforts will be put into maintaining our products' high-quality standard to ensure customers' satisfaction, and we will also step up our effort in product innovation in order to differentiate ourselves. With such initiative in place, the Board is cautiously optimistic in facing 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 31.12.2019 RM'000	Corresponding Quarter Ended 31.12.2018 RM'000	Current Year To Date Ended 31.12.2019 RM'000	Corresponding Year to date Ended 31.12.2018 RM'000
Interest income	(833)	(387)	(2,881)	(2,187)
Interest expense	561	571	1,440	2,061
Depreciation and amortisation	7,313	6,995	28,728	26,546
Net realised foreign exchange gain	(100)	(621)	(516)	(1,929)
Net unrealised foreign exchange loss/(gain)	120	(1)	50	(900)

B6. Taxation

	Current Quarter		Cumulative Quarter	
	31.12.2019 RM'000	31.12.2018 RM'000	31.12.2019 RM'000	31.12.2018 RM'000
Taxation				
- Income tax credit	2,951	3,487	904	3,080
- Deferred tax	(2,815)	-	(2,815)	-
	<u>136</u>	<u>3,487</u>	<u>(1,911)</u>	<u>3,080</u>

The income tax credit of the Group for the reporting quarter and financial year to date were RM2.95 million and RM0.90 million respectively due to the reversal of over-provision of current and prior year income tax amounted to RM3.20 million and RM1.30 million respectively at RTA Sector.

The deferred tax of the Group for the reporting quarter and financial year to date was RM2.82 million. There is a reversal of deferred tax asset amounted to RM2.40 million at the particleboard sector and recognition of additional deferred tax liabilities amounted to RM0.39 million at RTA Sector.

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.

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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 31.12.2019 RM'000	As at 31.12.2018 RM'000
Short term borrowings - secured		
-finance lease liabilities	3,801	5,214
-term loans	2,047	2,288
	<u>5,848</u>	<u>7,502</u>
Long term borrowings - secured		
-finance lease liabilities	5,102	5,153
-term loans	7,480	9,527
	<u>12,582</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 third interim dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2019 is declared on 26 February 2020.

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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 2019		31 December 2018	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	7,306	14,079	6,893	16,658
Weighted average number of shares (units '000)	561,587	561,587	559,803	559,803
Basic earnings per share (sen)	1.30	2.51	1.23	2.98

b) Diluted

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

	31 December 2019		31 December 2018	
	Quarter ended	Period to date	Quarter ended	Period to date
Profit for the financial year attributable to owners of the Company (units '000)	7,306	14,079	6,893	16,658
Weighted average number of shares (units '000)	561,587	561,587	559,803	559,803
Add: Effect of dilution of Warrants (units '000)	3,796	3,796	7,792	7,792
	565,383	565,383	567,595	567,595
Basic earnings per share (sen)	1.29	2.49	1.21	2.93

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B12. Authorisation

These Quarterly Results for the financial period ended 31 December 2019 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.