

HeveaBoard Berhad

Registration No: 199301020774 (275512-A)

(Incorporated in Malaysia)

QUARTERLY REPORT – SECOND FINANCIAL QUARTER ENDED 30 JUNE 2020

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 2019.

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 2019 other than the application of a new MFRS and amendments to MFRSs which became effective for annual period beginning 1 January 2020.

		Effective for financial periods beginning on or after
<u>New MFRSs</u>		
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 3	Business Combinations	1 January 2020/ 1 January 2021 [#]
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021 [#]
MFRS 7	Financial Instruments: Disclosures	1 January 2020/ 1 January 2021 [#]
MFRS 9	Financial Instruments	1 January 2020/ 1 January 2021 [#]
MFRS 10	Consolidated Financial Statements	Deferred

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A1. Basis of Preparation (Continued)

A1.1 Accounting Policies (Continued)

		Effective for financial periods beginning on or after
<u>New MFRSs</u>		
MFRS 15	Revenue from Contracts with Customers	1 January 2021 [#]
MFRS 101	Presentation of Financial Statements	1 January 2020/ 1 January 2021 [#]
MFRS 107	Statements of Cash Flows	1 January 2021 [#]
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020
MFRS 116	Property, Plant and Equipment	1 January 2021 [#]
MFRS 119	Employee Benefits	1 January 2021 [#]
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2021 [#]
MFRS 132	Financial Instruments: Presentation	1 January 2021 [#]
MFRS 136	Impairment of Assets	1 January 2021 [#]
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020/ 1 January 2021 [#]
MFRS 138	Intangible Assets	1 January 2020/ 1 January 2021 [#]
MFRS 139	Financial Instruments: Recognition and Measurement	1 January 2020
MFRS 140	Investment Property	1 January 2021 [#]

The Group will adopt the aforementioned pronouncements when they become effective in the respective financial periods.

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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 RM1.3 million for the reporting quarter.

A7. Dividend Paid

A single-tier second interim dividend, a single-tier third interim dividend and a single-tier final dividend of 1.0 sen per ordinary share each in respect of the financial year ended 31 December 2019 were paid on 22 January 2020 (RM5.64 million), 10 April 2020 (RM5.66 million) and 9 July 2020 (RM5.66 million) respectively.

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A8. Segmental Reporting (Analysis by Activities)

	← Cumulative 6-month quarter ended →			
	Current year period to-date 30.6.2020		Preceding year corresponding period to date 30.6.2019	
	Revenue RM'000	Profit/(loss) before taxation RM'000	Revenue RM'000	Profit/(loss) before taxation RM'000
Operating Segments				
Particleboards	54,696	(2,039)	65,255	(221)
RTA Products	98,150	623	134,316	5,930
Fungi Cultivation	690	(971)	386	(1,124)
	<u>153,536</u>	<u>(2,387)</u>	<u>199,957</u>	<u>4,585</u>

Particleboard Manufacturing Sector

The revenue reported for this period decreased by RM10.56 million or 16.18% and loss before tax increased by RM1.80 million or 822.62% respectively as compared to the same period last year. Both sales and production volumes were lower as compared to the same period last year due to the market disturbance caused by the Covid-19 pandemic and production interruption caused by the Movement Control Order (“MCO”) enforced by the Malaysian Government on 18 March 2020.

Although the Particleboard sector had been granted approval to resume operation during the MCO period, however raw material supply chain was interrupted and this had caused 50% idle time at the production line during this reporting quarter, resulting in higher cost of production as economy of scale was not achieved.

RTA Manufacturing Sector

The revenue and profit before tax reported for this period decreased by RM36.17 million or 26.93% and RM5.31 million or 89.49% as compared to the same period last year. Both sales and profit were lower as compared to the same period last year due to the interruption caused by the Covid-19 pandemic and Movement Control Order (“MCO”). The restrictions imposed on factories’ operation during MCO had resulted in higher cost of operations as optimum production capacity could not be achieved.

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

Fungi Cultivation

The revenue reported for this period increased by RM0.30 million or 78.76% to RM0.69 million whereas the loss before tax decreased by RM0.15 million or 13.61% to RM0.97 million as compared to the same period last year. This is mainly due to more diversified distribution channels to hypermarkets despite a much-reduced sales to local restaurants due to MCO. The loss before tax was lower due to higher production volume and higher yield being 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

There were no changes in the composition of the Group for the current financial year to date.

A12. Contingent Liabilities

Corporate guarantees of RM11.49 million were given to financial institutions for term loan and hire purchase facilities granted to subsidiaries as at 17 August 2020 (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 June 2020 were as follows:

Approved and not contracted for

The Group
RM'000
3,000

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES LISTING REQUIREMENTS

B1. Review of performance

The revenue and loss before tax of the Group for the current quarter ended 30 June 2020 were RM61.92 million and RM4.90 million, a decrease of RM32.03 million or 34.09% and a decrease from profit before tax by RM5.93 million or 575.34% respectively as compared with the corresponding quarter in FYE 2019.

For the 6 months ended 30 June 2020, the revenue and loss before tax for the Group were RM153.54 million and RM2.39 million, a decrease of RM46.42 million or 23.22% and a decrease from profit before tax by RM6.97 million or 152.06% respectively as compared to the corresponding period in FYE 2019

The decrease in the Group's revenue and profit before tax for the reporting quarter and 6 months to 30 June 2020 were mainly due to the decrease in revenue of Particleboard and RTA sectors as explained in Segmental Reporting A8.

B2. Material change in profit before taxation for the quarter against the immediate preceding quarter

The Group reported a loss before tax of RM4.90 million for the current quarter as compared to profit before tax of RM2.51 million for the immediate preceding quarter ended 31 March 2020, a decrease in profit of RM7.41 million or 295.22% due mainly to Covid-19 pandemic and MCO imposed during this period, thus causing interruption to operations.

B3. Prospect for the current financial year

The global business environment remains challenging due to the pandemic and the macroeconomic condition is also highly uncertain. However, some improvements can be observed in the coming quarter and the Board believes with the continuous efforts being put into better cost and efficiency management, the Group should be able to benefit positively from the market turnaround.

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 30.6.2020 RM'000	Corresponding Quarter Ended 30.6.2019 RM'000	Current Year To Date Ended 30.6.2020 RM'000	Corresponding Year to date Ended 30.6.2019 RM'000
Interest income	(744)	(681)	(1,548)	(1,330)
Interest expense	238	267	504	598
Depreciation	7,180	7,164	14,390	14,192
Net realised foreign exchange loss/(gain)	1,127	(204)	833	(230)
Net unrealised foreign exchange loss/(gain)	7	(208)	(304)	(60)

B6. Taxation

	Current Quarter		Cummulative Quarter	
	30.6.2020 RM'000	30.6.2019 RM'000	30.6.2020 RM'000	30.6.2019 RM'000
Taxation				
- Income tax	425	267	(165)	(1,260)
- Deferred tax	-	-	-	-
	<u>425</u>	<u>267</u>	<u>(165)</u>	<u>(1,260)</u>

The income tax expense of the Group for the reporting period had decreased to RM0.17 million, a decrease of RM1.09 million as compared to the corresponding period last year due to the reduction in profitability at the RTA sector. However, for the reporting quarter, RTA sector had effected a reversal of an over provision of tax for the earlier months.

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 30.6.2020 RM'000	As at 31.12.2019 RM'000
Short term borrowings - secured		
-finance lease liabilities	2,792	3,800
-term loans	1,852	2,048
	<u>4,644</u>	<u>5,848</u>
Long term borrowings - secured		
-finance lease liabilities	4,550	5,102
-term loans	6,651	7,480
	<u>11,201</u>	<u>12,582</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 first interim dividend of 0.5 sen per ordinary share in respect of the financial year ending 31 December 2020 is declared on 24 August 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*

	30 June 2020		30 June 2019	
	Quarter ended	Period to-date	Quarter ended	Period to-date
Profit attributable to the shareholders (RM'000)	<u>(4,471)</u>	<u>(2,552)</u>	<u>1,297</u>	<u>3,325</u>
Weighted average number of shares (units '000)	<u>567,345</u>	<u>567,345</u>	<u>560,915</u>	<u>560,915</u>
Basic earnings per share (sen)	<u>(0.79)</u>	<u>(0.45)</u>	<u>0.23</u>	<u>0.59</u>

b) *Diluted*

The diluted earnings per share for the financial period ended 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 June 2020		30 June 2019	
	Quarter ended	Period to date	Quarter ended	Period to date
Profit for the financial year attributable to owners of the Company (units '000)	<u>(4,471)</u>	<u>(2,552)</u>	<u>1,297</u>	<u>3,325</u>
Weighted average number of shares (units '000)	<u>567,345</u>	<u>567,345</u>	<u>560,915</u>	<u>560,915</u>
Add: Effect of dilution of Warrants (units '000)	<u>-</u>	<u>-</u>	<u>7,368</u>	<u>7,368</u>
	<u>567,345</u>	<u>567,345</u>	<u>568,283</u>	<u>568,283</u>
Basic earnings per share (sen)	<u>(0.79)</u>	<u>(0.45)</u>	<u>0.23</u>	<u>0.59</u>

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B12. Authorisation

These Quarterly Results for the financial period ended 30 June 2020 have been viewed and approved by the Board of Directors of HeveaBoard Berhad for release to Bursa Securities.