

# EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

## EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31<sup>ST</sup> MARCH 2015

### A INFORMATION REQUIRED BY MFRS 134

#### 1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 March 2015, have been prepared in accordance with MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2014.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2014, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2015:-

#### **Adoption of Amendments to Standards and IC Interpretations**

The Group has adopted the following Amendments to the Standards and IC Interpretations, with a date of initial application of 1 January 2015.

- Amendments to MFRS 119 Employee Benefits - Defined Benefit Plans: Employee Contributions
- Annual Improvements to MFRSs 2010-2012 Cycle
- Annual Improvements to MFRSs 2011-2013 Cycle

The adoption of the above pronouncements does not have any impact on the financial statements of the Group.

#### **Standards issued but not yet effective**

At the date of authorization of these interim financial statements, the followings standards were issued but not yet effective and have not been applied by the Group:

<u>Description</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to MFRSs 2012-2014 Cycle	1 January 2016
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial	

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Statements	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2017
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	1 January 2018
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	1 January 2018
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	1 January 2018

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have material effect to the financial statements of the Group upon their initial application.

### ***2. Audit Report on Preceding Annual Financial Statements***

The auditors' report on the audited financial statements for the financial year ended 31 December 2014 was not subjected to any qualification.

### ***3. Seasonal or Cyclical Factors***

The Group's business operations are not affected by any major seasonal or cyclical factors.

### ***4. Unusual Items Due to their Nature, Size or Incidence***

There were no items affecting the assets, liabilities, equity, net income, or cash flows in the Group that are unusual because of their nature, size or incidence during the interim period.

### ***5. Changes in Estimates***

There are no other changes in estimates that has material effect in the current quarter results.

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### 6. *Debt and Equity Securities*

There were no issuance, cancellation, resale of shares bought back and repayment of debt and equity security for the financial year other than the following: -

- (a) There were no shares bought back during the quarter under review and financial year-to-date. The total number of shares bought back as at 31 March 2015 was 22,000 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.

### 7. *Dividends Paid*

No dividend was paid during the 1<sup>st</sup> quarter ended 31 March 2015.

### 8. *Profit before tax*

Included in the profit before tax are the following items:

	3 months ended		3 months ended	
	31 March		31 March	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Interest Income	(228)	(211)	(228)	(211)
Other income include investment income	(438)	(1,696)	(438)	(1,696)
Interest expense	2,927	3,673	2,927	3,673
Depreciation and amortization	15,840	16,239	15,840	16,239
Provision for & write off of receivables	-	-	-	-
Provision for & write off of inventories	-	-	-	-
(Gain)/ loss on disposal of properties	228	2	228	2
Impairment of assets	-	-	-	-
Impairment of loss on associates	-	-	-	-
Foreign exchange (gain)/ loss	(2,172)	22	(2,172)	22
(Gain)/ loss on derivatives	(16)	(22)	(16)	(22)

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### 9. Segmental Information

Segmental analysis is prepared based on the geographical location of the plant.

#### Segmental Revenue and Results

	3 months ended 31 March 2015		3 months ended 31 March 2014	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Malaysia	114,482	9,928	144,065	(306)
Thailand	96,608	12,330	81,542	(1,957)
Others	21,038	2,523	13,909	(606)
	<u>232,128</u>	<u>24,781</u>	<u>239,516</u>	<u>(2,869)</u>

### 10. Carrying Amount of Revalued Assets

The valuations of property, plant and equipment have been brought forward without amendment from the audited financial statements for the year ended 31 December 2014.

### 11. Subsequent Events

No material events have arisen subsequent to the Balance Sheet date that require disclosure or adjustment to the unaudited condensed interim financial statements.

### 12. Changes in Composition of the Group

On 29 January 2015, announced that Evergreen Fibreboard Berhad ("EFB") has entered into a Share Sale Agreement with Muhammad Syafiq Bin Zainal and Nurul Azleen Binti Zainal to dispose off 3,000,000 ordinary shares of RM1.00 each representing 100% of the paid-up capital of EVERGREEN HEVEA RESOURCES SDN. BHD. ("EHRSB") for a cash consideration of RM10.00. Upon completion of this agreement, EHRSB is no longer a subsidiary within EFB Group.

On 17 February 2015, Evergreen Fibreboard Berhad ("EFB") announced the acquisition of two (2) ordinary shares of RM1.00 each representing 100% of the paid-up capital of Everlatt Sourcing Sdn Bhd ("Everlatt") for cash consideration of RM2.00 (Ringgit Malaysia Two Only). The intended principal activity of Everlatt is wholesale and trading of furniture.

The investment in Everlatt is for the expansion of EFB Group and is not expected to have any immediate material effect on the earnings and net assets of the EFB Group in

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the near future.

### ***13. Contingent Liabilities***

As at the date of this announcement, there were no material contingent liabilities incurred by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.

### ***14. Capital commitments***

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 March 2015 are as follows:

	<u>RM'000</u>
Approved and contracted for	21,320
Approved but not contracted for	-
	<u>21,320</u>

### ***15. Significant Related Party Transactions***

Transactions that have been entered into are in the normal course of business and have been established under mutually agreed terms that are not materially different from those obtainable in transactions with unrelated parties.

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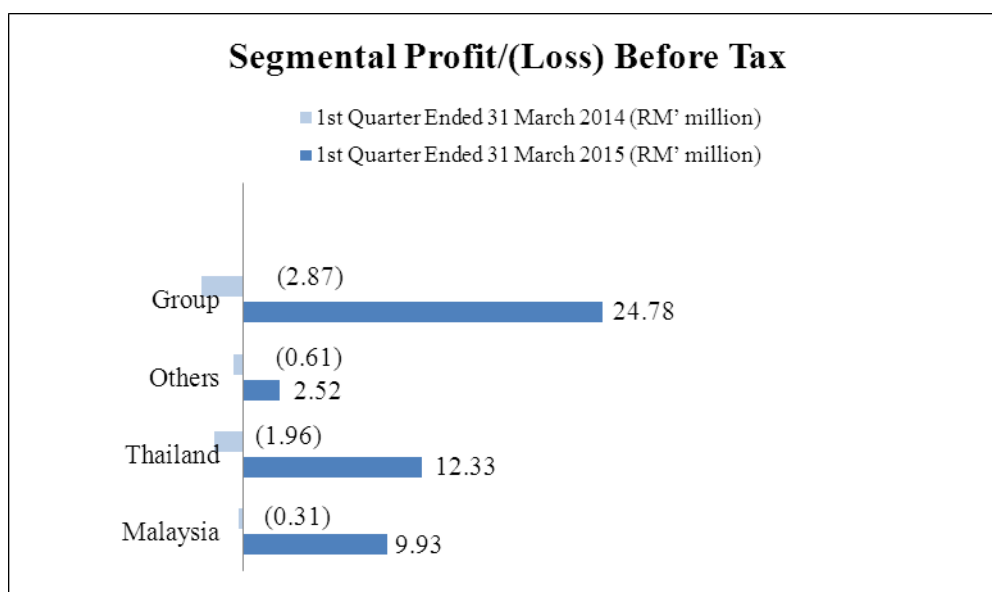
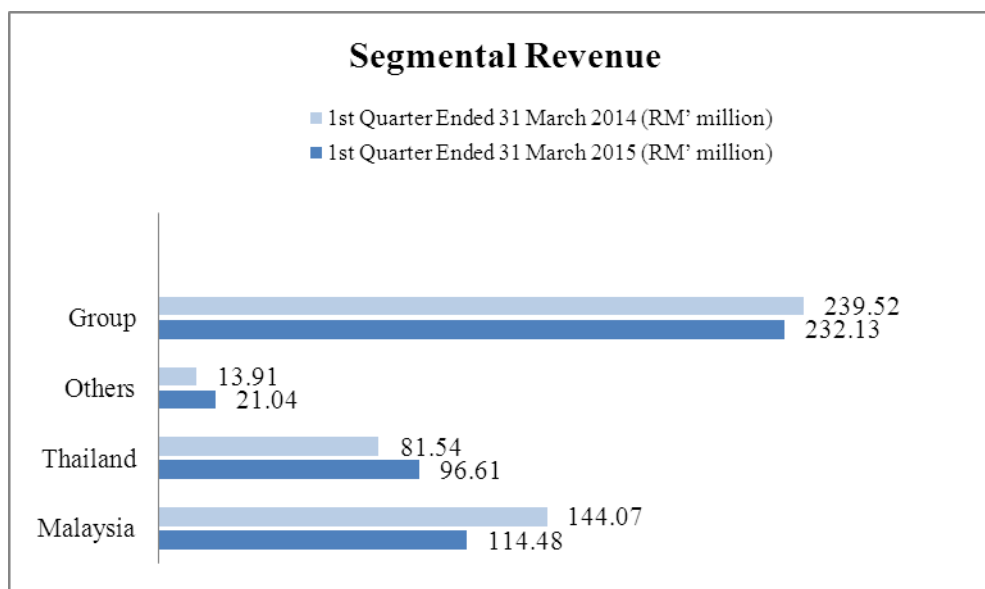
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### B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

#### 1 *Performance Review*

#### Segmental Revenue and Results – for 1<sup>st</sup> Quarter Ended 31/03/2014 vs 31/03/2015



#### **Malaysia segment**

The Malaysia segment's revenue for the quarter ended 31 March 2015 decreased by 20.5% or RM29.59 million to RM114.48 million from RM144.07 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly

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caused by drop in sales volume which was due to impact from restructuring of certain operational facilities being carried out.

Profit before tax for the current quarter increased by RM10.24 million to RM9.93 million compared to a loss before tax of RM0.31 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly from the lower log and glue cost, higher operational efficiency and synergistic cost savings derived from the group's recent restructuring of certain operational facilities.

### **Thailand segment**

The Thailand segment's revenue for the quarter ended 31 March 2015 increased by 18.5% or RM15.07 million to RM96.61 million from RM81.54 million recorded in the preceding year corresponding quarter. The increase in revenue was due to higher sales volume and average selling price.

Profit before tax for the current quarter increased by RM14.29 million to RM12.33 million compared to a loss before tax of RM1.96 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly contributed by higher revenue and effective management cost control measures.

### **Others segment**

On Others segment's revenue for the quarter ended 31 March 2015 increased by 51.3% or RM7.13 million to RM21.04 million from RM13.91 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher sales volume and average selling price.

Profit before tax was reported at RM2.52 million for the current quarter, increased by 513.1% or RM3.13 million compared to a loss before tax of RM0.61 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly resulted from higher revenue and effective cost measures undertaken by management.

### **Consolidated**

The Group's revenue for the quarter ended 31 March 2015 decreased by 3.1% or RM7.39 million to RM232.13 million from RM239.52 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly caused by lower sales volume which was due to impact from restructuring of certain operational facilities being carried out.

Profit before tax for the current quarter increased by 963.4% or RM27.65 million to RM24.78 million compared to a loss before tax of RM2.87 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly contributed by the lower cost of log and glue, higher operational efficiency and

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synergistic cost savings derived from the group's recent restructuring of certain operational facilities.

### **2 *Comment on Material Change in Profit Before Taxation Against Preceding Quarter***

	Current Quarter Ended 31 March 2015 <u>RM'000</u>	Immediate Preceding Quarter Ended 31 December 2014 <u>RM'000</u>
Revenue	232,128	252,179
Profit/(Loss) Before Tax	24,781	16,714
Net profit/(loss) for the period	20,506	16,152

The current quarter revenue decreased by 7.9% to RM232.13 million, as compared to RM252.18 million recorded in the preceding quarter. The decrease in revenue was mainly caused by the drop in sales volume which was due to impact from restructuring of certain operational facilities being carried out.

The Group's profit before tax increased by 48.2% or RM8.07 million to RM24.78 million, as compared to RM 16.71 million recorded in the preceding quarter. The increase in profit was mainly contributed by the lower cost of log and glue, higher operational efficiency and synergistic cost savings derived from the group's recent restructuring of certain operational facilities.

### **3 *Profit Forecast or Profit Guarantee***

Not applicable as no Profit Forecast or Profit Guarantee has been issued by the Group.

### **4 *Commentary of Prospects***

With steady global MDF demand and the current appreciation of the US dollar for which most of the exports of our products are priced, coupled with the Group's continuous efforts on cost control measures, maximizing productivity and equipment enhancement via modernization and automation on manufacturing processes, the Board is optimistic in achieving satisfactory results in the next quarter.



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### 5 *Taxation*

Major Components of tax expenses

	3 months ended		3 months ended	
	31 March 2015	31 March 2014	31 March 2015	31 March 2014
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expenses	3,034	304	3,034	304
Deferred tax expenses	1,241	15	1,241	15
	<u>4,275</u>	<u>319</u>	<u>4,275</u>	<u>319</u>

The effective tax rate of the Group for the current quarter is lower than the statutory rate mainly due to tax incentives granted to and tax benefits carried forward from some companies in the Group.

### 6 *Realised and Unrealised Profits/Losses Disclosure*

	As at	As at
	31 March 2015	31 December 2014
	<u>RM'000</u>	<u>RM'000</u>
Retained profits of the Company and its subsidiaries:		
- Realised	589,017	522,893
- Unrealised	(8,453)	(1,557)
	<u>580,564</u>	<u>521,336</u>
Less: Consolidation adjustments	(16,716)	22,454
Group retained profits as per consolidated accounts	<u>563,848</u>	<u>543,790</u>

### 7 *Status of Corporate Proposal Announced*

There was no outstanding corporate proposal announced as at 15 May 2015.

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The Group's borrowings are as follows: -

Denominated	As at 31 March 2015				
	In RM RM'000	In Baht RM'000	In USD RM'000	Others RM'000	Total RM'000
<b>Short Term Borrowings:</b>					
<u>Secured</u>					
Trade facilities	4,950	69,296	-	-	74,246
Term loans	-	-	9,901	-	9,901
Hire purchase and finance lease payables	177	207	-	41	425
<u>Unsecured</u>					
Trade facilities	112,280	-	10,291	4,481	127,052
Term Loans	16,490	-	13,247	-	29,737
	<u>133,897</u>	<u>69,503</u>	<u>33,439</u>	<u>4,522</u>	<u>241,361</u>
<b>Long Term Borrowings:</b>					
<u>Secured</u>					
Term loans	-	-	17,042	-	17,042
Hire purchase and finance lease payables	991	102	-	-	1,093
<u>Unsecured</u>					
Term Loans	20,867	-	7,826	-	28,693
	<u>21,858</u>	<u>102</u>	<u>24,868</u>	<u>-</u>	<u>46,828</u>
Total	<u>155,755</u>	<u>69,605</u>	<u>58,307</u>	<u>4,522</u>	<u>288,189</u>

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### 9 *Financial Instruments*

As at the 31 March 2015, the Group has the following outstanding derivative financial instruments: -

	Notional Contract Amount (RM'000)	Fair value - Net Gains/ (Losses) (RM'000)
Forward contract - US Dollar		
- Less than 1 year	28,938	16

The forward foreign currency contracts are entered into for the purposes of hedging the Group's foreign currency exposures arising from expected export sales and import purchases. In accordance with the requirement of this standard, the Group has designated certain forward contracts as cash flow hedges or accounted as fair value through profit and loss. Changes in the fair values of the forward contracts designated as cash flow hedges are included in other comprehensive income, to the extent that the hedges are effective. Upon maturity of the instruments, the amounts retained in other comprehensive income will be reclassified to the profit or loss. The fair value changes in forward contracts designated as fair value through profit and loss are included in the income statement.

Structured foreign exchange products are entered for the purposes of hedging the Group's foreign currency exposure. Such products allow the Group to sell USD at a better than market par forward rate or at prevailing market spot rate by allowing some market participation. These products give the Group a better than market par forward rate to a certain level, after which the Group receives a rebate over the prevailing market spot rate.

Due to the above, and the fact that these contracts have been entered into with credit-worthy financial institutions, the Group does not foresee any significant credit or market risks associated with the above foreign exchange contracts.

The derivatives have been recorded on the Consolidated Statement of Financial Position for this reporting period in compliance with MFRS 139.

There are no transaction costs for the above hedging instrument.

### 10 *Changes in Material Litigation*

There is no material litigation pending as at 15 May 2015.

### 11 *Dividend Payable*

The Board of Directors does not recommend any interim dividend for the current quarter under review.

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### 12 Earnings Per Share

#### a. Basic

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

	3 months ended		3 months ended	
	31 March	31 March	31 March	31 March
	2015	2014	2015	2014
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	20,058	(2,582)	20,058	(2,582)
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings per share (sen)	3.91	(0.50)	3.91	(0.50)

#### b. Diluted

No diluted earnings per share is calculated as there is no potential dilutive ordinary share.