

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31ST MARCH 2016

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 March 2016, 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 2015.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2015, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2016.

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> |
|--|---|
| MFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| 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 2015 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.

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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 except as explained in Note B7.

5. Changes in Estimates

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

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. The total number of shares bought back as at 31 March 2016 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.
- (b) During the current year, the Company bought back a total of 50,000 of its issued and paid up shares from the open market at an average price of RM1.08 per share. Total consideration paid for the buy backs including transaction costs was RM54,414.61 and these buy backs were financed by internally generated fund. The total number of shares bought back as at the date of this report was 72,000 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 1st quarter ended 31 March 2016.

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8. Profit before tax

Included in the profit before tax are the following items:

| | 3 months ended 31 March | | 3 months ended 31 March | |
|--|----------------------------|----------------|----------------------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Interest Income | (428) | (228) | (428) | (228) |
| Other (income)/ expense include investment income | (496) | (438) | (496) | (438) |
| Interest expense | 1,676 | 2,927 | 1,676 | 2,927 |
| Depreciation and amortization | 16,561 | 15,840 | 16,561 | 15,840 |
| (Gain)/ loss on disposal of properties | (607) | 228 | (607) | 228 |
| Foreign exchange (gain)/ loss | 5,906 | (2,172) | 5,906 | (2,172) |
| (Gain)/ loss on derivatives | (823) | (16) | (823) | (16) |

9. Segmental Information

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

Segmental Revenue and Results

| | 3 months ended 31 March 2016 | | 3 months ended 31 March 2015 | |
|----------|---------------------------------|--|---------------------------------|--|
| | Segment Revenue RM'000 | Segment Profit/(Loss) before tax RM'000 | Segment Revenue RM'000 | Segment Profit/(Loss) before tax RM'000 |
| Malaysia | 131,466 | 8,340 | 114,482 | 9,928 |
| Thailand | 97,609 | 14,610 | 96,608 | 12,330 |
| Others | 17,719 | 1,375 | 21,038 | 2,523 |
| | <u>246,794</u> | <u>24,325</u> | <u>232,128</u> | <u>24,781</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 2015.

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 except in Note B7.

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12. *Changes in Composition of the Group*

There were no material changes in the composition of the Group during the current financial quarter.

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 2016 are as follows:

| | |
|---------------------------------|----------------|
| | <u>RM'000</u> |
| Approved and contracted for | 119,452 |
| Approved but not contracted for | - |
| | <u>119,452</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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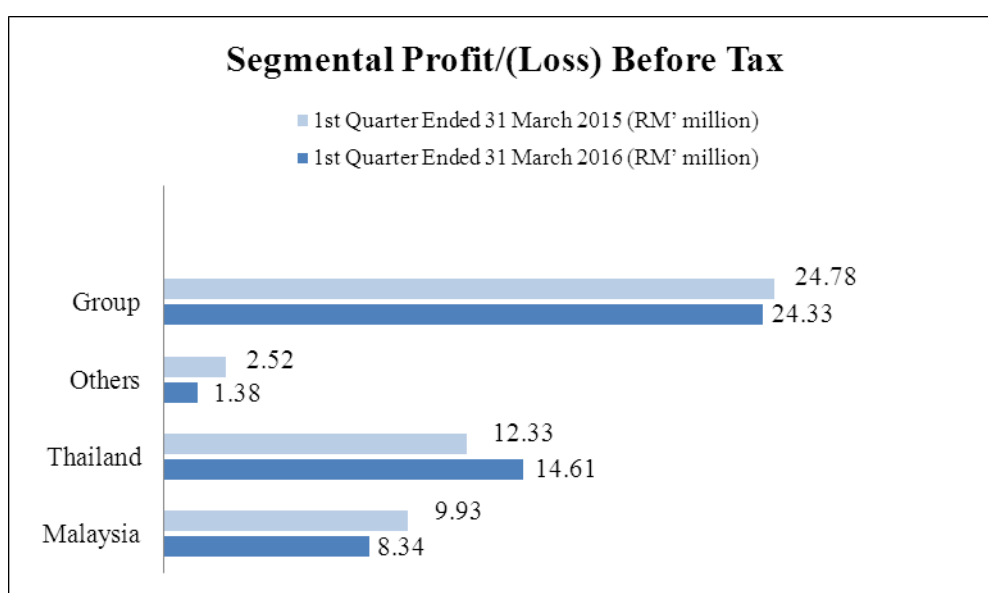
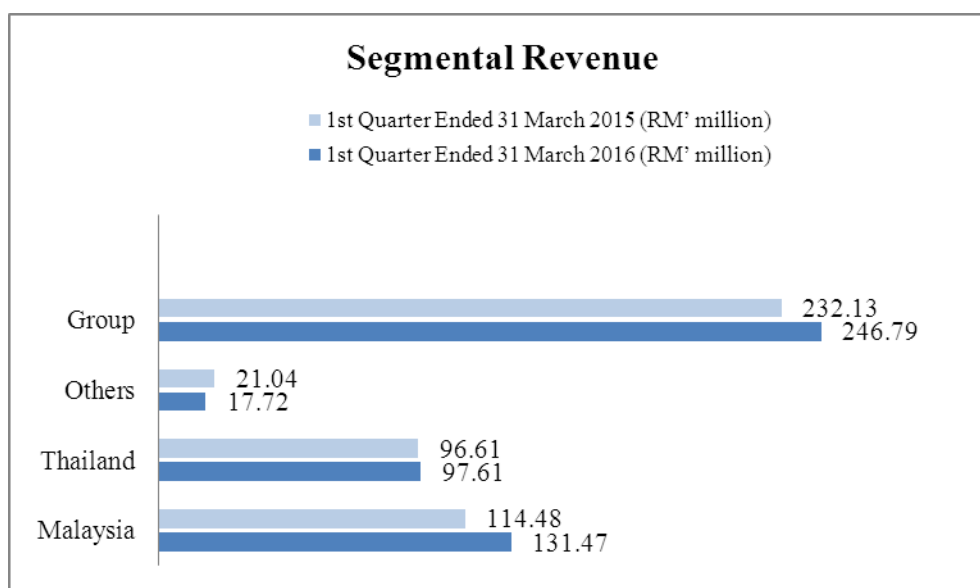
(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31ST MARCH 2016

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

1 *Performance Review*

Segmental Revenue and Results – for 1st Quarter Ended 31/03/2015 vs 31/03/2016



Malaysia segment

The Malaysia segment's revenue for the quarter ended 31 March 2016 increased by 14.8% or RM16.99 million to RM131.47 million from RM114.48 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by the strengthening of USD currency.

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Profit before tax for the current quarter decreased by RM1.59 million to RM8.34 million compared to a profit before tax of RM9.93 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to higher log cost and plants shut down for maintenance and machine installation.

Thailand segment

The Thailand segment's revenue for the quarter ended 31 March 2016 increased by 1.0% or RM1.00 million to RM97.61 million from RM96.61 million recorded in the preceding year corresponding quarter. The increase in revenue was due to higher sales volume and strengthening of USD currency.

Profit before tax for the current quarter increased by 18.5% to RM14.61 million compared to a profit before tax of RM12.33 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly due to higher operational efficiency and lower cost of log and glue.

Others segment

On Others segment's revenue for the quarter ended 31 March 2016 decreased by 15.8% to RM17.72 million from RM21.04 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly caused by lower sales volume.

Profit before tax was reported at RM1.38 million for the current quarter, decreased by RM1.14 million compared to RM2.52 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to drop in sales revenue and lower foreign exchange gain.

Consolidated

The Group's revenue for the quarter ended 31 March 2016 increased by 6.3% or RM14.66 million to RM246.79 million from RM232.13 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher selling price which was impacted from the strengthening of USD currency.

Profit before tax for the current quarter decreased by 1.8% or RM0.45 million to RM24.33 million compared to a profit before tax of RM24.78 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to foreign exchange losses.

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

| | Current Quarter Ended 31 March 2016 <u>RM'000</u> | Immediate Preceding Quarter Ended 31 December 2015 <u>RM'000</u> |
|---------------------------|--|---|
| Revenue | 246,794 | 264,212 |
| Profit Before Tax | 24,325 | 20,962 |
| Net profit for the period | 20,648 | 21,248 |

The current quarter revenue decreased by 6.6% to RM246.79 million, as compared to RM264.21 million recorded in the preceding quarter. The decrease in revenue was due to lower selling price which was partly impacted by weakening of USD currency.

The Group's profit before tax was increased by 16.1% to RM24.33 million, as compared to RM20.96 million recorded in the preceding quarter. The increase in profit was mainly contributed by lower cost of log and higher operational efficiency.

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*

The growing prospect on Malaysia wood panel and furniture industry coupled with our internal strategy on cost reductions, cutting off losses on non-performing assets and increase in productivity are factors which will enhance the Group's performance. Despite the challenges from worldwide economic weakness and uncertainty and the volatility of the US Dollar, the Group expect to achieve a satisfactory result for the year.

5 *Taxation*

Major Components of tax expenses

| | 3 months ended | | 3 months ended | |
|-----------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | 31 March 2016 <u>RM'000</u> | 31 March 2015 <u>RM'000</u> | 31 March 2016 <u>RM'000</u> | 31 March 2015 <u>RM'000</u> |
| Current tax expenses | 2,765 | 3,034 | 2,765 | 3,034 |
| Deferred tax expenses | 912 | 1,241 | 912 | 1,241 |
| | <u>3,677</u> | <u>4,275</u> | <u>3,677</u> | <u>4,275</u> |

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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 31 March 2016 <u>RM'000</u> | As at 31 March 2015 <u>RM'000</u> |
|---|--|--|
| Retained profits of the Company and its subsidiaries: | | |
| - Realised | 632,989 | 589,017 |
| - Unrealised | (12,058) | (8,453) |
| | <u>620,931</u> | <u>580,564</u> |
| Less: Consolidation adjustments | 25,917 | (16,716) |
| Group retained profits as per consolidated accounts | <u>646,848</u> | <u>563,848</u> |

7 *Status of Corporate Proposal Announced*

On 20 Nov 2015, on behalf of the Board of Directors of Evergreen Fibreboard Berhad ("EFB"), CIMB Investment Bank Berhad announced that EFB propose to undertake the following:

(a) **Proposed Private Placement**

Proposed Private Placement of up to 51,297,800 new ordinary shares of RM0.25 each in EFB, representing up to 10% of the issued and paid-up share capital of EFB (excluding treasury shares) ;

The application for Proposed Private Placement was approved by Bursa Malaysia Securities Berhad ("Bursa Securities") on 25 November 2015.

The Proposed Private Placement was issued at issue price of RM2.05 per share and has been completed following the listing of and quotation for 51,290,000 Placement Shares on the Main Market of Bursa Securities on 1st December 2015.

EFB raised RM105.14 million from the Proposed Private Placement and the utilization of proceeds as at the date of this report are as follows:-

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FOR THE FIRST QUARTER ENDED 31ST MARCH 2016**

| Purposes | Proposed Utilisation RM'000 | Actual Utilisation RM'000 | Deviations RM'000 | Balance RM'000 |
|---------------------------------------|--|--|------------------------------|---------------------------|
| Development and business expansion | 40.00 | 40.00 | - | - |
| Repayment of borrowings | 30.00 | 30.00 | - | - |
| Working capital | 33.14 | 33.26 | 0.12 | - |
| Expenses in relation to the Proposals | 2.00 | 1.88 | (0.12) | - |
| Total | 105.14 | 105.14 | - | - |

There was no outstanding corporate proposal announced as at the date of this report.

8 Borrowings and Debt Securities

The Group's borrowings are as follows: -

| Denominated | As at 31 March 2016 | | | | |
|--|---------------------|-------------------|------------------|------------------|-----------------|
| | In RM RM'000 | In Baht RM'000 | In USD RM'000 | Others RM'000 | Total RM'000 |
| Short Term Borrowings: | | | | | |
| <u>Secured</u> | | | | | |
| Trade facilities | - | 35,834 | - | - | 35,834 |
| Term loans | 3,733 | - | 10,553 | - | 14,286 |
| Hire purchase and finance lease payables | 75 | 98 | - | - | 173 |
| <u>Unsecured</u> | | | | | |
| Trade facilities | 53,769 | - | 14,782 | - | 68,551 |
| Term Loans | 5,004 | - | 4,112 | - | 9,116 |
| | <u>62,581</u> | <u>35,932</u> | <u>29,447</u> | <u>-</u> | <u>127,960</u> |
| Long Term Borrowings: | | | | | |
| <u>Secured</u> | | | | | |
| Term loans | 7,724 | - | 7,540 | - | 15,264 |
| Hire purchase and finance lease payables | 160 | - | - | - | 160 |
| <u>Unsecured</u> | | | | | |
| Term Loans | 23,423 | - | 4,005 | 3,193 | 30,621 |
| | <u>31,307</u> | <u>-</u> | <u>11,545</u> | <u>3,193</u> | <u>46,045</u> |
| Total | <u>93,888</u> | <u>35,932</u> | <u>40,992</u> | <u>3,193</u> | <u>174,005</u> |

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9 *Financial Instruments*

As at the 31 March 2016, the Group has the following outstanding derivative financial instruments: -

| | Notional Contract Amount | Liabilities Amount |
|------------------------------|-----------------------------|-----------------------|
| | (RM'000) | (RM'000) |
| Forward contract - US Dollar | | |
| - Less than 1 year | 778 | 53 |

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 the date of this report.

11 *Dividend Payable*

The Board of Directors declared a single tier interim dividend of 1 cent per share for financial year ended 31 December 2015 will be payable on 20 April 2016 to Depositors registered in the Record of Depositors at the close of business on 22 March 2016.

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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 2016 | 31 March 2015 | 31 March 2016 | 31 March 2015 |
| Net profit/(loss) for the period attributable to owners of the Parent (RM'000) | 20,619 | 20,058 | 20,619 | 20,058 |
| Weighted average number of ordinary shares in issue ('000) | 768,915 | 513,000 | 768,915 | 513,000 |
| Basic EPS (sen) | 2.68 | 3.91 | 2.68 | 3.91 |

b. **Diluted**

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