

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31ST DECEMBER 2016

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 December 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 and new IC Interpretation ("IC Int") were issued but not yet effective and have not been applied by the Group:

<u>Description</u>	<u>Effective for financial periods beginning on or after</u>
New MFRSs	
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments/Improvements to MFRSs	
MFRS 1 First-time adoption of MFRSs	1 January 2018
MFRS 2 Share-based Payment	1 January 2018
MFRS 4 Insurance Contracts	1 January 2018
MFRS 10 Consolidated Financial Statements	Deferred
MFRS 12 Disclosure of Interests in Other Entities	1 January 2017
MFRS 107 Statement of Cash Flows	1 January 2017
MFRS 112 Income Taxes	1 January 2017
MFRS 128 Investments in Associates and Joint Ventures	1 January 2018 /Deferred
MFRS 140 Investment Property	1 January 2018
New IC Int	
IC Int 22 Foreign Currency Transactions and Advance Consideration	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.

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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.

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.

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) During the quarter under review, the Company bought back a total of 300,000 of its issued and paid up shares from the open market at an average price of RM0.92 per share. Total consideration paid for the buy backs including transaction costs was RM276,000.00 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 422,000 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 4th quarter ended 31 December 2016.

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8. *Profit before tax*

Included in the profit before tax are the following items:

	3 months ended		12 months ended	
	31 December		31 December	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Interest Income	(383)	(397)	(1,670)	(1,058)
Other (income)/expense including investment income	(1,621)	(9,854)	(1,386)	(10,682)
Interest expense/ Finance cost	1,541	1,685	6,682	10,447
Depreciation and amortization	15,707	15,918	64,708	64,990
(Gain)/loss on disposal of property, plant and equipment	2,910	3,548	4,282	4,491
Foreign exchange (gain)/loss	(6,919)	1,708	(4,131)	(9,255)
(Gain)/loss on derivatives	(10)	(308)	(876)	709

9. *Segmental Information*

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

Segmental Revenue and Results

	3 months ended		3 months ended	
	31 December 2016		31 December 2015	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	127,820	9,820	141,645	12,756
Thailand	107,208	10,283	104,231	3,727
Others	27,760	286	18,336	4,479
	<u>262,788</u>	<u>20,389</u>	<u>264,212</u>	<u>20,962</u>

	12 months ended		12 months ended	
	31 December 2016		31 December 2015	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	522,245	37,345	540,653	55,602
Thailand	390,594	49,233	387,803	41,547
Others	85,332	1,933	83,886	11,383
	<u>998,171</u>	<u>88,511</u>	<u>1,012,342</u>	<u>108,532</u>

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10. *Carrying Amount of Revalued Assets*

The valuation of property, plant and equipment has 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.

12. *Changes in Composition of the Group*

On 5 September 2016, Evergreen Fibreboard Berhad (“EFB”) announced the company had acquired the remaining 51 ordinary shares of RM1.00 each in its subsidiary Company, Evergreen Agro Sdn Bhd (“EASB”) representing 51% of the total issued and paid up capital of EASB for a total cash consideration of RM51.00.

The acquisition is not expected to have any immediate material effect on the earnings and net assets of the EFB Group in 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 December 2016 are as follows:

	<u>RM'000</u>
Approved and contracted for	25,566
Approved but not contracted for	-
	<u>25,566</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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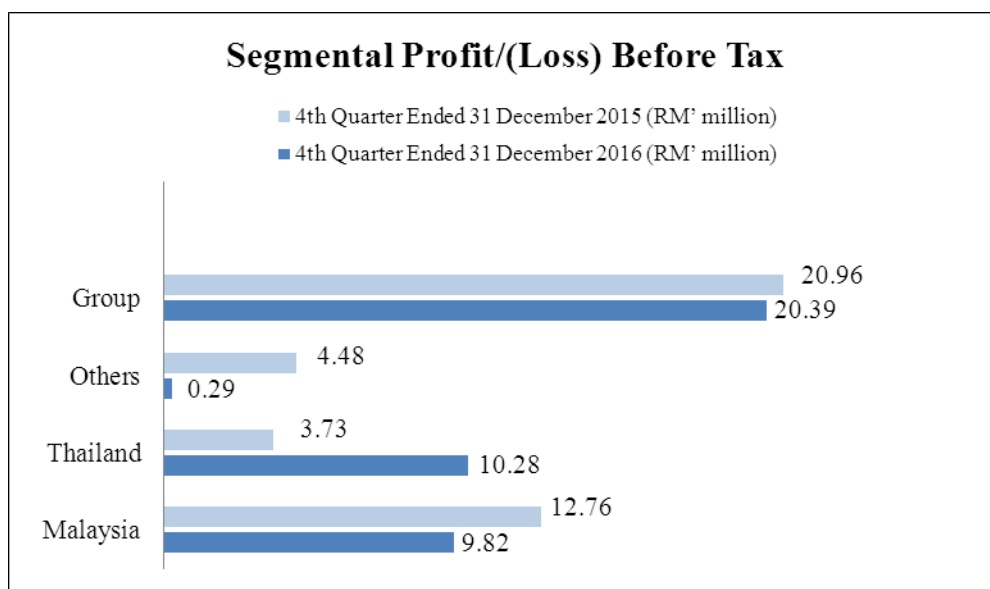
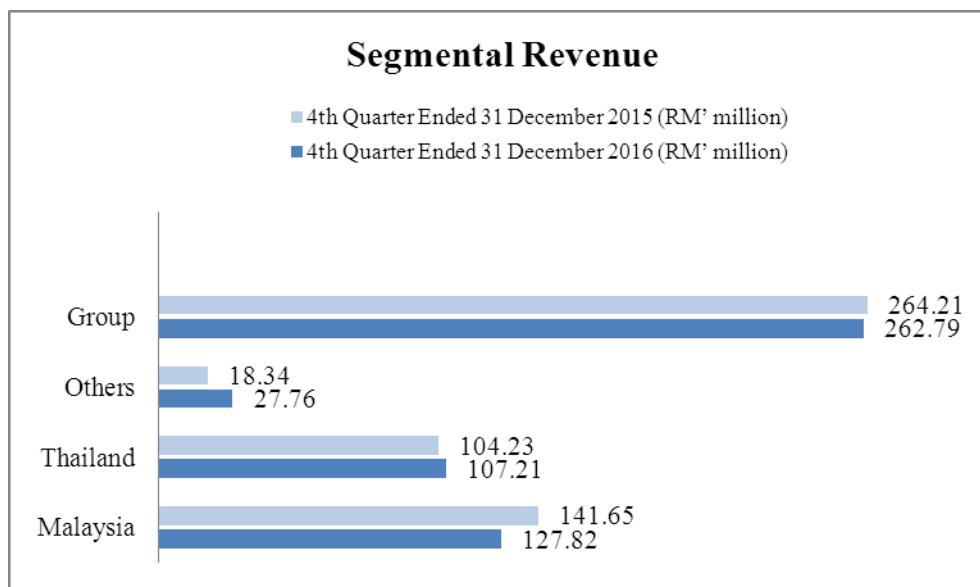
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B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1 *Performance Review*

Segmental Revenue and Results – for 4th Quarter Ended 31/12/2015 vs 31/12/2016



Malaysia segment

The Malaysia segment's revenue for the quarter ended 31 December 2016 decreased by 9.8% or RM13.83 million to RM127.82 million from RM141.65 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower sales volumes and average selling price.

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Profit before tax for the current quarter decreased by RM2.94 million to RM9.82 million compared to a profit before tax of RM12.76 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to lower of sales revenue.

Thailand segment

The Thailand segment's revenue for the quarter ended 31 December 2016 increased by 2.9% or RM2.98 million to RM107.21 million from RM104.23 million recorded in the preceding year corresponding quarter. The increase in revenue was contributed by higher sales volumes.

Profit before tax for the current quarter increased by 175.6% to RM10.28 million compared to a profit before tax of RM3.73 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly due to higher in sales revenue, higher capacity utilization rate through effective management control and lower cost of glue.

Others segment

On Others segment's revenue for the quarter ended 31 December 2016 increased by 51.4% to RM27.76 million from RM18.34 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher sales volume.

Profit before tax was reported at RM0.29 million for the current quarter, decreased by RM4.19 million compared to RM4.48 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to foreign exchange losses.

Consolidated

The Group's revenue for the quarter ended 31 December 2016 decreased by 0.5% or RM1.42 million to RM262.79 million from RM264.21 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower average selling price despite of higher sales volumes.

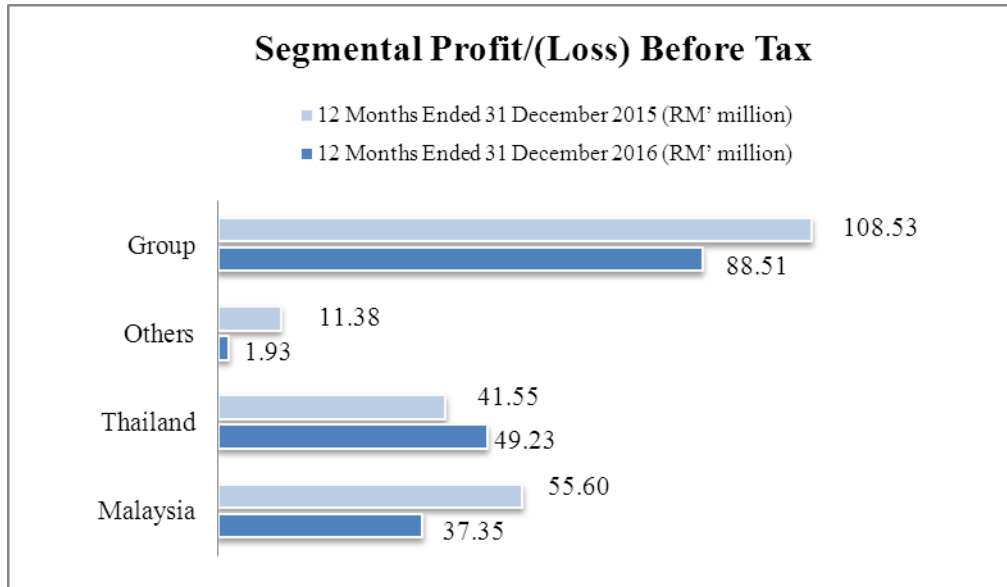
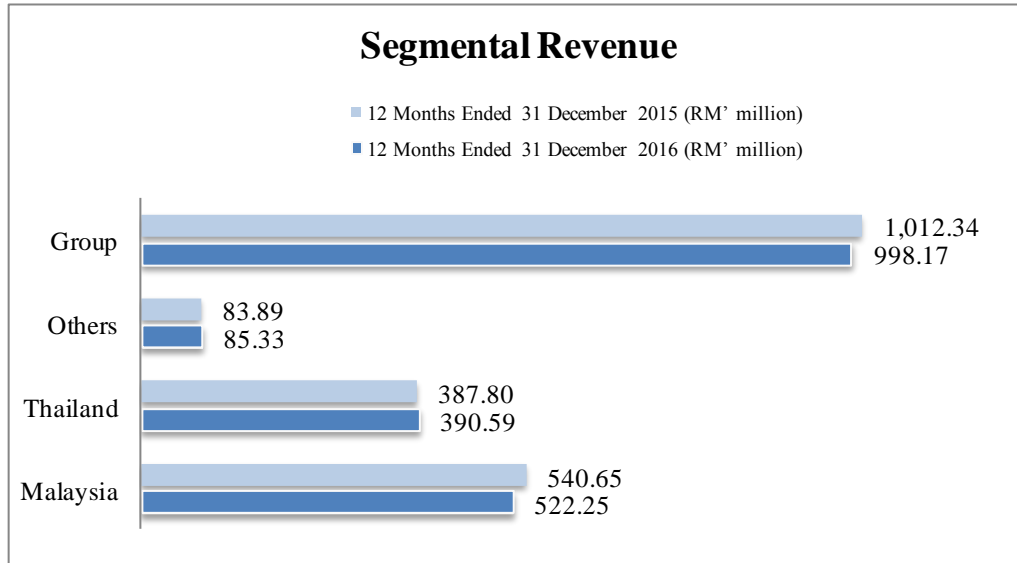
Profit before tax for the current quarter decreased by 2.7% or RM0.57 million to RM20.39 million compared to a profit before tax of RM20.96 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to lower sales revenue.

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Segmental Revenue and Results – for 12 Months Ended 31/12/2015 vs 31/12/2016



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 3.4% or RM18.4 million to RM522.25 million, as compared to the revenue of RM540.65 million for the corresponding period last year. The decrease in revenue was mainly contributed by lower average selling price.

For the current year to date, profit before tax has decreased by 32.8% or RM18.25 million to RM37.35 million, as compared to a profit before tax of RM55.60 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower sales revenue and higher cost of log.

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Thailand segment

For the current year to date, the Thailand segment's revenue was RM390.59 million, with an increase of 0.7% or RM2.79 million, as compared to the revenue of RM387.80 million for the corresponding period last year. The increase in revenue was due to higher sales volumes.

For the current year to date, profit before tax has increased by 18.5% or RM7.68 million to RM49.23 million, as compared a gain before tax of RM41.55 million recorded in the corresponding period last year. The increase in profit was mainly due to higher sales revenue, higher capacity utilization rate through effective management control and lower cost of log and glue.

Others Segment

For the current year to date, on Other segment's revenue, has increased by 1.7% to RM85.33 million, as compared to the revenue of RM83.89 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volumes.

Profit before tax was reported at RM1.93 million for the current year to date, decreased by RM9.45 million compared to RM11.38 million recorded in the corresponding period last year. The decrease in profit was due to higher cost of log and losses from foreign exchange.

Consolidated profit before tax

For the current year to date, the Group's revenue has decreased by 1.4% to RM998.17 million, as compared to RM1,012.34 million for the corresponding period last year. The decrease in revenue was due to lower average selling price despite of higher sales volumes.

Profit before tax was registered at RM88.51 million for the current year to date, decreased by 18.4% or RM20.02 million compared to a gain before tax of RM108.53 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower sales revenue and foreign exchange gain that was lower than the corresponding period.

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

	Current Quarter Ended 31 December 2016 RM'000	Immediate Preceding Quarter Ended 30 September 2016 RM'000
Revenue	262,788	242,351
Profit Before Tax	20,389	22,121
Net profit for the period	16,526	15,692

The current quarter revenue increased by 8.4% to RM262.79 million, as compared to RM242.35 million recorded in the preceding quarter. The increase in revenue was due to higher average selling price and sales volumes.

The Group's profit before tax was decreased by 7.8% to RM20.39 million, as compared to RM22.12 million recorded in the preceding quarter. The decrease in profit was mainly caused by higher cost of log and glue.

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 world economy is still adjusting to two major political outcomes in 2016; ie Brexit and the US Presidential election. The Group looks to benefit from a strong USD and although the Group does not have significant direct shipments to the US, a protectionist US could disrupt world trade. Higher oil prices provide a floor on Middle Eastern market demand but regional market remains competitive. Closer to home, floods in Malaysia, southern Thailand and Indonesia have disrupted log supplies to some of the Group's operations. Coupled with holiday festivities, the Group expects a soft start to 2017 but expects improvements as the year progresses with the coming online of the Group's major projects.

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5 Taxation

Major Components of tax expense

	3 months ended		12 months ended	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense	2,993	1,749	11,929	10,489
Deferred tax expense	870	(2,035)	8,365	3,952
	<u>3,863</u>	<u>(286)</u>	<u>20,294</u>	<u>14,441</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 December 2016	31 December 2015
	<u>RM'000</u>	<u>RM'000</u>
Retained profits of the Company and its subsidiaries:		
- Realised	689,604	623,283
- Unrealised	(18,865)	(13,020)
	<u>670,739</u>	<u>610,263</u>
Less: Consolidation adjustments	28,037	24,430
Group retained profits as per consolidated accounts	<u>698,776</u>	<u>634,693</u>

7 Status of Corporate Proposal Announced

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

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8 ***Borrowings and Debt Securities***

The Group's borrowings are as follows: -

As at 31 December 2016

Denominated	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	-	33,204	-	-	33,204
Term loans	8,123	-	8,591	-	16,714
Hire purchase and finance lease payables	64	1,175	-	-	1,239
<u>Unsecured</u>					
Trade facilities	20,500	-	17,051	-	37,551
Term Loans	6,654	-	2,780	842	10,276
	<u>35,341</u>	<u>34,379</u>	<u>28,422</u>	<u>842</u>	<u>98,984</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	28,346	-	3,282	-	31,628
Hire purchase and finance lease payables	184	-	-	-	184
<u>Unsecured</u>					
Term Loans	19,302	-	2,535	52,624	74,461
	<u>47,832</u>	<u>-</u>	<u>5,817</u>	<u>52,624</u>	<u>106,273</u>
Total	<u>83,173</u>	<u>34,379</u>	<u>34,239</u>	<u>53,466</u>	<u>205,257</u>

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9 ***Changes in Material Litigation***

There is no material litigation pending as at the date of this report.

10 ***Dividend Payable***

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

11 ***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		12 months ended	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	17,483	19,372	71,441	90,904
Weighted average number of ordinary shares in issue ('000)	827,153	517,356	827,153	517,356
Basic EPS (sen)	2.11	3.74	8.64	17.57

b. Diluted

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