

# EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

### **A INFORMATION REQUIRED BY MFRS 134**

#### ***1. Basis of Preparation***

These condensed consolidated interim financial statements, for the period ended 31 December 2017, 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 financial year ended 31 December 2016.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2016, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2017.

#### **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 financial periods beginning on or after</u>
<u>New MFRSs</u>	
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
<u>Amendments/Improvements to MFRSs</u>	
MFRS 2 Share-based Payment	1 January 2018
MFRS 4 Insurance Contracts	1 January 2018
MFRS 10 Consolidated Financial Statements	Deferred
MFRS 128 Investments in Associates and Joint Ventures	1 January 2018/ Deferred
MFRS 140 Investment Property	1 January 2018
<u>New IC Int</u>	
IC Int 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IC Int 23 Uncertainty over Income Tax Treatments	1 January 2019

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 2016 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) 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 December 2017 was 422,000 shares and the shares are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act, 2016.

### ***7. Dividends Paid***

No dividend was paid during the 4<sup>th</sup> quarter ended 31 December 2017.

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(Incorporated in Malaysia)

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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	
	2017	2016	2017	2016
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest Income	(472)	(466)	(1,625)	(1,753)
Other expense/(income) including investment income	(6,120)	(6,244)	(6,293)	(6,009)
Interest expense/ Finance cost	848	1,642	6,060	6,783
Depreciation and amortisation	15,885	14,516	64,668	63,517
(Gain)/loss on disposal of property, plant and equipment	(9,082)	4,053	(9,720)	5,425
Foreign exchange (gain)/loss	101	(7,472)	3,835	(4,684)
(Gain)/loss on derivatives	-	(10)	-	(876)

### 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 2017		31 December 2016	
Segment	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	164,701	13,961	127,652	11,840
Thailand	66,218	2,195	107,034	12,252
Others	24,787	2,224	27,726	1,231
	<u>255,706</u>	<u>18,380</u>	<u>262,412</u>	<u>25,323</u>

	12 months ended		12 months ended	
	31 December 2017		31 December 2016	
Segment	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	575,549	45,378	522,077	39,365
Thailand	359,081	15,365	390,420	51,202
Others	89,692	6,761	85,298	2,878
	<u>1,024,322</u>	<u>67,504</u>	<u>997,795</u>	<u>93,445</u>

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(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

### **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 2016.

### **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 2 March 2017, Evergreen Fibreboard Berhad (“EFB”) announced the company had acquired the remaining 11,539,500 ordinary shares of RM1.00 each in its subsidiary Company, Craft Master Timber Products Sdn Bhd (“CMTPSB”) representing 49% of the total issued and paid up capital of CMTPSB for a total cash consideration of RM380,000. After the acquisition, CMTPSB becomes a wholly-owned subsidiary of EFB.

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.

On 28 December 2017, the Board of Directors of EFB announced that as a matter of the re-organisation exercise in Thailand, involving the transfer of 3,892,997 ordinary shares of Asian Oak Co., Ltd. (“AOC”) from Siam Fibreboard Co., Ltd. (“SFC”), a 99.99% owned subsidiary of EFB to Craft Master Timber Products Sdn. Bhd. (“CMTP”), a wholly owned subsidiary of EFB, at a total cash consideration of RM1.00. The re-organisation is for the purpose of streamlining business management for the direct benefit of the companies involved and indirectly benefit the Group as a whole.

The re-organisation will not have any material effect on the earnings, net assets and gearing of the EFB Group for the financial year ending 31 December 2017.

### **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.

# EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

### 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 2017 are as follows:

	<u>RM'000</u>
Approved and contracted for	9,596
Approved but not contracted for	-
	<u>9,596</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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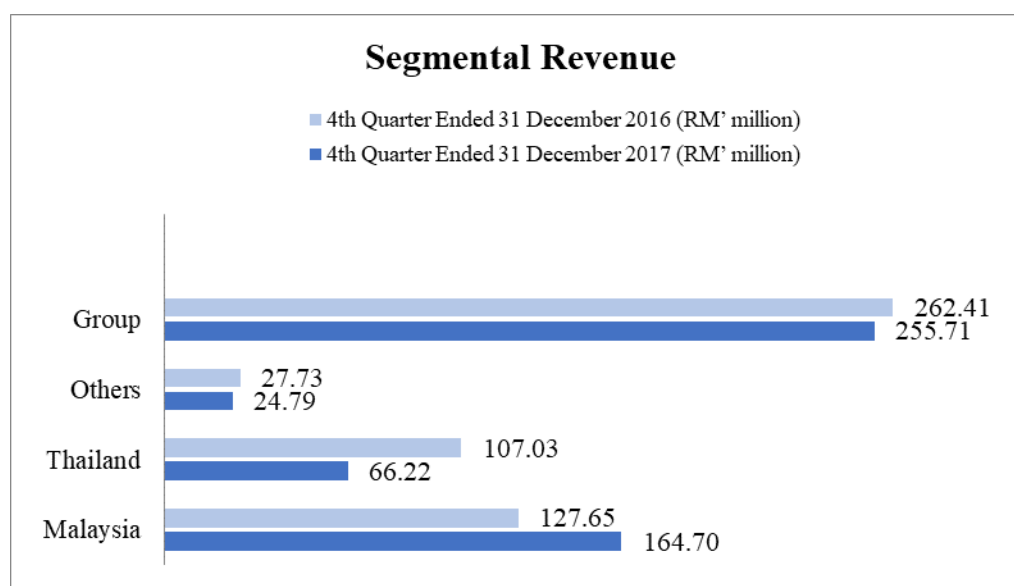
## EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017

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

#### 1 *Performance Review*

	3 months ended		Changes %	12 months ended		Changes %
	31 December 2017	31 December 2016		31 December 2017	31 December 2016	
	(RM'000)	(RM'000)		(RM'000)	(RM'000)	
Revenue	255,706	262,412	-2.6%	1,024,322	997,795	2.7%
Operating Profit	45,654	64,119	-28.8%	224,011	267,626	-16.3%
Profit Before Interest and Tax	19,228	26,965	-28.7%	73,564	100,228	-26.6%
Profit Before Tax	18,380	25,323	-27.4%	67,504	93,445	-27.8%
Profit After Tax	13,323	16,256	-18.0%	47,381	67,947	-30.3%
Profit/(Loss) Attributable to Owners of the Company	13,356	17,721	-24.6%	45,192	71,679	-37.0%

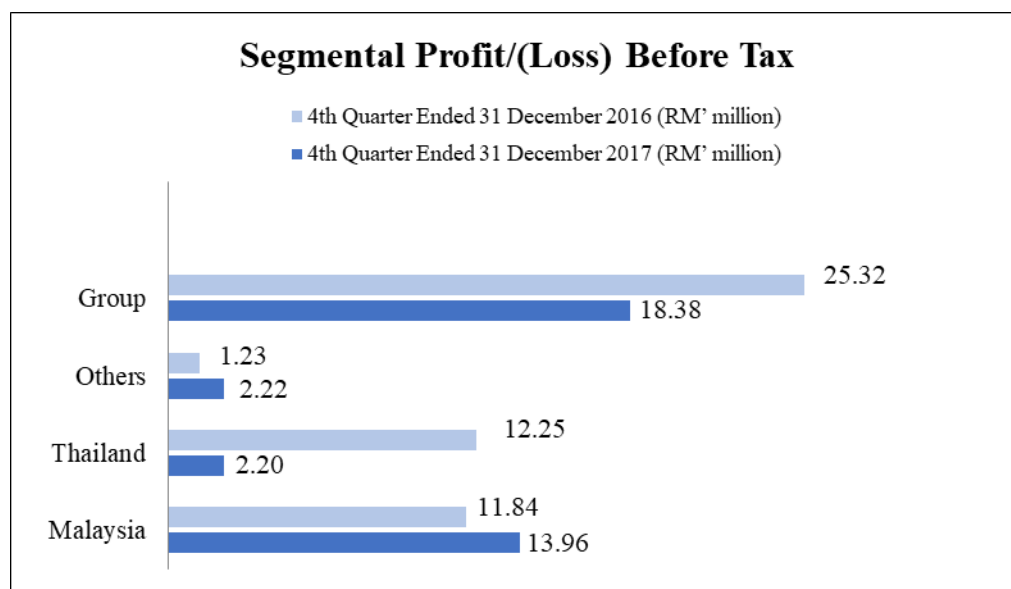
#### Segmental Revenue and Results – for 4<sup>th</sup> Quarter Ended 31/12/2016 vs 31/12/2017



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(Incorporated in Malaysia)

## EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017



### **Malaysia segment**

The Malaysia segment's revenue for the quarter ended 31 December 2017 increased by 29.0% or RM37.05 million to RM164.70 million from RM127.65 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by commercial run of new Particle Board Plant in Segamat and higher average selling price as the Group emphasis more on high premium products.

Profit before tax for the current quarter increased by RM2.12 million to RM13.96 million compared to a profit before tax of RM11.84 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly contributed by commercial run of new new Particle Board Plant in Segamat and higher profit margin from high premium products even with hike in cost of log and glue.

### **Thailand segment**

The Thailand segment's revenue for the quarter ended 31 December 2017 decreased by 38.1% or RM40.81 million to RM66.22 million from RM107.03 million recorded in the preceding year corresponding quarter. The decrease in revenue was due to lower sales volume as a result from stoppage of one production line in Thailand plant.

Profit before tax for the current quarter decreased to RM2.20 million compared to a profit before tax of RM12.25 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to increase in log and glue price, couple with higher repairing and upgrading costs incurred on the stoppage line in Thailand plant.

# **EVERGREEN FIBREBOARD BERHAD (217120 W)**

(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

### **Others segment**

On Others segment's revenue for the quarter ended 31 December 2017 decreased by 10.6% to RM24.79 million from RM27.73 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly attributed by lower sales volume.

Profit before tax was reported at RM2.22 million for the current quarter, increased by RM0.99 million compared to RM1.23 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly due to higher margin derived from higher average selling price.

### **Consolidated**

The Group's revenue for the quarter ended 31 December 2017 decreased by 2.6% or RM6.70 million to RM255.71 million from RM262.41 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower sales volume as a result from stoppage of one production line in Thailand plant. However, the impact has been mitigated by commercial run of new Particle Board Plant in Segamat as well as higher average selling price derived from high premium products.

Profit before tax for the current quarter decreased by RM6.94 million to RM18.38 million compared to a profit before tax of RM25.32 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly caused by higher log and glue cost, couple with higher repairing and upgrading cost incurred on the stoppage line in Thailand plant, which the impacts were mitigated by gain derived from disposing of plant and machinery in the course of upgrading progress.

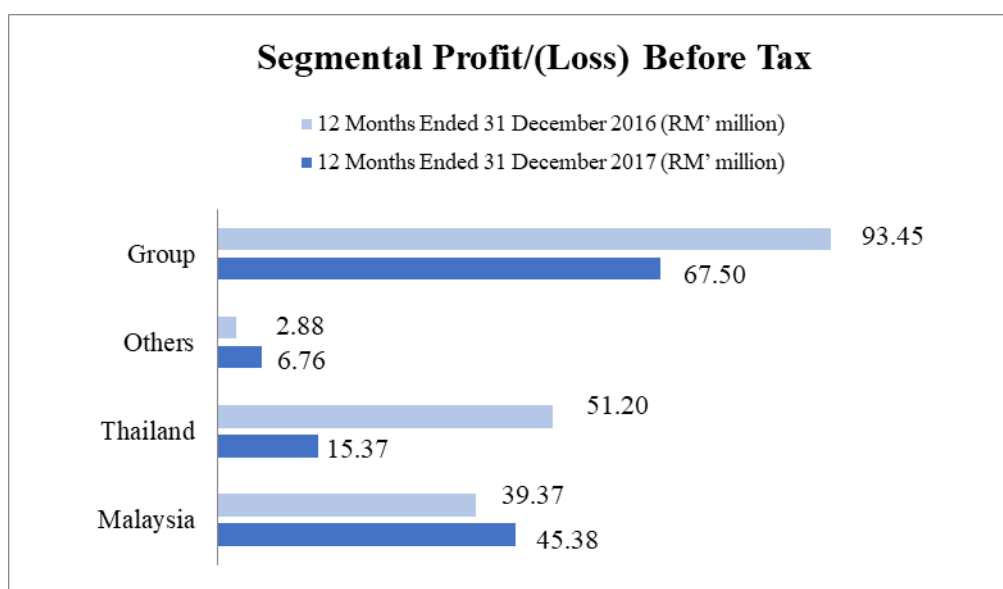
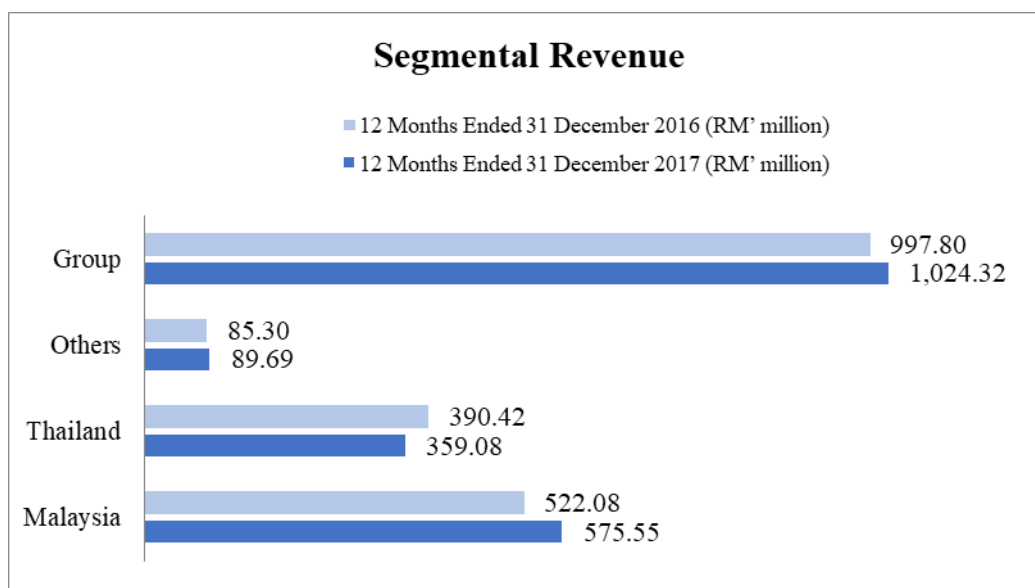


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(Incorporated in Malaysia)

## EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017

### Segmental Revenue and Results – for 12 Months Ended 31/12/2016 vs 31/12/2017



#### Malaysia segment

For the current year to date, the Malaysia segment's revenue has increased by RM53.47 million or 10.2% to RM575.55 million, as compared to the revenue of RM522.08 million for the corresponding period last year. The increase in revenue was mainly contributed by commercial run of new Particle Board Plant in Segamat and higher average selling price as the Group emphasis more on high premium products.

For the current year to date, profit before tax has increased by RM6.01 million to RM45.38 million, as compared to a profit before tax of RM39.37 million recorded

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(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

in the corresponding period last year. The increase in profit was mainly due to production efficiency and effective cost measures of new Particle Board Plant in Segamat as well as higher margin from high premium products which mitigated the increase in cost of log and glue.

### **Thailand segment**

For the current year to date, the Thailand segment's revenue was RM359.08 million, with a decrease of 8.0%, as compared to the revenue of RM390.42 million for the corresponding period last year. The decrease in revenue was due to lower sales volume as a result from stoppage of one production line in Thailand plant.

For the current year to date, profit before tax has decreased by RM35.83 million to RM15.37 million, as compared to RM51.2 million recorded in the corresponding period last year. The decrease in profit was mainly due to increase in log and glue price, couple with higher repairing and upgrading costs incurred on the stoppage line in Thailand plant.

### **Others Segment**

For the current year to date, on Other segment's revenue, has increased by RM4.39 million or 5.1% to RM89.69 million, as compared to the revenue of RM85.3 million for the corresponding period last year. The increase in revenue was mainly attributable to higher average selling price.

Profit before tax was reported at RM6.76 million for the current year to date, increased by RM3.88 million compared to RM2.88 million recorded in the corresponding period last year. The increase in profit was due to higher margin as a result of higher average selling price and lower foreign exchange loss recorded in the current year to date.

### **Consolidated profit before tax**

For the current year to date, the Group's revenue has increased by 2.7% or RM26.52 million to RM1,024.32 million, as compared to RM997.8 million for the corresponding period last year. The increase in revenue was contributed by commercial run of new Particle Board Plant in Segamat and higher average selling price as the Group emphasis more on high premium products.

Profit before tax was registered at RM67.50 million for the current year to date, decreased by 27.8% compared to profit before tax of RM93.45 million recorded in the corresponding period last year. The decrease in profit was mainly due to higher log and glue cost, couple with higher repairing and upgrading costs incurred on the stoppage line in Thailand plant, which the impacts were mitigated by gain derived from disposing of plant and machinery in the course of upgrading progress.

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(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

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

	Current Quarter 31-Dec-17 <u>RM'000</u>	Immediate Preceding Quarter 30-Sep-17 <u>RM'000</u>	Changes %
Revenue	255,706	260,133	-1.7%
Operating Profit	45,654	62,243	-26.7%
Profit Before Interest and Tax	19,228	23,532	-18.3%
Profit Before Tax	18,380	21,636	-15.0%
Profit After Tax	13,323	16,552	-19.5%
Profit/(Loss) Attributable to Owners of the Company	13,356	15,097	-11.5%

The current quarter revenue decreased by 1.7% or RM4.42 million to RM255.71 million, as compared to RM260.13 million recorded in the preceding quarter. The decrease in revenue was mainly due to lower sales volume as a result from stoppage of one production line in Thailand plant.

The Group's profit before tax was decreased by 15.0% to RM18.38 million, as compared to RM21.64 million recorded in the preceding quarter. The decrease in profit was mainly due to higher repairing and upgrading costs incurred on the stoppage line in Thailand plant.

### **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***

Continued resilience in the EU and US economy augurs well for the longer term prospects of the panel board and furniture market. Log prices continue to remain elevated as log supply has yet to return to past norm levels but more favorable weather in Malaysia has improved the log supply situation in the first month of 2018 as compared to second half of 2017. While demand for panel boards and furniture remain intact, new plants have resulted in heightened competition. The Group foresees a challenging 2018 but will be in a better position to meet the challenges with full year contributions from the particle board plant and recommissioning of an MDF line whose refurbishment is expected to be completed by end first half of 2018. Several other MDF lines have seen retooling and upgrading works done in second half of 2017 which will improve the efficiency and quality of the Group's products in 2018. If the log supply situation continue to improve and the Malaysian Ringgit stabilizes at current level vis-a-vis the United States Dollar, the Group expects to deliver a satisfactory result in 2018.

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## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

### **5 Tax Expense**

Major Components of tax expense

	3 months ended		12 months ended	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense	(1,648)	2,478	6,240	11,414
Deferred tax expense	6,705	6,589	13,883	14,084
	<u>5,057</u>	<u>9,067</u>	<u>20,123</u>	<u>25,498</u>

The effective tax rate of the Group for the current quarter is higher than the statutory rate due to not recognising deferred tax assets on non-performing companies and reverse of deferred tax assets previously recorded.

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

	As at	As at
	31 December 2017	31 December 2016
	<u>RM'000</u>	<u>RM'000</u>
Retained profits of the Company and its subsidiaries:		
- Realised	722,574	686,772
- Unrealised	(43,413)	(26,756)
	<u>679,161</u>	<u>660,016</u>
Less: Consolidation adjustments	48,163	39,036
Group retained profits as per consolidated accounts	<u>727,324</u>	<u>699,052</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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(Incorporated in Malaysia)

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### 8 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	As at 31 December 2017				Total RM'000
	In RM RM'000	In Baht RM'000	In USD RM'000	In Euro RM'000	
<b>Short Term Borrowings:</b>					
<u>Secured</u>					
Trade facilities	-	49,600	-	-	49,600
Term loans	13,116	-	2,053	-	15,169
Hire purchase and finance lease payables	55	256	-	-	311
<u>Unsecured</u>					
Trade facilities	17,201	-	-	-	17,201
Term Loans	5,004	-	1,639	6,811	13,454
	<u>35,376</u>	<u>49,856</u>	<u>3,692</u>	<u>6,811</u>	<u>95,735</u>
<b>Long Term Borrowings:</b>					
<u>Secured</u>					
Term loans	42,883	-	15,402	-	58,285
Hire purchase and finance lease payables	100	544	-	-	644
<u>Unsecured</u>					
Term Loans	14,310	-	644	47,678	62,632
	<u>57,293</u>	<u>544</u>	<u>16,046</u>	<u>47,678</u>	<u>121,561</u>
Total	<u>92,669</u>	<u>50,400</u>	<u>19,738</u>	<u>54,489</u>	<u>217,296</u>
Exchange rate RM to USD1.00		4.0400			
Exchange rate RM to THB1.00		0.1240			
Exchange rate RM to EUR1.00		4.8553			

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## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

Denominated	As at 31 December 2016				
	In RM RM'000	In Baht RM'000	In USD RM'000	In Euro RM'000	Total RM'000
<b>Short Term Borrowings:</b>					
<u>Secured</u>					
Trade facilities	-	33,204	-	-	33,204
Term loans	8,123	-	11,873	-	19,996
Hire purchase and finance lease payables	64	267	-	-	331
<u>Unsecured</u>					
Trade facilities	20,500	-	17,051	-	37,551
Term Loans	6,629	-	2,780	3,314	12,723
	<u>35,316</u>	<u>33,471</u>	<u>31,704</u>	<u>3,314</u>	<u>103,805</u>
<b>Long Term Borrowings:</b>					
<u>Secured</u>					
Term loans	28,346	-	-	-	28,346
Hire purchase and finance lease payables	184	822	-	-	1,006
<u>Unsecured</u>					
Term Loans	19,327	-	2,535	49,618	71,480
	<u>47,857</u>	<u>822</u>	<u>2,535</u>	<u>49,618</u>	<u>100,832</u>
Total	<u>83,173</u>	<u>34,293</u>	<u>34,239</u>	<u>52,932</u>	<u>204,637</u>
Exchange rate RM to USD1.00		4.4870			
Exchange rate RM to THB1.00		0.1253			
Exchange rate RM to EUR1.00		4.6974			

### 9 ***Changes in Material Litigation***

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

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(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017***

### 10 *Dividend Payable*

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

Record of dividends paid in respect of financial year ended 31 December 2016 is as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
2016	19 May 2017	Final single tier dividend	2 sen /share	RM16.92 million	18 August 2017

### 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 2017	31 December 2016	31 December 2017	31 December 2016
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	13,356	17,721	45,192	71,679
Weighted average number of ordinary shares in issue ('000)	846,424	827,153	846,424	827,153
Basic EPS (sen)	1.58	2.14	5.34	8.67

#### b. **Diluted**

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