

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2018

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 March 2018, 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 2017.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2017, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2018.

<u>Description</u>	Effective for financial periods <u>beginning on or after</u>
<u>New MFRSs</u>	
MFRS 9 Financial Instruments	1 January 2018
<u>Amendments/Improvements to MFRSs</u>	
MFRS 2 Share-based payment	1 January 2018
MFRS 4 Insurance Contracts	1 January 2018
MFRS 128 Investments in Associates and Joint Ventures	1 January 2018
<u>New IC Int</u>	
IC Int 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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>	Effective for financial periods <u>beginning on or after</u>
<u>New MFRSs</u>	
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
<u>Amendments/Improvements to MFRSs</u>	
MFRS 3 Business Combinations	1 January 2019
MFRS 9 Financial Instruments	1 January 2019
MFRS 10 Consolidated Financial Statements	Deferred
MFRS 11 Joint Arrangements	1 January 2019
MFRS 112 Income Taxes	1 January 2019
MFRS 119 Employee Benefits	1 January 2019

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MFRS 123	Borrowing Costs	1 January 2019
MFRS 128	Investments in Associates and Joint Ventures	1 January 2019/ Deferred
<u>New IC Int</u>		
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.

2. Audit Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2017 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 except on period where adverse weather may affect log supply.

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 March 2018 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.

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7. Dividends Paid

No dividend was paid during the 1st quarter ended 31 March 2018.

8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended 31 March		3 months ended 31 March	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest Income	(385)	(322)	(385)	(322)
Other expense/(income) including investment income	(2,397)	432	(2,397)	432
Interest expense/ Finance cost	1,764	1,567	1,764	1,567
Depreciation and amortisation	17,550	16,219	17,550	16,219
(Gain)/loss on disposal of property, plant and equipment	(10,889)	-	(10,889)	-
Goodwill written off	8,000	-	8,000	-
Foreign exchange (gain)/loss	1,569	123	1,569	123

9. Segmental Information

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

	3 months ended 31 March 2018		3 months ended 31 March 2017	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	163,809	7,749	121,224	9,919
Thailand	78,320	3,865	111,630	5,783
Others	22,049	1,957	16,647	1,220
	<u>264,178</u>	<u>13,573</u>	<u>249,501</u>	<u>16,922</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 2017.

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*

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 2018 are as follows:

	<u>RM'000</u>
Approved and contracted for	7,831
Approved but not contracted for	-
	<u>7,831</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. However, no such transactions arise.

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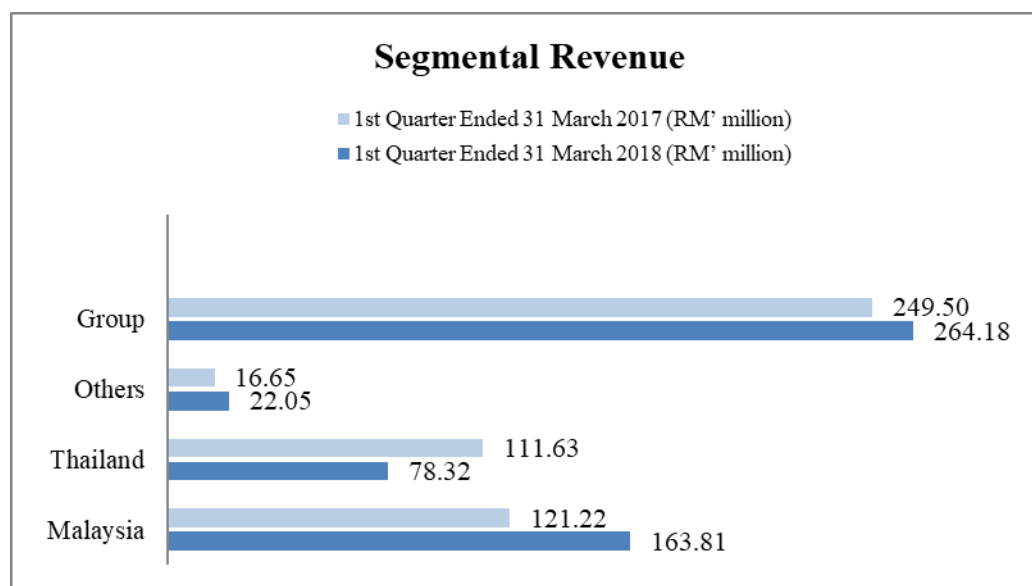
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2018

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

1 *Performance Review*

	3 months ended		Changes %	3 months ended		Changes %
	31 March 2018	31 March 2017		31 March 2018	31 March 2017	
	(RM'000)	(RM'000)		(RM'000)	(RM'000)	
Revenue	264,178	249,501	5.9%	264,178	249,501	5.9%
Operating Profit	56,032	58,874	-4.8%	56,032	58,874	-4.8%
Profit Before Interest and Tax	15,337	18,489	-17.0%	15,337	18,489	-17.0%
Profit Before Tax	13,573	16,922	-19.8%	13,573	16,922	-19.8%
Profit After Tax	7,488	10,926	-31.5%	7,488	10,926	-31.5%
Profit/(Loss) Attributable to Owners of the Company	6,769	10,539	-35.8%	6,769	10,539	-35.8%

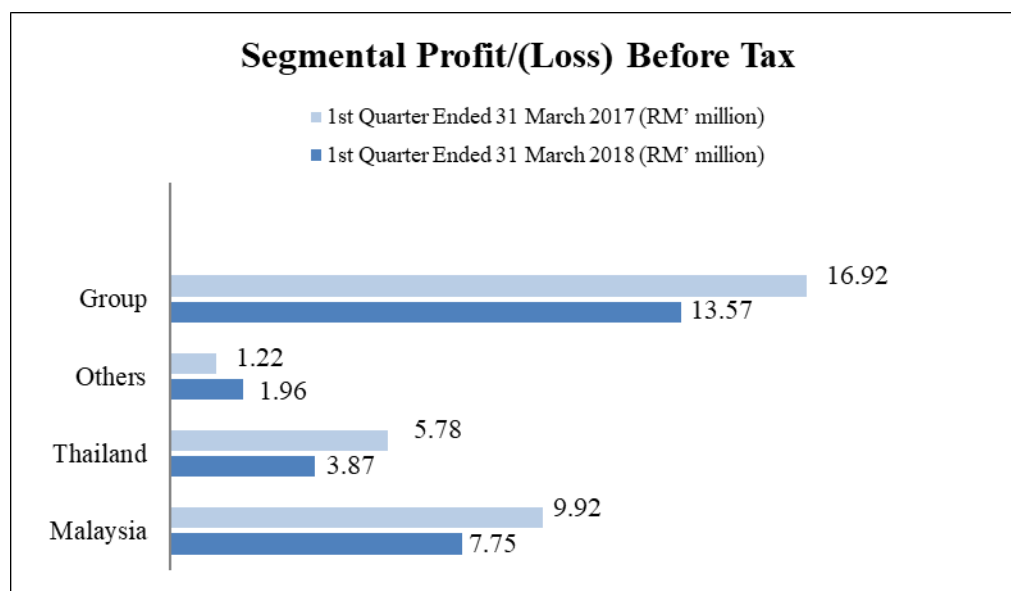
Segmental Revenue and Results – for 1st Quarter Ended 31/03/2017 vs 31/03/2018



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Malaysia segment

The Malaysia segment's revenue for the quarter ended 31 March 2018 increased by 35.1% or RM42.59 million to RM163.81 million from RM121.22 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by commercial run of Particle Board Plant in Segamat. In addition, despite of the weakening of US dollar, Malaysia segment average selling price was higher as the Group emphasis more on high premium products.

Profit before tax for the current quarter decreased by RM2.17 million to RM7.75 million compared to a profit before tax of RM9.92 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly caused by hike in log cost as the result of shortage during rainy and festive season. However, this impact was partly mitigated by contribution from Particle Board Plant in Segamat.

Thailand segment

The Thailand segment's revenue for the quarter ended 31 March 2018 decreased by 29.8% or RM33.31 million to RM78.32 million from RM111.63 million recorded in the preceding year corresponding quarter. The decrease in revenue was due to lower average selling price as a result of weakening of US dollar, couple with lower sales volume resulted from stoppage of one production line in Thailand plant.

Profit before tax for the current quarter decreased to RM3.87 million compared to a profit before tax of RM5.78 million recorded in the corresponding quarter of the preceding year. The decrease in profit was caused by lower sales revenue and lower foreign exchange gain being recorded in the current quarter.

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Others segment

On Others segment's revenue for the quarter ended 31 March 2018 increased by 32.4% to RM22.05 million from RM16.65 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributed by higher sales volume despite of lower average selling price as a result of weakening of US dollar.

Profit before tax was reported at RM1.96 million for the current quarter, increased by RM0.74 million compared to RM1.22 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly due to lower cost of log and glue as well as higher capacity utilization rate through effective management control.

Consolidated

The Group's revenue for the quarter ended 31 March 2018 increased by 5.9% or RM14.68 million to RM264.18 million from RM249.50 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to commercial run of Particle Board Plant in Segamat despite of lower average selling price in Thailand and Indonesia segment as a result of weakening of US dollar.

Profit before tax for the current quarter decreased by RM3.35 million to RM13.57 million compared to a profit before tax of RM16.92 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly caused by lower average selling price, couple with higher of foreign exchange loss being recorded in the current quarter.

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

	Current Quarter 31-Mar-18 <u>RM'000</u>	Immediate Preceding Quarter 31-Dec-17 <u>RM'000</u>	Changes %
Revenue	264,178	255,521	3.4%
Operating Profit	56,032	47,111	18.9%
Profit Before Interest and Tax	15,337	19,470	-21.2%
Profit Before Tax	13,573	18,711	-27.5%
Profit After Tax	7,488	12,774	-41.4%
Profit/(Loss) Attributable to Owners of the Company	6,769	13,135	-48.5%

The current quarter revenue increased by 3.4% or RM8.66 million to RM264.18 million, as compared to RM255.52 million recorded in the preceding quarter. The increase in revenue was mainly due to higher sales volume as the stoppage of one production line in Thailand plant has resumed production in March 2018.

The Group's profit before tax was decreased by 27.5% to RM13.57 million, as compared to RM18.71 million recorded in the preceding quarter. The decrease in profit was mainly due to higher foreign exchange losses recorded.

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. While demand for panel boards and furniture remain intact, we continue to face competition from new plants in the region. There is some uncertainties arising from the recently concluded general election in Malaysia which could have significant impacts on the local currency, consumer spending and infrastructure projects. 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 current log supply situation as compared to second half of 2017. However, the upcoming fasting month and subsequent festivities might reduce log harvesting activities.

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 in the near future. Continuous effort is being made to improve on the furniture segment but some cost savings have materialized from several other MDF lines

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which were retooled and upgraded in the second half of 2017 which have improved the efficiency and quality of the Group's products in 2018. If there is no major disruption in log supply and the Malaysian Ringgit stabilizes at current level vis-a-vis the United States Dollar, the Group expects a satisfactory result in 2018.

5 *Tax Expense*

Major Components of tax expense

	3 months ended		3 months ended	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'0000</u>
Current tax expense	3,917	3,341	3,917	3,341
Deferred tax expense	2,168	2,655	2,168	2,655
	<u>6,085</u>	<u>5,996</u>	<u>6,085</u>	<u>5,996</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 *Status of Corporate Proposal Announced*

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

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7 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	As at 31 March 2018				
	In RM RM'000	In Baht RM'000	In USD RM'000	In Euro RM'000	Total RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	51,954	-	-	51,954
Term loans	8,519	-	3,786	-	12,305
Hire purchase and finance lease payables	77	249	-	-	326
<u>Unsecured</u>					
Trade facilities	14,518	-	-	-	14,518
Term Loans	5,004	-	1,152	6,664	12,820
	<u>28,118</u>	<u>52,203</u>	<u>4,938</u>	<u>6,664</u>	<u>91,923</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	34,833	-	12,021	-	46,854
Hire purchase and finance lease payables	504	495	-	-	999
<u>Unsecured</u>					
Term Loans	13,060	-	511	46,649	60,220
	<u>48,397</u>	<u>495</u>	<u>12,532</u>	<u>46,649</u>	<u>108,073</u>
Total	<u>76,515</u>	<u>52,698</u>	<u>17,470</u>	<u>53,313</u>	<u>199,996</u>
Exchange rate RM to USD1.00		3.8550			
Exchange rate RM to THB1.00		0.1237			
Exchange rate RM to EUR1.00		4.7505			

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As at 31 March 2017

Denominated	In RM RM'000	In Baht RM'000	In USD RM'000	In Euro RM'000	Total RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	33,746	-	-	33,746
Term loans	8,123	-	8,465	-	16,588
Hire purchase and finance lease payables	64	299	-	-	363
<u>Unsecured</u>					
Trade facilities	29,931	-	14,160	-	44,091
Term Loans	6,153	-	2,741	3,333	12,227
	<u>44,271</u>	<u>34,045</u>	<u>25,366</u>	<u>3,333</u>	<u>107,015</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	28,346	-	-	-	28,346
Hire purchase and finance lease payables	173	756	-	-	929
<u>Unsecured</u>					
Term Loans	16,023	-	1,815	52,941	70,779
	<u>44,542</u>	<u>756</u>	<u>1,815</u>	<u>52,941</u>	<u>100,054</u>
Total	<u>88,813</u>	<u>34,801</u>	<u>27,181</u>	<u>56,274</u>	<u>207,069</u>

Exchange rate RM to USD1.00	4.4250
Exchange rate RM to THB1.00	0.1288
Exchange rate RM to EUR1.00	4.7232

8 *Changes in Material Litigation*

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

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9 ***Dividend Payable***

Final single tier dividend of 1.38 sen per ordinary share amounting to RM11,674,827 for financial year ended 31 December 2017 was approved on 25 May 2018. The entitlement date will be dated on 1 August 2018 and the final dividend will be payable on 17 August 2018.

10 ***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
	2018	2017	2018	2017
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	6,769	10,539	6,769	10,539
Weighted average number of ordinary shares in issue ('000)	846,002	846,002	846,002	846,002
Basic EPS (sen)	0.80	1.25	0.80	1.25

b. **Diluted**

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