

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 June 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. The initial application of the accounting standards, interpretations or amendments that are effective from 1 January 2018 do not have any material financial impacts to the current and prior financial period of the Group.

<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

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MFRS 11	Joint Arrangements	1 January 2019
MFRS 112	Income Taxes	1 January 2019
MFRS 119	Employee Benefits	1 January 2019
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) During the quarter under review, the Company bought back a total of 200,000 of its issued and paid up shares from the open market at an average price of RM0.445 per share. Total consideration paid for the buy backs including transaction costs was RM89,560.70 and these buy backs were financed by

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internally generated fund. The total number of shares bought back as at the date of this report was 622,000 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 2nd quarter ended 30 June 2018.

8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended		6 months ended	
	30 June		30 June	
	2018	2017	2018	2017
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest Income	(394)	(436)	(779)	(758)
Other expense/(income) including investment income	(3,193)	(502)	(5,591)	(70)
Interest expense/ Finance cost	1,612	1,749	3,376	3,316
Depreciation and amortisation	18,271	16,783	35,821	33,002
(Gain)/loss on disposal of property, plant and equipment	(466)	(62)	(11,355)	(62)
Goodwill written off	-	-	8,000	-
Foreign exchange (gain)/loss	(5,518)	3,394	(3,950)	3,517

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	
	30 June 2018		30 June 2017	
	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	157,843	6,474	134,928	5,934
Thailand	115,506	7,549	103,725	4,288
Others	16,566	(164)	20,329	344
	<u>289,915</u>	<u>13,859</u>	<u>258,982</u>	<u>10,566</u>

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	6 months ended 30 June 2018		6 months ended 30 June 2017	
	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	321,652	14,223	256,151	15,850
Thailand	193,826	11,414	215,355	10,071
Others	38,615	1,795	36,977	1,567
	<u>554,093</u>	<u>27,432</u>	<u>508,483</u>	<u>27,488</u>

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 30 June 2018 are as follows:

	<u>RM'000</u>
Approved and contracted for	11,135
Approved but not contracted for	586
	<u>11,721</u>

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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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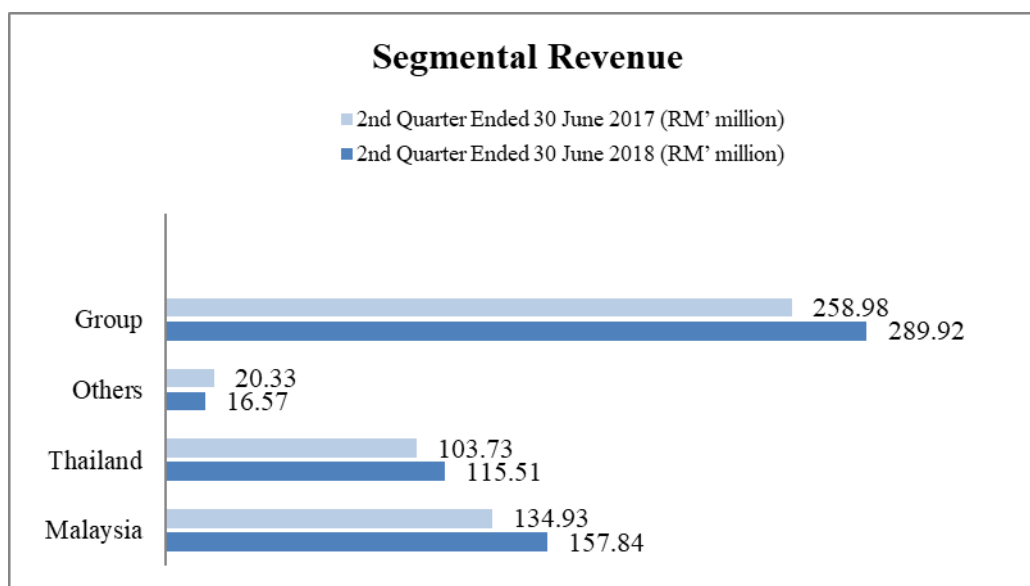
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

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

1 *Performance Review*

	3 months ended		Changes %	6 months ended		Changes %
	30 June 2018	30 June 2017		30 June 2018	30 June 2017	
	(RM'000)	(RM'000)		(RM'000)	(RM'000)	
Revenue	289,915	258,982	11.9%	554,093	508,483	9.0%
Operating Profit	55,691	57,240	-2.7%	111,723	116,114	-3.8%
Profit Before Interest and Tax	15,471	12,315	25.6%	30,808	30,804	0.0%
Profit Before Tax	13,859	10,566	31.2%	27,432	27,488	-0.2%
Profit After Tax	12,119	6,580	84.2%	19,607	17,506	12.0%
Profit/(Loss) Attributable to Owners of the Company	11,959	6,200	92.9%	18,728	16,739	11.9%

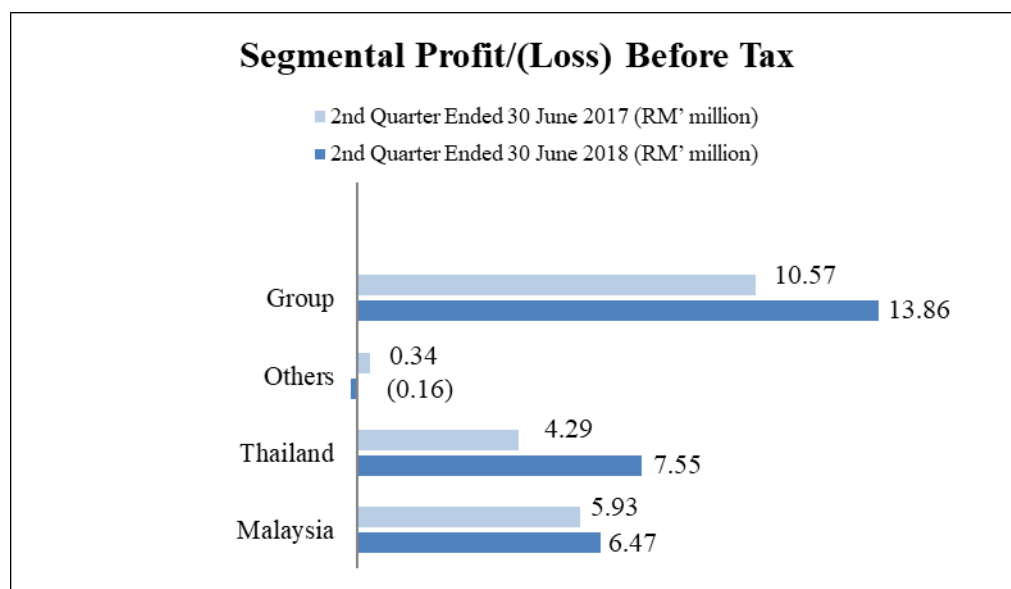
Segmental Revenue and Results – for 2nd Quarter Ended 30/06/2017 vs 30/06/2018



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Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2018 increased by 17.0% or RM22.91 million to RM157.84 million from RM134.93 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by full commercial run of Particle Board Plant in Segamat despite of lower average selling price of products.

Profit before tax for the current quarter increased by RM0.54 million to RM6.47 million compared to a profit before tax of RM5.93 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly attributable to foreign exchange gain in the current quarter compared to foreign exchange loss incurred in the preceding year corresponding quarter.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2018 increased by 11.4% or RM11.78 million to RM115.51 million from RM103.73 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributable to higher sales volume as a result of higher production volume derived from upgraded machineries.

Profit before tax for the current quarter increased by 76% to RM7.55 million compared to a profit before tax of RM4.29 million recorded in the corresponding quarter of the preceding year. The increase in profit was contributed by higher sales revenue, more synergistic cost savings derived from power plants, and couple with foreign exchange gain in the current quarter.

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Others segment

On Others segment's revenue for the quarter ended 30 June 2018 decreased by 18.5% to RM16.57 million from RM20.33 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly caused by lower sales volume and lower average selling price.

Loss before tax was reported at RM0.16 million for the current quarter, compared to profit before tax of RM0.34 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to lower sales revenue and higher cost of glue.

Consolidated

The Group's revenue for the quarter ended 30 June 2018 increased by 11.9% or RM30.94 million to RM289.92 million from RM258.98 million recorded in the preceding year corresponding quarter. Despite of lower average selling price, the increase in revenue was mainly due to higher sales volume of the Group's products especially from full commercial run of Particle Board Plant in Segamat.

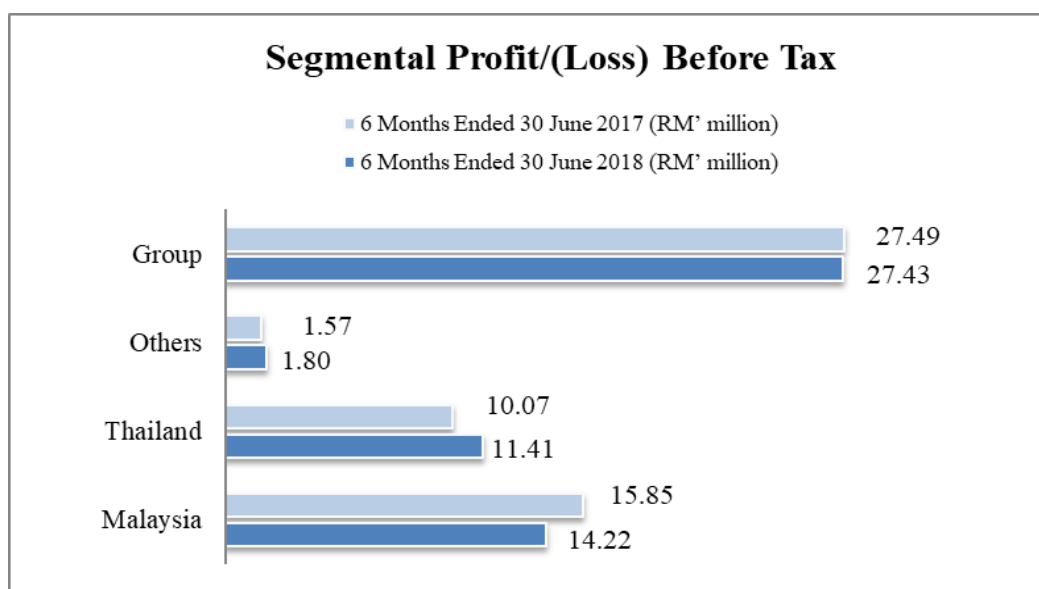
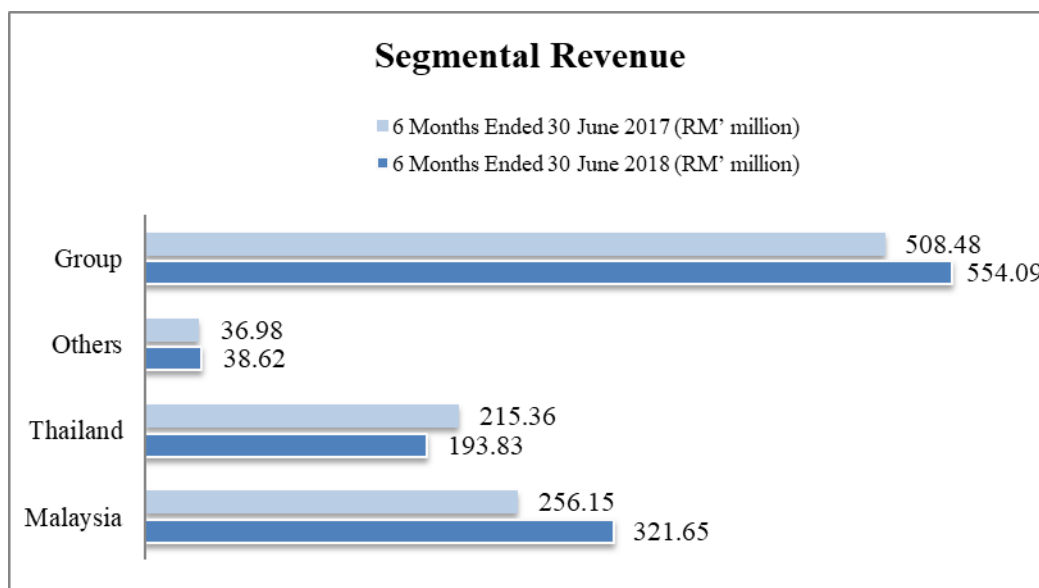
Profit before tax for the current quarter increased by 31.1% or RM3.29 million to RM13.86 million compared to a profit before tax of RM10.57 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly contributed by foreign exchange gain in the current quarter compared to foreign exchange loss in the preceding year corresponding quarter.

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Segmental Revenue and Results – for 6 Months Ended 30/06/2017 vs 30/06/2018



Malaysia segment

For the current year to date, the Malaysia segment's revenue has increased by 25.6% to RM321.65 million, as compared to the revenue of RM256.15 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volume of the Group's products especially from full commercial run of Particle Board Plant in Segamat, despite of lower average selling price of products.

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For the current year to date, profit before tax has decreased by RM1.63 million to RM14.22 million, as compared to a profit before tax of RM15.85 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower profit margin resulted from lower average selling price and hike in log cost, despite of foreign exchange gain recorded for the current year to date compared to foreign exchange loss in the corresponding period last year.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM193.83 million, with a decrease of 10.0% or RM21.53 million, as compared to the revenue of RM215.36 million for the corresponding period last year. The decrease in revenue was mainly due to lower average selling price even with higher sales volume.

For the current year to date, profit before tax has increased by RM1.34 million to RM11.41 million, as compared to RM10.07 million recorded in the corresponding period last year. The increase in profit was mainly contributed by higher synergistic cost savings from power plants.

Others Segment

For the current year to date, on Other segment's revenue, has increased by 4.4% to RM38.62 million, as compared to the revenue of RM36.98 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volumes despite of lower average selling price.

Profit before tax was reported at RM1.80 million for the current year to date, increased by RM0.23 million compared to RM1.57 million recorded in the corresponding period last year. The increase in profit was due to lower cost of log.

Consolidated profit before tax

For the current year to date, the Group's revenue has increased by 9.0% or RM45.61 million to RM554.09 million, as compared to RM508.48 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volume of the Group's products especially from full commercial run of Particle Board Plant in Segamat despite of lower average selling price of products.

Profit before tax was registered at RM27.43 million for the current year to date, decreased by 0.2% or RM0.06 million compared to profit before tax of RM27.49 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower profit margin resulted from lower average selling price. The impact was mitigated by foreign exchange gain in current year to date compared to foreign exchange loss in the corresponding period last year.

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

	Current Quarter 30-Jun-18 <u>RM'000</u>	Immediate Preceding Quarter 31-Mar-18 <u>RM'000</u>	Changes %
Revenue	289,915	264,178	9.7%
Operating Profit	55,691	56,032	-0.6%
Profit Before Interest and Tax	15,471	15,337	0.9%
Profit Before Tax	13,859	13,573	2.1%
Profit After Tax	12,119	7,488	61.8%
Profit/(Loss) Attributable to Owners of the Company	11,959	6,769	76.7%

The current quarter revenue increased by 9.7% or RM25.74 million to RM289.92 million, as compared to RM264.18 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 despite of lower average selling price for majority of the Group's products.

The Group's profit before tax increased by 2.1% to RM13.86 million, as compared to RM13.57 million recorded in the preceding quarter. The increase in profit was mainly contributed by foreign exchange gain being recorded in the current quarter, which the impact was affected by lower average selling price.

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*

While demand for panel boards and furniture remain intact, competition in the industry continued to heighten with new capacities being launched within the region. Coupled with uncertainties generated from a possible full fledged trade war between the two largest economies of the world, the Group expects a more challenging operating environment in the second half of the year with heighten price competition. Nonetheless, a stronger USD will help to mitigate some of the effects from pricing pressure. Production cost is expected to be lower with helped by falling log and glue prices which came off their year's high levels. With the challenging operating environment, the Group expects satisfactory results in next quarter.

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5 Tax Expense

Major Components of tax expense

	3 months ended		6 months ended	
	30 June 2018 <u>RM'000</u>	30 June 2017 <u>RM'000</u>	30 June 2018 <u>RM'000</u>	30 June 2017 <u>RM'000</u>
Current tax expense	2,348	3,052	6,265	6,393
Deferred tax expense	(608)	934	1,560	3,589
	<u>1,740</u>	<u>3,986</u>	<u>7,825</u>	<u>9,982</u>

The effective tax rate of the Group for the current year to date 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 30 June 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	-	43,873	-	-	43,873
Term loans	10,056	-	3,565	-	13,621
Hire purchase and finance lease payables	79	259	-	-	338
<u>Unsecured</u>					
Trade facilities	24,145	-	-	-	24,145
Term Loans	5,004	-	748	6,611	12,363
	<u>39,284</u>	<u>44,132</u>	<u>4,313</u>	<u>6,611</u>	<u>94,340</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	31,797	-	11,529	-	43,326
Hire purchase and finance lease payables	477	407	-	-	884
<u>Unsecured</u>					
Term Loans	11,810	-	286	42,972	55,068
	<u>44,084</u>	<u>407</u>	<u>11,815</u>	<u>42,972</u>	<u>99,278</u>
Total	<u>83,368</u>	<u>44,539</u>	<u>16,128</u>	<u>49,583</u>	<u>193,618</u>
Exchange rate RM to USD1.00		4.0400			
Exchange rate RM to THB1.00		0.1219			
Exchange rate RM to EUR1.00		4.7127			

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As at 30 June 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	-	38,836	-	-	38,836
Term loans	8,123	-	5,293	-	13,416
Hire purchase and finance lease payables	44	1,037	-	-	1,081
<u>Unsecured</u>					
Trade facilities	33,600	-	13,750	-	47,350
Term Loans	5,652	-	2,662	6,924	15,238
	<u>47,419</u>	<u>39,873</u>	<u>21,705</u>	<u>6,924</u>	<u>115,921</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	24,285	-	-	-	24,285
Hire purchase and finance lease payables	173	-	-	-	173
<u>Unsecured</u>					
Term Loans	16,806	-	1,097	51,579	69,482
	<u>41,264</u>	<u>-</u>	<u>1,097</u>	<u>51,579</u>	<u>93,940</u>
Total	<u>88,683</u>	<u>39,873</u>	<u>22,802</u>	<u>58,503</u>	<u>209,861</u>

Exchange rate RM to USD1.00 4.2970

Exchange rate RM to THB1.00 0.1265

Exchange rate RM to EUR1.00 4.9063

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*

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 2017 is as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
2017	25 May 2018	Final single tier dividend	1.38 sen /share	RM11.67 million	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		6 months ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	11,959	6,200	18,728	16,739
Weighted average number of ordinary shares in issue ('000)	846,002	846,002	846,002	846,002
Basic EPS (sen)	1.41	0.73	2.21	1.98

b. **Diluted**

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