

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 September 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
MFRS 15 Revenue from Contracts with Customers	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
MFRS 140 Investment Property	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/ 1 January 2020*

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MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 9	Financial Instruments	1 January 2019
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 11	Joint Arrangements	1 January 2019
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 101	Presentation of Financial Statements	1 January 2020*
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020*
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
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*
MFRS 138	Intangible Assets	1 January 2020*
<u>New IC Int</u>		
IC Int 23	Uncertainty over Income Tax Treatments	1 January 2019
<u>Amendments to IC Int</u>		
IC Int 12	Service Concession Arrangements	1 January 2020*
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020*
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020*
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020*
IC Int 132	Intangible Assets – Web Site Costs	1 January 2020*

** Amendments to References to the Conceptual Framework in MFRS Standards*

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.

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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.

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 30 September 2018 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

A single tier final dividend of 1.38 sen per share in respect of the financial year ended 31 December 2017 amounting to RM11,672,067 was declared on 25 May 2018 and paid on 17 August 2018.

8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended		9 months ended	
	30 September		30 September	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest Income	(400)	(395)	(1,178)	(1,153)
Other expense/(income) including investment income	(10,139)	(104)	(15,729)	(174)
Interest expense/ Finance cost	1,753	1,896	5,129	5,212
Depreciation and amortisation	18,639	15,781	54,460	48,784
(Gain)/ loss on disposal of property, plant and equipment	156	(576)	(11,199)	(637)
Goodwill written off	-	-	8,000	-
Foreign exchange (gain)/loss	(570)	217	(4,519)	3,735

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9. Segmental Information

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

	3 months ended 30 September 2018		3 months ended 30 September 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	169,434	(931)	154,697	15,568
Thailand	102,912	7,863	77,508	3,099
Others	16,183	812	27,928	2,969
	<u>288,529</u>	<u>7,744</u>	<u>260,133</u>	<u>21,636</u>

	9 months ended 30 September 2018		9 months ended 30 September 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	491,086	13,292	410,848	31,418
Thailand	296,738	19,277	292,863	13,170
Others	54,798	2,607	64,905	4,536
	<u>842,622</u>	<u>35,176</u>	<u>768,616</u>	<u>49,124</u>

10. Valuation of Investment and Property, Plant and Equipment

No valuation was conducted during the period on the Group's property, plant and equipment.

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.

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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 September 2018 are as follows:

	<u>RM'000</u>
Approved and contracted for	3,750
Approved but not contracted for	<u>2,150</u>
	<u>5,900</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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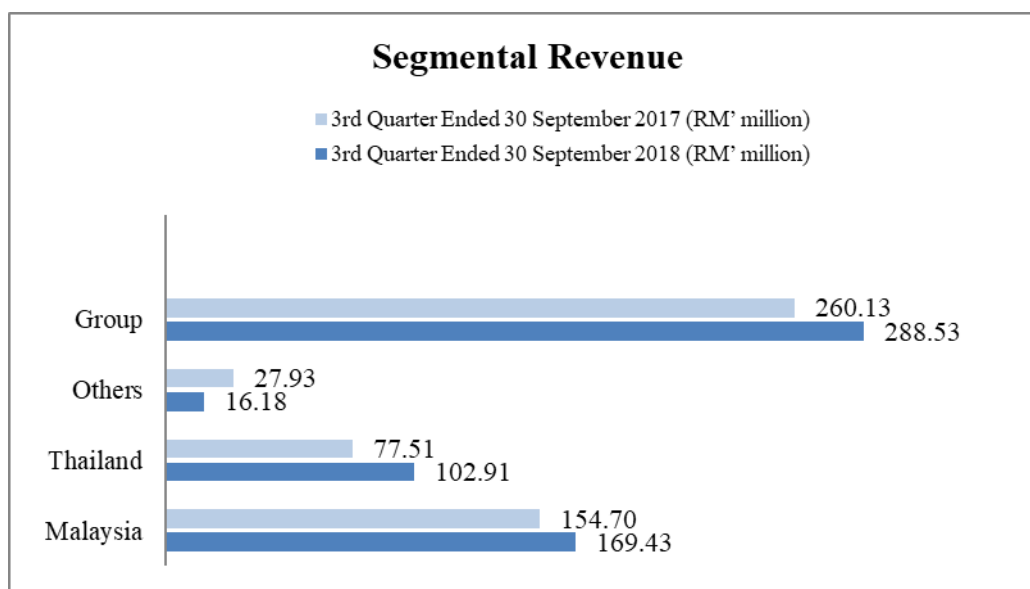
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

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

1 *Performance Review*

	3 months ended		Changes %	9 months ended		Changes %
	30 September 2018	30 September 2017		30 September 2018	30 September 2017	
	(RM'000)	(RM'000)		(RM'000)	(RM'000)	
Revenue	288,529	260,133	10.9%	842,622	768,616	9.6%
Operating Profit	49,536	62,243	-20.4%	161,259	178,357	-9.6%
Profit Before Interest and Tax	9,497	23,532	-59.6%	40,305	54,336	-25.8%
Profit Before Tax	7,744	21,636	-64.2%	35,176	49,124	-28.4%
Profit After Tax	5,743	16,552	-65.3%	25,350	34,058	-25.6%
Profit/(Loss) Attributable to Owners of the Company	5,345	15,097	-64.6%	24,073	31,836	-24.4%

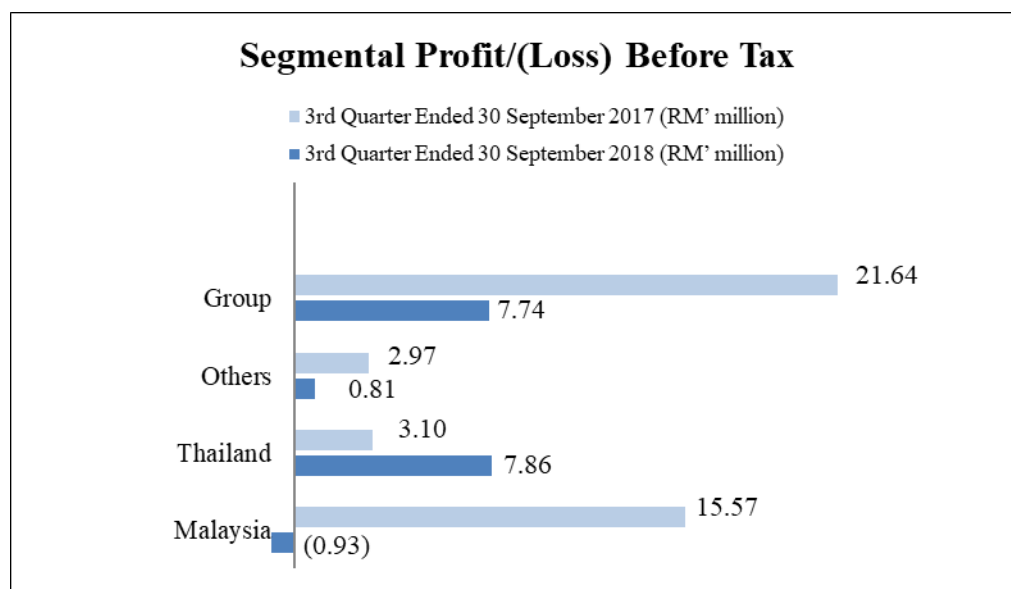
Segmental Revenue and Results – for 3rd Quarter Ended 30/09/2017 vs 30/09/2018



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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 September 2018 increased by 9.5% or RM14.73 million to RM169.43 million from RM154.70 million recorded in the preceding year corresponding quarter. The increase in revenue was contributed by higher sales volume especially from particle board.

Loss before tax was reported at RM0.93 million for the current quarter, compared to profit before tax of RM15.57 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to higher cost of raw materials couple with lower average selling prices as a result of severe competition from the region.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 September 2018 increased by 32.8% or RM25.4 million to RM102.91 million from RM77.51 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributable to higher sales volume as the lower based in preceding year corresponding quarter and resulted from upgraded machineries, despite of lower average selling price.

Profit before tax for the current quarter increased by RM4.76 million to RM7.86 million compared to a profit before tax of RM3.10 million recorded in the corresponding quarter of the preceding year. The increase in profit was contributed by higher sales revenue and insurance claim received as compensation of line stoppage last year.

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Others segment

On Others segment's revenue for the quarter ended 30 September 2018 decreased by 42.1% to RM16.18 million from RM27.93 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly caused by lower sales volume and lower average selling price.

Profit before tax was reported for the current quarter decreased by RM2.16 million to RM0.81 million compared to profit before tax of RM2.97 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to lower sales revenue and foreign exchange loss being recorded in the current quarter.

Consolidated

The Group's revenue for the quarter ended 30 September 2018 increased by 10.9% or RM28.40 million to RM288.53 million from RM260.13 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to higher sales volume of the Group's products.

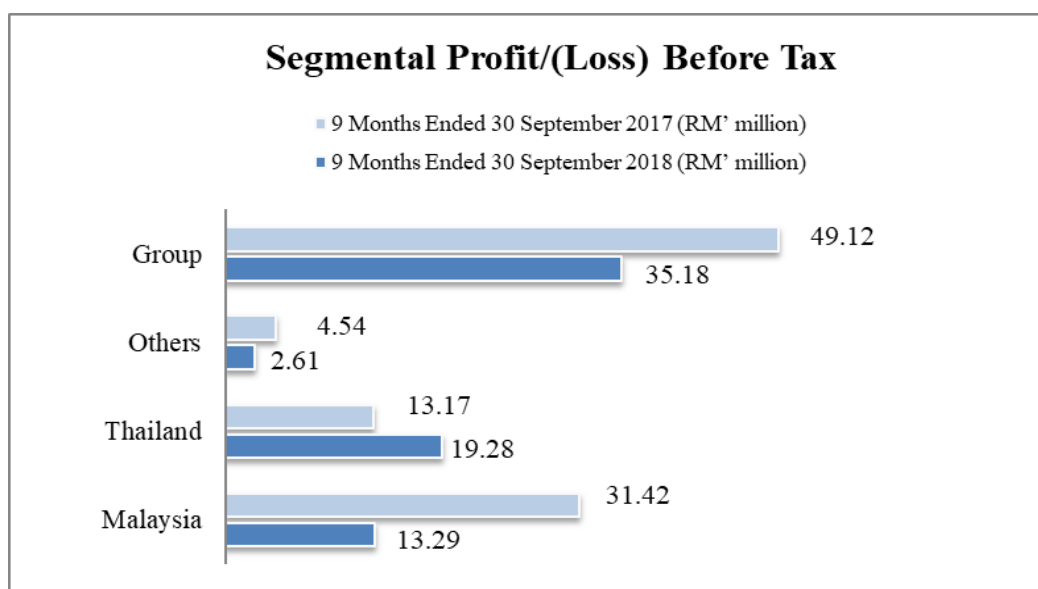
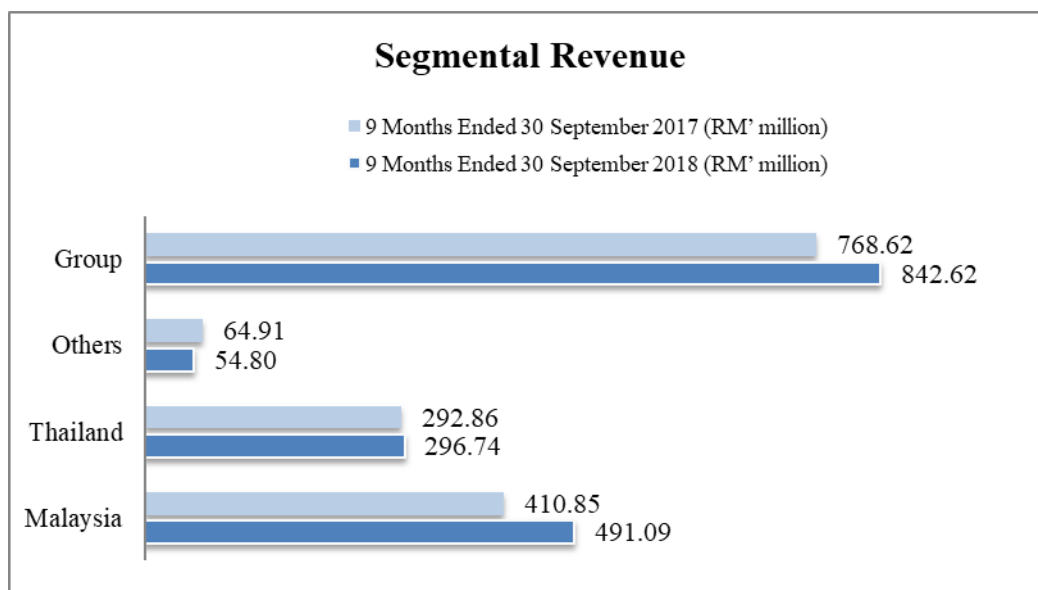
Profit before tax for the current quarter decreased by RM13.90 million to RM7.74 million compared to a profit before tax of RM21.64 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to higher cost of raw materials couple with lower average selling prices as a result of severe competition from the region. The negative impact was reduced by insurance claim received as compensation of line stoppage last year.

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Segmental Revenue and Results – for 9 Months Ended 30/09/2017 vs 30/09/2018



Malaysia segment

For the current year to date, the Malaysia segment's revenue has increased by 19.5% to RM491.09 million, as compared to the revenue of RM410.85 million for the corresponding period last year. The increase in revenue was mainly contributed by higher sales volume especially from particle boards.

For the current year to date, profit before tax has decreased by RM18.13 million to RM13.29 million, as compared to a profit before tax of RM31.42 million recorded in the corresponding period last year. The decrease in profit was mainly due to

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higher cost of raw materials couple with lower average selling prices resulted from severe competition from the region. This impact was mitigated by foreign exchange gain being recorded in current year to date.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM296.74 million, with an increase of 1.3% or RM3.88 million, as compared to the revenue of RM292.86 million for the corresponding period last year. The increase in revenue was mainly contributed by higher sales volume, despite of lower average selling price.

For the current year to date, profit before tax has increased by RM6.11 million to RM19.28 million, as compared to RM13.17 million recorded in the corresponding period last year. The increase in profit was mainly contributed by higher synergistic cost savings from power plants and insurance claim received as compensation of line stoppage last year.

Others Segment

For the current year to date, on Other segment's revenue, has decreased by 15.6% to RM54.8 million, as compared to the revenue of RM64.91 million for the corresponding period last year. The decrease in revenue was mainly due to lower sales volume and average selling price.

Profit before tax was reported at RM2.61 million for the current year to date, decreased by RM1.93 million compared to RM4.54 million recorded in the corresponding period last year. The decrease in profit was due to lower revenue and higher foreign exchange loss being recorded in the current year to date.

Consolidated profit before tax

For the current year to date, the Group's revenue has increased by 9.6% or RM74.00 million to RM842.62 million, as compared to RM768.62 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volume of the Group's products.

Profit before tax was registered at RM35.18 million for the current year to date, decreased by 28.4% or RM13.94 million compared to profit before tax of RM49.12 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower average selling prices which caused by severe competition from region as well as high raw materials cost. The impact was mitigated by foreign exchange gain being recorded in current year to date and insurance claim received as compensation of line stoppage last year.

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

	Current Quarter 30-Sep-18 <u>RM'000</u>	Immediate Preceding Quarter 30-Jun-18 <u>RM'000</u>	Changes %
Revenue	288,529	289,915	-0.5%
Operating Profit	49,536	55,691	-11.1%
Profit Before Interest and Tax	9,497	15,471	-38.6%
Profit Before Tax	7,744	13,859	-44.1%
Profit After Tax	5,743	12,119	-52.6%
Profit/(Loss) Attributable to Owners of the Company	5,345	11,959	-55.3%

The current quarter revenue decreased by 0.5% or RM1.39 million to RM288.53 million, as compared to RM289.92 million recorded in the preceding quarter. The decrease in revenue was mainly due to lower sales volumes.

The Group's profit before tax decreased by 44.1% to RM7.74 million, as compared to RM13.86 million recorded in the preceding quarter. The decrease in profit was mainly due to higher cost of raw materials, severe price competition and lower foreign exchange gain being recorded in the current quarter.

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 with heightened price competition. Nonetheless, a stronger USD will help to mitigate some of the effects from pricing pressure. The Group will remain focused on its endeavor to achieving higher production and cost efficiencies despite the challenging environment.

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5 *Tax Expense*

Major Components of tax expense

	3 months ended		9 months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'0000</u>
Current tax expense	2,735	1,495	9,000	7,888
Deferred tax expense	(734)	3,589	826	7,178
	<u>2,001</u>	<u>5,084</u>	<u>9,826</u>	<u>15,066</u>

The effective tax rate of the Group for the current year to date is higher than the statutory rate due to 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 September 2018				Total RM'000
	In RM RM'000	In Baht RM'000	In USD RM'000	In Euro RM'000	
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	43,549	-	-	43,549
Term loans	10,609	-	3,654	-	14,263
Hire purchase and finance lease payables	81	272	-	-	353
<u>Unsecured</u>					
Trade facilities	30,999	-	8,282	-	39,281
Term Loans	5,004	-	748	6,743	12,495
	<u>46,693</u>	<u>43,821</u>	<u>12,684</u>	<u>6,743</u>	<u>109,941</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	28,976	-	11,498	-	40,474
Hire purchase and finance lease payables	449	354	-	-	803
<u>Unsecured</u>					
Term Loans	10,561	-	76	43,831	54,468
	<u>39,986</u>	<u>354</u>	<u>11,574</u>	<u>43,831</u>	<u>95,745</u>
Total	<u>86,679</u>	<u>44,175</u>	<u>24,258</u>	<u>50,574</u>	<u>205,686</u>
Exchange rate RM to USD1.00		4.1410			
Exchange rate RM to THB1.00		0.1281			
Exchange rate RM to EUR1.00		4.8069			

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As at 30 September 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	-	38,100	-	-	38,100
Term loans	11,885	-	2,863	-	14,748
Hire purchase and finance lease payables	20	329	-	-	349
<u>Unsecured</u>					
Trade facilities	24,341	-	12,906	-	37,247
Term Loans	5,151	-	2,621	7,041	14,813
	<u>41,397</u>	<u>38,429</u>	<u>18,390</u>	<u>7,041</u>	<u>105,257</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	37,300	-	-	-	37,300
Hire purchase and finance lease payables	146	642	-	-	788
<u>Unsecured</u>					
Term Loans	15,559	-	425	52,457	68,441
	<u>53,005</u>	<u>642</u>	<u>425</u>	<u>52,457</u>	<u>106,529</u>
Total	<u>94,402</u>	<u>39,071</u>	<u>18,815</u>	<u>59,498</u>	<u>211,786</u>

Exchange rate RM to USD1.00	4.2315
Exchange rate RM to THB1.00	0.1270
Exchange rate RM to EUR1.00	4.9898

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		9 months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	5,345	15,097	24,073	31,836
Weighted average number of ordinary shares in issue ('000)	845,935	846,002	845,935	846,002
Basic EPS (sen)	0.63	1.78	2.85	3.76

b. **Diluted**

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