

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

A INFORMATION REQUIRED BY MFRS 134

1. Basis of Preparation

These condensed consolidated interim financial statements, for the period ended 30 September 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 30 September 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 3rd quarter ended 30 September 2017.

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8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended 30 September		9 months ended 30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Interest Income	(395)	(413)	(1,153)	(1,287)
Other expense/(income) including investment income	(104)	1,251	(174)	235
Interest expense/ Finance cost	1,896	1,725	5,212	5,141
Depreciation and amortisation	15,781	16,375	48,784	49,001
(Gain)/loss on disposal of property, plant and equipment	(576)	1,551	(638)	1,372
Foreign exchange (gain)/loss	217	(936)	3,735	2,788
(Gain)/loss on derivatives	-	(28)	-	(866)

9. Segmental Information

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

	3 months ended 30 September 2017		3 months ended 30 September 2016	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	154,697	15,568	123,366	7,037
Thailand	77,508	3,099	99,875	14,959
Others	27,928	2,969	19,110	125
	<u>260,133</u>	<u>21,636</u>	<u>242,351</u>	<u>22,121</u>

	9 months ended 30 September 2017		9 months ended 30 September 2016	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	410,848	31,418	394,425	27,525
Thailand	292,863	13,170	283,386	38,950
Others	64,905	4,536	57,572	1,647
	<u>768,616</u>	<u>49,124</u>	<u>735,383</u>	<u>68,122</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 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.

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 2017 are as follows:

	<u>RM'000</u>
Approved and contracted for	14,298
Approved but not contracted for	-
	<u>14,298</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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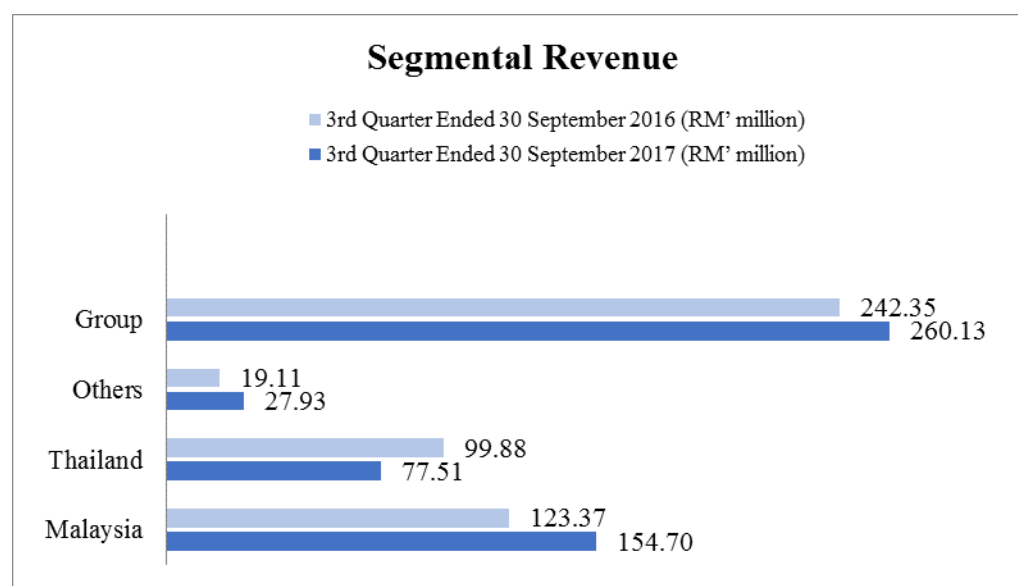
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

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 2017	30 September 2016		30 September 2017	30 September 2016	
	(RM'000)	(RM'000)		(RM'000)	(RM'000)	
Revenue	260,133	242,351	7.3%	768,616	735,383	4.5%
Operating Profit	62,243	68,525	-9.2%	178,357	203,507	-12.4%
Profit Before Interest and Tax	23,532	23,846	-1.3%	54,336	73,263	-25.8%
Profit Before Tax	21,636	22,121	-2.2%	49,124	68,122	-27.9%
Profit After Tax	16,552	15,692	5.5%	34,058	51,691	-34.1%
Profit/(Loss) Attributable to Owners of the Company	15,097	16,880	-10.6%	31,836	53,958	-41.0%

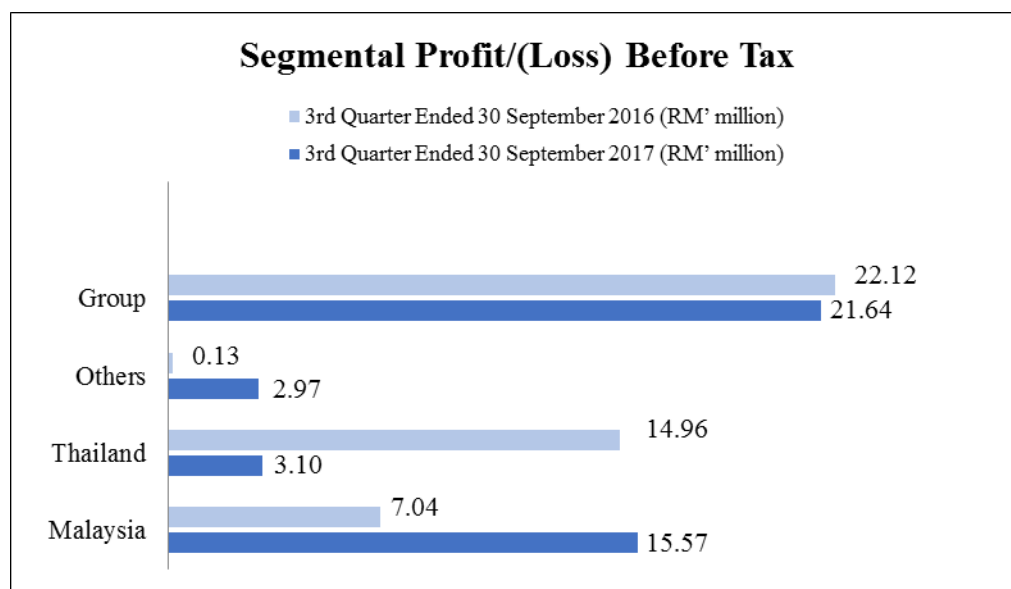
Segmental Revenue and Results – for 3rd Quarter Ended 30/09/2016 vs 30/09/2017



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Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 September 2017 increased by 25.4% or RM31.33 million to RM154.70 million from RM123.37 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 as well as impact from weakening of Malaysian Ringgit against US Dollar.

Profit before tax for the current quarter increased by RM8.53 million to RM15.57 million compared to a profit before tax of RM7.04 million recorded in the corresponding quarter of the preceding 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.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 September 2017 decreased by 22.4% or RM22.37 million to RM77.51 million from RM99.88 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 RM3.1 million compared to a profit before tax of RM14.96 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to increase in log price, couple with higher repairing and upgrading costs incurred on the stoppage line.

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Others segment

On Others segment's revenue for the quarter ended 30 September 2017 increased by 46.2% to RM27.93 million from RM19.11 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributed by higher sales volume and average selling price.

Profit before tax was reported at RM2.97 million for the current quarter, increased by RM2.84 million compared to RM0.13 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 30 September 2017 increased by 7.3% or RM17.78 million to RM260.13 million from RM242.35 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 as well as impact from weakening of Malaysian Ringgit against US Dollar.

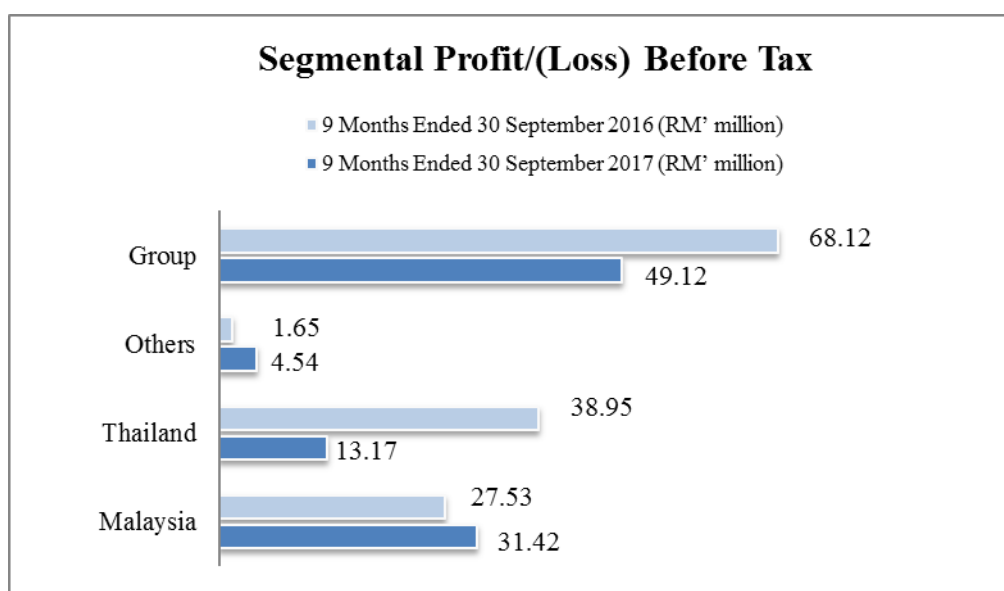
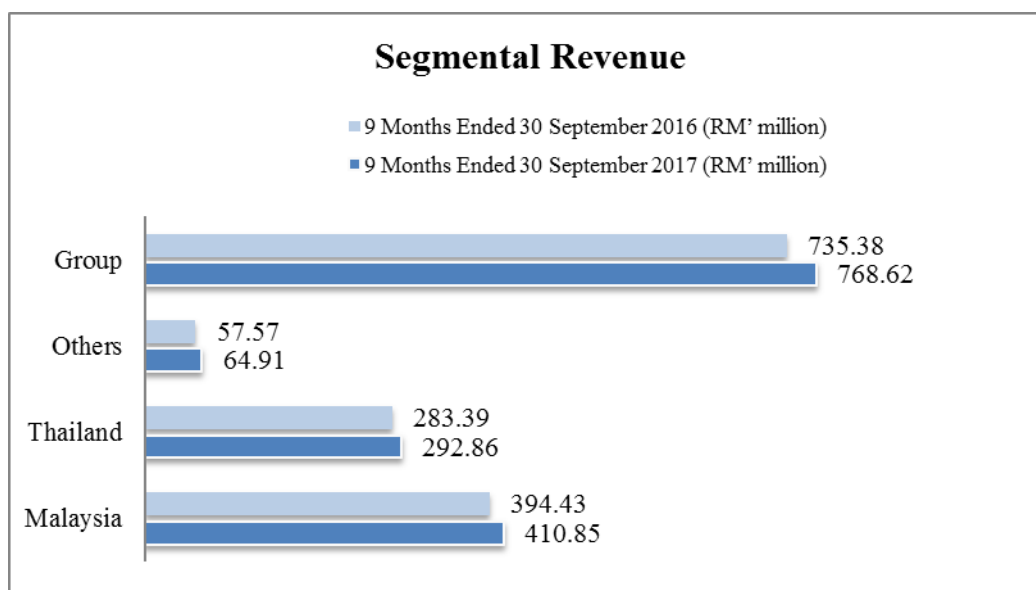
Profit before tax for the current quarter decreased by 2.2% or RM0.48 million to RM21.64 million compared to a profit before tax of RM22.12 million recorded in the corresponding quarter of the preceding year. The slight decrease in profit was mainly caused by higher log and glue cost, couple with higher repairing and upgrading cost incurred on the stoppage line in Thailand plant.

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Segmental Revenue and Results – for 9 Months Ended 30/09/2016 vs 30/09/2017



Malaysia segment

For the current year to date, the Malaysia segment's revenue has increased by RM16.42 million or 4.2% to RM410.85 million, as compared to the revenue of RM394.43 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 as well as impact from weakening of Malaysian Ringgit against US Dollar.

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For the current year to date, profit before tax has increased by RM3.89 million to RM31.42 million, as compared to a profit before tax of RM27.53 million recorded 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.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM292.86 million, with an increase of 3.3% or RM9.47 million, as compared to the revenue of RM283.39 million for the corresponding period last year. The increase in revenue was due to higher average selling price.

For the current year to date, profit before tax has decreased by RM25.78 million to RM13.17 million, as compared to RM38.95 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.

Others Segment

For the current year to date, on Other segment's revenue, has increased by RM7.34 million or 12.7% to RM64.91 million, as compared to the revenue of RM57.57 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 RM4.54 million for the current year to date, increased by RM2.89 million compared to RM1.65 million recorded in the corresponding period last year. The increase in profit was due to higher margin from higher average selling price and lower foreign exchange loss in the current year to date.

Consolidated profit before tax

For the current year to date, the Group's revenue has increased by 4.5% or RM33.24 million to RM768.62 million, as compared to RM735.38 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 as well as impact from weakening of Malaysian Ringgit against US Dollar.

Profit before tax was registered at RM49.12 million for the current year to date, decreased by 27.9% or RM19.00 million compared to profit before tax of RM68.12 million recorded in the corresponding period last year. The decrease in profit was mainly due to higher log and glue cost.

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

	Current Quarter 30-Sep-17 <u>RM'000</u>	Immediate Preceding Quarter 30-Jun-17 <u>RM'000</u>	Changes %
Revenue	260,133	258,982	0.4%
Operating Profit	62,243	57,240	8.7%
Profit Before Interest and Tax	23,532	12,315	91.1%
Profit Before Tax	21,636	10,566	104.8%
Profit After Tax	16,552	6,580	151.6%
Profit/(Loss) Attributable to Owners of the Company	15,097	6,200	143.5%

The current quarter revenue increased by 0.4% or RM1.15 million to RM260.13 million, as compared to RM258.98 million recorded in the preceding quarter. The increase in revenue was mainly due to commercial run of new Particle Board Plant in Segamat.

The Group's profit before tax was increased by 104.8% to RM21.64 million, as compared to RM10.57 million recorded in the preceding quarter. The increase in profit was mainly due to production efficiency and effective cost measures of new Particle Board Plant in Segamat.

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. The Group's performance is still impacted by the short supply of rubber wood logs resulting in higher prices. Although supply has improved in the 3rd quarter, the monsoon season in the 4th quarter may cause wood supply to decrease. Should there be a severe log supply shortage, the Group's 4th quarter result could be negatively impacted. However, if there is improvement in log supply, the Group expects satisfactory results in the 4th quarter.

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5 *Tax Expense*

Major Components of tax expense

	3 months ended		9 months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense	1,495	3,195	7,888	8,936
Deferred tax expense	3,589	3,234	7,178	7,495
	<u>5,084</u>	<u>6,429</u>	<u>15,066</u>	<u>16,431</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.

6 *Realised and Unrealised Profits/Losses Disclosure*

	As at	As at
	30 September 2017	31 December 2016
	<u>RM'000</u>	<u>RM'000</u>
Retained profits of the Company and its subsidiaries:		
- Realised	721,944	686,772
- Unrealised	(43,801)	(26,756)
	<u>678,143</u>	<u>660,016</u>
Less: Consolidation adjustments	35,825	39,036
Group retained profits as per consolidated accounts	<u>713,968</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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8 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	As at 30 September 2017				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	-	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			

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Denominated	As at 30 September 2016				
	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	-	32,661	-	-	32,661
Term loans	8,123	-	11,162	-	19,285
Hire purchase and finance lease payables	71	7	-	-	78
<u>Unsecured</u>					
Trade facilities	30,361	-	15,683	-	46,044
Term Loans	7,008	-	2,557	-	9,565
	<u>45,563</u>	<u>32,668</u>	<u>29,402</u>	<u>-</u>	<u>107,633</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	33,377	-	2,574	-	35,951
Hire purchase and finance lease payables	200	-	-	-	200
<u>Unsecured</u>					
Term Loans	20,696	-	2,971	49,134	72,801
	<u>54,273</u>	<u>-</u>	<u>5,545</u>	<u>49,134</u>	<u>108,952</u>
Total	<u>99,836</u>	<u>32,668</u>	<u>34,947</u>	<u>49,134</u>	<u>216,585</u>

Exchange rate RM to USD1.00	4.1270
Exchange rate RM to THB1.00	0.1127
Exchange rate RM to EUR1.00	4.6255

9 ***Changes in Material Litigation***

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

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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		9 months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	15,097	16,880	31,836	53,958
Weighted average number of ordinary shares in issue ('000)	846,424	820,682	846,424	820,682
Basic EPS (sen)	1.78	2.06	3.76	6.57

b. **Diluted**

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