

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30TH JUNE 2016

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 June 2016, 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 year ended 31 December 2015.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2015, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2016.

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 annual periods beginning on or after</u>
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	1 January 2018
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	1 January 2018
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	1 January 2018

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 2015 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.

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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) During the quarter under review, the Company bought back a total of 50,000 of its issued and paid up shares from the open market at an average price of RM1.08 per share. Total consideration paid for the buy backs including transaction costs was RM54,414.61 and these buy backs were financed by internally generated fund. The total number of shares bought back as at the date of this report was 72,000 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.

7. Dividends Paid

A tax-exempt interim dividend of 1 sen per share in respect of the financial year ending 31 December 2015 amounting to RM8,464,020 was declared on 29 February 2016 and paid on 20 April 2016.

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8. *Profit before tax*

Included in the profit before tax are the following items:

	3 months ended		6 months ended	
	30 June		30 June	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Interest Income	(446)	(230)	(874)	(458)
Other (income)/ expense include investment income	(520)	94	(1,016)	(344)
Interest expense/ Finance cost	1,740	2,991	3,416	5,919
Depreciation and amortization	16,065	16,328	32,626	32,619
(Gain)/ loss on disposal of property, plant and equipment	428	123	(179)	351
Foreign exchange (gain)/ loss	(2,182)	(773)	3,724	(2,945)
(Gain)/ loss on derivatives	(15)	198	(838)	182

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 2016		30 June 2015	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	139,593	12,148	145,042	12,057
Thailand	85,902	9,381	93,940	14,341
Others	20,744	147	20,980	1,634
	<u>246,239</u>	<u>21,676</u>	<u>259,962</u>	<u>28,032</u>

	6 months ended		6 months ended	
	30 June 2016		30 June 2015	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	271,059	20,488	259,524	21,985
Thailand	183,511	23,991	190,548	26,671
Others	38,463	1,522	42,018	4,157
	<u>493,033</u>	<u>46,001</u>	<u>492,090</u>	<u>52,813</u>

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10. *Carrying Amount of Revalued Assets*

The valuations of property, plant and equipment have been brought forward without amendment from the audited financial statements for the year ended 31 December 2015.

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 2016 are as follows:

	<u>RM'000</u>
Approved and contracted for	90,059
Approved but not contracted for	-
	<u>90,059</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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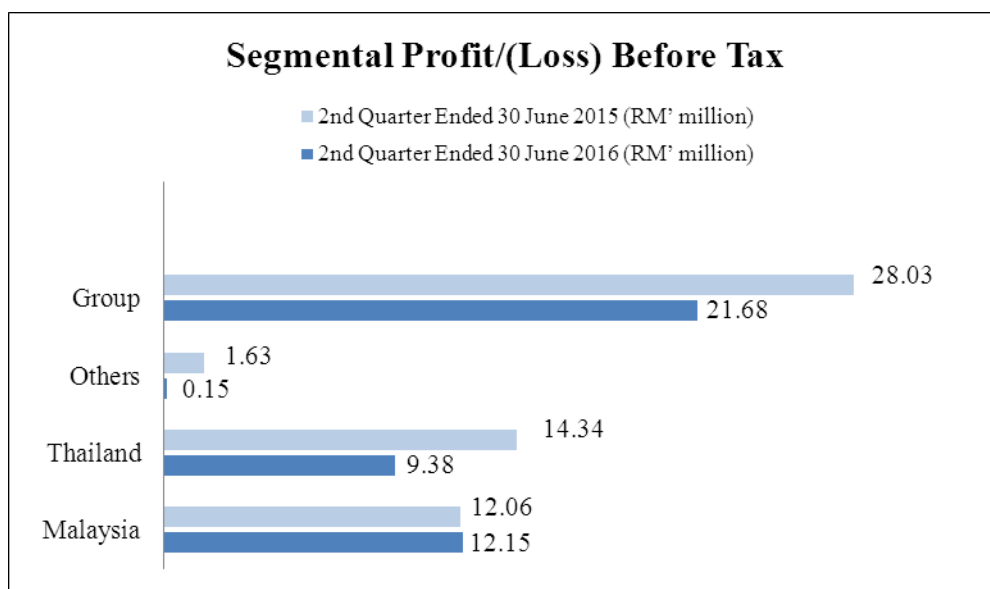
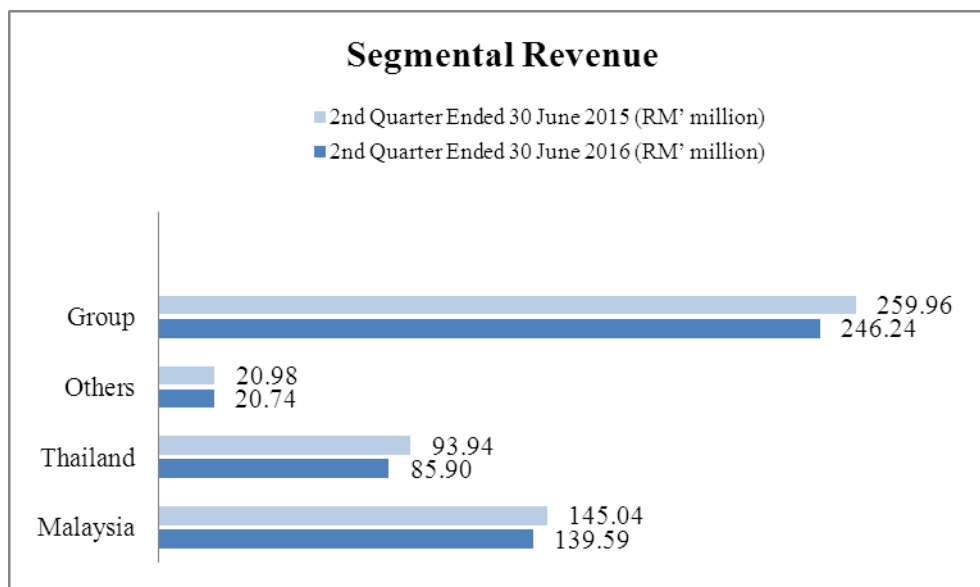
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30TH JUNE 2016

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

1 *Performance Review*

Segmental Revenue and Results – for 2nd Quarter Ended 30/06/2015 vs 30/06/2016



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2016 decreased by 3.8% or RM5.45 million to RM139.59 million from RM145.04 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to drop in average selling price.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30TH JUNE 2016

Profit before tax for the current quarter increased by RM0.09 million to RM12.15 million compared to a profit before tax of RM12.06 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly contributed by lower cost of log and glue.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2016 decreased by 8.6% or RM8.04 million to RM85.90 million from RM93.94 million recorded in the preceding year corresponding quarter. The decrease in revenue was due to lower average selling price.

Profit before tax for the current quarter decreased by 34.6% to RM9.38 million compared to a profit before tax of RM14.34 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to drop in sales revenue and higher operational costs derived from scheduled plant maintenance.

Others segment

On Others segment's revenue for the quarter ended 30 June 2016 decreased by 1.1% to RM20.74 million from RM20.98 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly caused by lower sales volume.

Profit before tax was reported at RM0.15 million for the current quarter, decreased by RM1.48 million compared to RM1.63 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to drop in sales revenue and lower productivity resulted from scheduled plant shut down on extended public holidays.

Consolidated

The Group's revenue for the quarter ended 30 June 2016 decreased by 5.3% or RM13.72 million to RM246.24 million from RM259.96 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower average selling price.

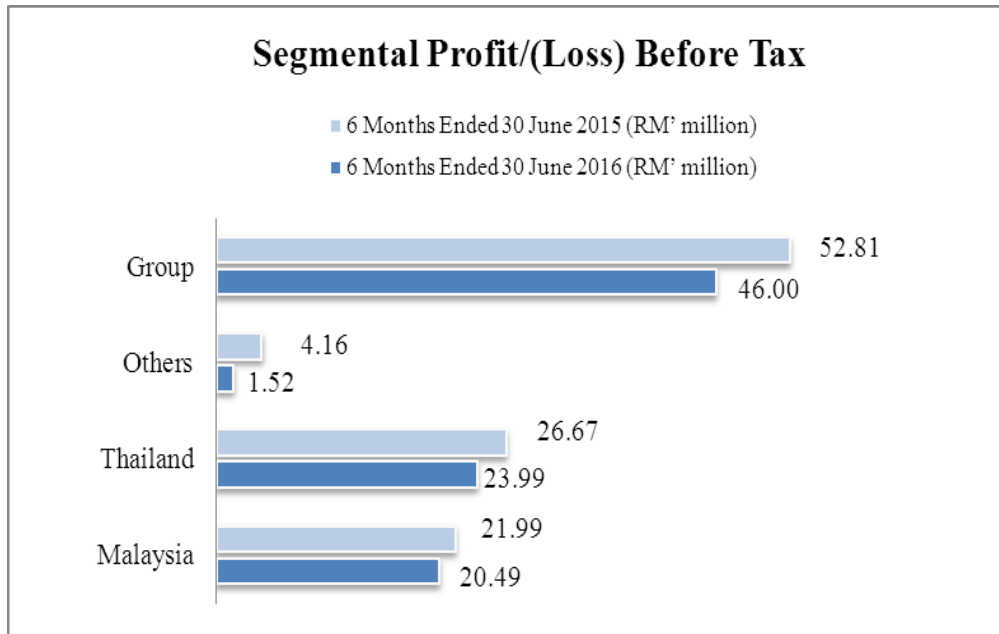
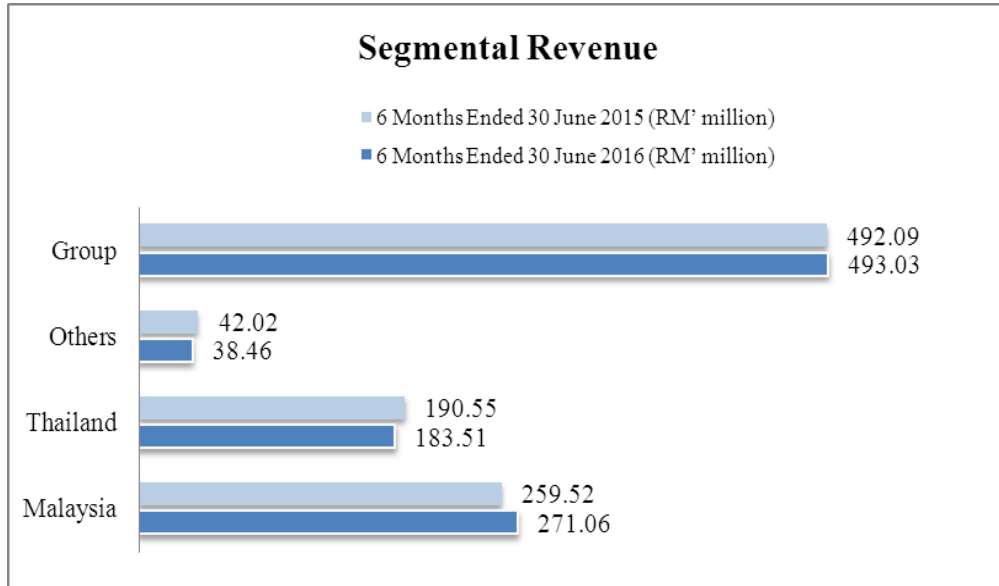
Profit before tax for the current quarter decreased by 22.7% or RM6.35 million to RM21.68 million compared to a profit before tax of RM28.03 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to drop in sales revenue and higher operational costs resulted from scheduled plants maintenance and shut down.

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Segmental Revenue and Results – for 6 Months Ended 30/6/2015 vs 30/6/2016



Malaysia segment

For the current year to date, the Malaysia segment's revenue has increased by 4.4% or RM11.54 million to RM271.06 million, as compared to the revenue of RM259.52 million for the corresponding period last year. The increase in revenue was mainly contributed by higher sales volumes and strengthening of USD currency.

For the current year to date, profit before tax has decreased by 6.8% or RM1.50 million to RM20.49 million, as compared to a profit before tax of RM21.99 million recorded in the corresponding period last year. The decrease in profit was mainly due to higher log cost.

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Thailand segment

For the current year to date, the Thailand segment's revenue was RM183.51 million, with an decrease of 3.7% or RM7.04 million, as compared to the revenue of RM190.55 million for the corresponding period last year. The decrease in revenue was due to lower average selling price.

For the current year to date, profit before tax has decreased by 10.0% or RM2.68 million to RM23.99 million, as compared a gain before tax of RM26.67 million recorded in the corresponding period last year. The decrease in profit was mainly due to drop in sales revenue and higher operational costs resulted from scheduled plant maintenance.

Others Segment

For the current year to date, on Other segment's revenue, has decreased by 8.5% to RM38.46 million, as compared to the revenue of RM42.02 million for the corresponding period last year. The decrease in revenue was mainly attributable to lower sales volume.

Profit before tax was reported at RM1.52 million for the current year to date, decreased by RM2.64 million compared to RM4.16 million recorded in the corresponding period last year. The decrease in profit was due to drop in sales revenue and lower productivity resulted from scheduled plant shut down on extended public holidays.

Consolidated profit before tax

For the current year to date, the Group's revenue has increased by 0.2% to RM493.03 million, as compared to RM492.09 million for the corresponding period last year. The increase in revenue was due to higher sales volume and impact from the strengthening of USD currency.

Profit before tax was registered at RM46.00 million for the current year to date, decreased by 12.9% or RM6.81 million compared to a gain before tax of RM52.81 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower productivity caused by scheduled plants maintenance and shut down.

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

	Current Quarter Ended 30 June 2016 <u>RM'000</u>	Immediate Preceding Quarter Ended 31 March 2016 <u>RM'000</u>
Revenue	246,238	246,794
Profit Before Tax	21,676	24,325
Net profit for the period	15,351	20,648

The current quarter revenue decreased by 0.2% to RM246.24 million, as compared to RM246.79 million recorded in the preceding quarter. The decrease in revenue was due to lower average selling price which was mainly impacted by weakening of USD currency.

The Group's profit before tax was decreased by 10.9% to RM21.68 million, as compared to RM24.33 million recorded in the preceding quarter. The decrease in profit was mainly caused by scheduled plants shutdown and maintenance.

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*

The World Bank recently revised its 2016 global growth forecast down to 2.4% from 2.9% projected early in the year. The Group has seen price pressures from our Middle-East market for MDF due to weak oil prices. Nonetheless, recent gains in oil prices have lessen pricing pressure and demand for MDF remains stable. The overall Malaysian furniture industry remains positive, benefiting from the weak Ringgit and competitive cost structure although general volatility in several major South East Asian currencies remains a risk factor.

Amid such volatile economic environment, the Group remains diligent in its efficiency enhancement efforts and expects a satisfactory performance for the year

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5 Taxation

Major Components of tax expenses

	3 months ended		6 months ended	
	30 June 2016 <u>RM'000</u>	30 June 2015 <u>RM'000</u>	30 June 2016 <u>RM'000</u>	30 June 2015 <u>RM'000</u>
Current tax expenses	2,976	2,975	5,741	6,009
Deferred tax expenses	3,349	1,028	4,261	2,269
	<u>6,325</u>	<u>4,003</u>	<u>10,002</u>	<u>8,278</u>

The effective tax rate of the Group for the current quarter is lower than the statutory rate mainly due to tax incentives granted to and tax benefits carried forward from some companies in the Group.

6 Realised and Unrealised Profits/Losses Disclosure

	As at 30 June 2016 <u>RM'000</u>	As at 31 December 2015 <u>RM'000</u>
	Retained profits of the Company and its subsidiaries:	
- Realised	651,227	623,283
- Unrealised	(15,321)	(13,020)
	<u>635,906</u>	<u>610,263</u>
Less: Consolidation adjustments	27,401	24,430
Group retained profits as per consolidated accounts	<u>663,307</u>	<u>634,693</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 June 2016				
	In RM RM'000	In Baht RM'000	In USD RM'000	Others RM'000	Total RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	31,636	-	-	31,636
Term loans	1,500	-	10,859	-	12,359
Hire purchase and finance lease payables	56	46	-	-	102
<u>Unsecured</u>					
Trade facilities	47,303	-	15,196	-	62,499
Term Loans	7,008	-	2,477	-	9,485
	<u>55,867</u>	<u>31,682</u>	<u>28,532</u>	<u>-</u>	<u>116,081</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	18,586	-	5,020	-	23,606
Hire purchase and finance lease payables	157	-	-	-	157
<u>Unsecured</u>					
Term Loans	22,445	-	3,498	8,130	34,073
	<u>41,188</u>	<u>-</u>	<u>8,518</u>	<u>8,130</u>	<u>57,836</u>
Total	<u>97,055</u>	<u>31,682</u>	<u>37,050</u>	<u>8,130</u>	<u>173,917</u>

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9 ***Financial Instruments***

As at the 30 June 2016, the Group has the following outstanding derivative financial instruments: -

	Notional Contract Amount (RM'000)	Liabilities Amount (RM'000)
Forward contract - US Dollar		
- Less than 1 year	2,699	38

The forward foreign currency contracts are entered into for the purposes of hedging the Group's foreign currency exposures arising from expected export sales and import purchases. In accordance with the requirement of this standard, the Group has designated certain forward contracts as cash flow hedges or accounted as fair value through profit and loss. Changes in the fair values of the forward contracts designated as cash flow hedges are included in other comprehensive income, to the extent that the hedges are effective. Upon maturity of the instruments, the amounts retained in other comprehensive income will be reclassified to the profit or loss. The fair value changes in forward contracts designated as fair value through profit and loss are included in the income statement.

Structured foreign exchange products are entered for the purposes of hedging the Group's foreign currency exposure. Such products allow the Group to sell USD at a better than market par forward rate or at prevailing market spot rate by allowing some market participation. These products give the Group a better than market par forward rate to a certain level, after which the Group receives a rebate over the prevailing market spot rate.

Due to the above, and the fact that these contracts have been entered into with credit-worthy financial institutions, the Group does not foresee any significant credit or market risks associated with the above foreign exchange contracts.

The derivatives have been recorded on the Consolidated Statement of Financial Position for this reporting period in compliance with MFRS 139.

There are no transaction costs for the above hedging instrument.

10 ***Changes in Material Litigation***

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

11 ***Dividend Payable***

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

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12 *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 2016	30 June 2015	30 June 2016	30 June 2015
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	16,459	23,888	37,078	43,946
Weighted average number of ordinary shares in issue ('000)	807,669	513,000	807,669	513,000
Basic EPS (sen)	2.04	4.66	4.59	8.57

b. **Diluted**

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