

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 March 2020, 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 2019.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2019, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2020. The initial application of the accounting standards, interpretations or amendments that are effective from 1 January 2020 do not have any material financial impacts to the current and prior financial period of the Group.

<u>Amendments/Improvements to MFRSs</u>		<u>Effective for financial periods beginning on or after</u>
MFRS 3	Business Combinations	1 January 2020
MFRS 7	Financial Instruments: Disclosures	1 January 2020
MFRS 9	Financial Instruments	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 139	Financial Instruments: Recognition and Measurement	1 January 2020

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>New MFRS</u>		<u>Effective for financial periods beginning on or after</u>
MFRS 17	Insurance Contracts	1 January 2023

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<u>Amendments/Improvements to MFRSs</u>		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2023 [#]
MFRS 3	Business Combinations	1 January 2023 [#]
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2023 [#]
MFRS 7	Financial Instruments: Disclosures	1 January 2023 [#]
MFRS 9	Financial Instruments	1 January 2023 [#]
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 15	Revenue from Contracts with Customers	1 January 2023 [#]
MFRS 101	Presentation of Financial Statements	1 January 2023 [#] / 1 January 2022
MFRS 107	Statements of Cash Flows	1 January 2023 [#]
MFRS 116	Property, Plant and Equipment	1 January 2023 [#]
MFRS 119	Employee Benefits	1 January 2023 [#]
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2023 [#]
MFRS 132	Financial instruments: Presentation	1 January 2023 [#]
MFRS 136	Impairment of Assets	1 January 2023 [#]
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2023 [#]
MFRS 138	Intangible Assets	1 January 2023 [#]
MFRS 140	Investment Property	1 January 2023 [#]

[#] *Amendments as to the consequence of effective of MFRS 17 Insurance Contracts*

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 2019 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 2020 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 1st quarter ended 31 March 2020.

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8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended 31 March		3 months ended 31 March	
	2020	2019	2020	2019
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest Income	(380)	(418)	(380)	(418)
Other expense/(income) including investment income	(1,003)	(420)	(1,003)	(420)
Interest expense/ Finance cost	2,037	1,801	2,037	1,801
Depreciation and amortisation	19,900	18,768	19,900	18,768
(Gain)/ loss on disposal of property, plant and equipment	7	(1)	7	(1)
Foreign exchange (gain)/loss	411	(1,749)	411	(1,749)

9. Segmental Information

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

	3 months ended 31 March 2020		3 months ended 31 March 2019	
	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	116,786	(6,804)	143,434	(5,038)
Thailand	91,637	(2,689)	83,845	(4,352)
Others	18,989	(2,253)	18,440	(759)
	<u>227,412</u>	<u>(11,746)</u>	<u>245,719</u>	<u>(10,149)</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.

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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 2020 are as follows:

	<u>RM'000</u>
Approved and contracted for	916
Approved but not contracted for	193
	<u>1,109</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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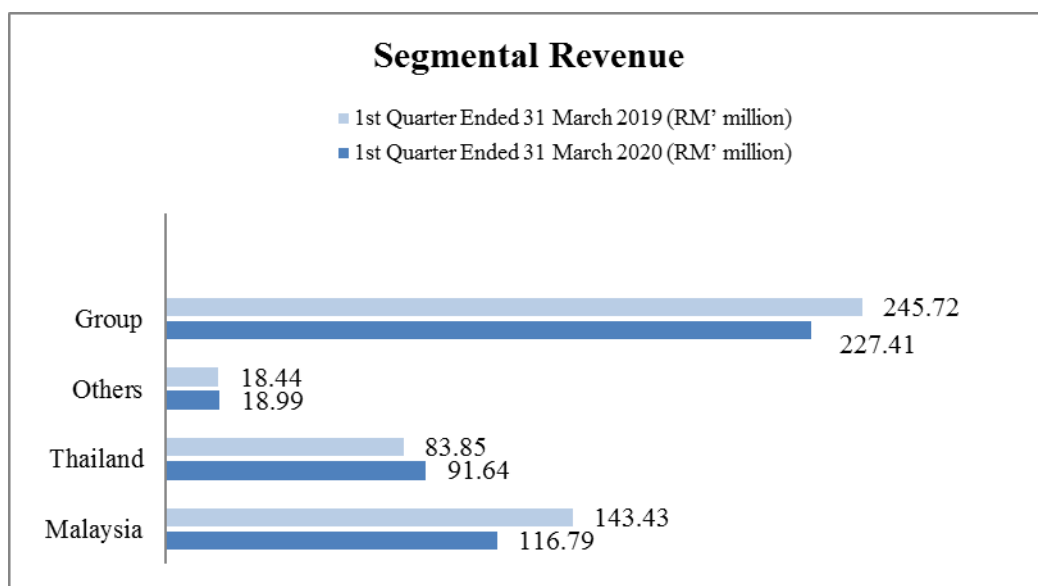
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

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

1 *Performance Review*

	3 months ended		Changes %
	31 March 2020 (RM'000)	31 March 2019 (RM'000)	
Revenue	227,412	245,719	-7.5%
Operating Profit	31,531	31,888	-1.1%
Profit/(Loss) Before Interest and Tax	(9,709)	(8,348)	16.3%
Profit/(Loss) Before Tax	(11,746)	(10,149)	15.7%
Profit/(Loss) After Tax	(13,256)	(10,940)	21.2%
Profit/(Loss) Attributable to Owners of the Company	(12,152)	(10,567)	15.0%

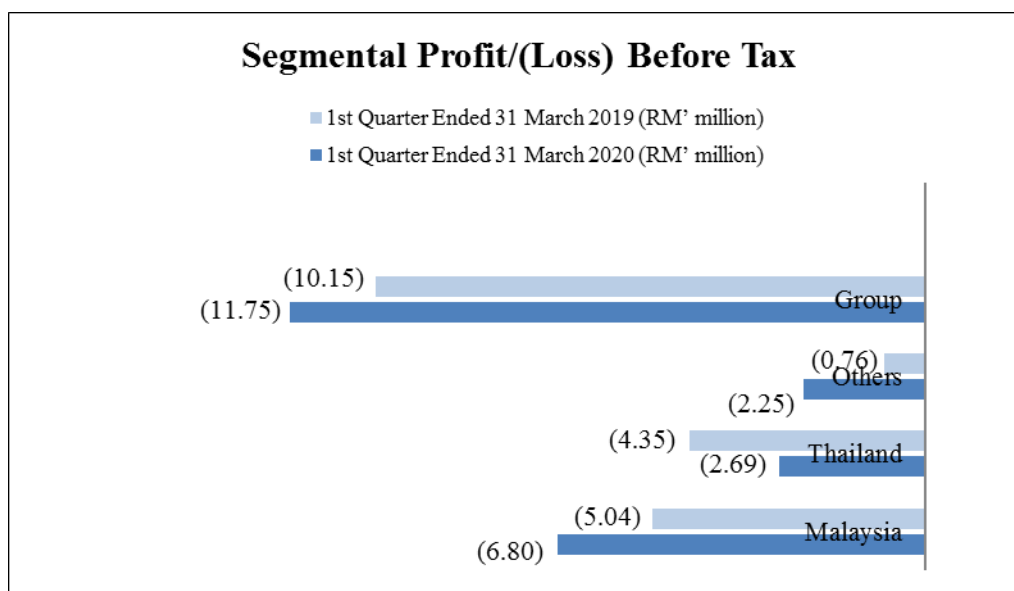
Segmental Revenue and Results – for 1st Quarter Ended 31/3/2019 vs 31/3/2020



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Malaysia segment

The Malaysia segment's revenue for the quarter ended 31 March 2020 decreased by 18.6% or RM26.64 million to RM116.79 million from RM143.43 million recorded in the preceding year corresponding quarter. Despite of higher average selling price and higher revenue from downstream products, the decrease in revenue was mainly due to lower sales volume as a result of severe competition from the region coupled with certain impact from enforcement of Movement Control Order (MCO) as containment efforts toward COVID-19 pandemic.

Loss before tax for the quarter ended 31 March 2020 increased by 34.9% to RM6.80 million from RM5.04 million recorded in the corresponding quarter of the preceding year. The increase in loss before tax was mainly due to foreign exchange loss suffered in current quarter and higher operational cost caused by low productivity.

Thailand segment

The Thailand segment's revenue for the quarter ended 31 March 2020 increased by 9.3% or RM7.79 million to RM91.64 million from RM83.85 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to the higher sales volume and average selling price.

Loss before tax was reported at RM2.69 million for the current quarter, compared to a loss before tax of RM4.35 million recorded in the corresponding quarter of the preceding year. The decrease in loss before tax was mainly due to lower operational cost and lower cost of glue.

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Others segment

On Others segment's revenue for the quarter ended 31 March 2020 increased by 3.0% to RM18.99 million from RM18.44 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to higher average selling price.

Loss before tax was reported at RM2.25 million for the current quarter, compared to loss before tax of RM0.76 million recorded in the corresponding quarter of the preceding year. The increase in loss before tax was mainly due to unrealized foreign exchange loss recorded in the current quarter.

Consolidated

The Group's revenue for the quarter ended 31 March 2020 decreased by 7.5% or RM18.31 million to RM227.41 million from RM245.72 million recorded in the preceding year corresponding quarter. Despite of higher average selling price and higher revenue from downstream products, the decrease in revenue was mainly due to the lower sales volume as a result of severe competition from the region and some impact from enforcement of MCO in Malaysia.

Loss before tax for the quarter ended 31 March 2020 increased by RM1.60 million to RM11.75 million from RM10.15 million recorded in the corresponding quarter of the preceding year. The increase in loss before tax was attributable to foreign exchange loss and low productivity resulted from lower sales volume.

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

	Current Quarter 31-Mar-20 <u>RM'000</u>	Immediate Preceding Quarter 31-Dec-19 <u>RM'000</u>	Changes %
Revenue	227,412	240,799	-5.6%
Operating Profit	31,531	23,393	34.8%
Profit/(Loss) Before Interest and Tax	(9,709)	(16,616)	-41.6%
Profit/(Loss) Before Tax	(11,746)	(17,998)	-34.7%
Profit/(Loss) After Tax	(13,256)	(14,897)	-11.0%
Profit/(Loss) Attributable to Owners of the Company	(12,152)	(14,359)	-15.4%

The current quarter revenue decreased by 5.6% or RM13.39 million to RM227.41 million, as compared to RM240.80 million recorded in the preceding quarter. Despite of higher average selling price, the decrease in revenue was mainly due to lower sales volume that caused by competition from the region and certain impact from enforcement of MCO in Malaysia.

The Group's loss before tax was reported at RM11.75 million for the current quarter, compared to loss before tax of RM18.00 million recorded in the preceding quarter. The decrease in loss before tax was mainly contributed by higher margin resulted from higher average selling price and lower cost of log.

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*

Due to the emergence of Covid-19 outbreak, it has brought significant economic impact globally including Malaysia and markets in which the Group's products are exported to. Additionally, the enforcement of the Movement Control Order in Malaysia have direct adverse impact on the Malaysia segment sales, operations and supply chains. However, the impact was able to be partially mitigated with our plants operating in other countries that were able to cover the shortfall of sales and production volume during this period. Moving towards the recovery with the new norm phase, this may take a while to resume everything back to normal and the Board foresee that the market condition will also slowly pick-up in demand.

Hence, the Group will continue to focus on local market (Malaysia), increase its downstream production output with higher premium products, explore new avenues to improve cost and operational competitiveness, whilst continue to diversify and broaden our customer base to mitigate the impact of global slowdown. The Board will continuously monitor the impact of Covid-19 on the Group's operations and financial performance and will take appropriate and timely measures to minimize the impact to the Group.

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5 Tax Expense

Major Components of tax expense

	3 months ended		3 months ended	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense	2,091	1,759	2,091	1,759
Deferred tax expense	(581)	(968)	(581)	(968)
	<u>1,510</u>	<u>791</u>	<u>1,510</u>	<u>791</u>

The effective tax rate of the Group for the current year to date is higher than the statutory rate due to current tax expenses incurred on profit-making companies.

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 2020				Total and Others 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	-	53,458	-	-	53,458
Term loans	8,309	-	9,444	-	17,753
Hire purchase and finance lease payables	23	187	-	60	270
<u>Unsecured</u>					
Trade facilities	81,981	-	7,559	-	89,540
Term Loans	5,004	-	-	6,641	11,645
Hire purchase and finance lease payables	1,341	29	-	-	1,370
	<u>96,658</u>	<u>53,674</u>	<u>17,003</u>	<u>6,701</u>	<u>174,036</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	15,363	-	23,515	-	38,878
Hire purchase and finance lease payables	37	-	-	269	306
<u>Unsecured</u>					
Term Loans	3,061	-	-	33,202	36,263
Hire purchase and finance lease payables	3,027	15	-	-	3,042
	<u>21,488</u>	<u>15</u>	<u>23,515</u>	<u>33,471</u>	<u>78,489</u>
Total	<u>118,146</u>	<u>53,689</u>	<u>40,518</u>	<u>40,172</u>	<u>252,525</u>

Exchange rate RM to USD1.00 4.2900

Exchange rate RM to THB1.00 0.1310

Exchange rate RM to EUR1.00 4.7336

Exchange rate RM to SGD1.00 3.0192

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***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2020***

Denominated	As at 31 March 2019				
	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	-	52,422	-	-	52,422
Term loans	10,609	-	3,600	-	14,209
Hire purchase and finance lease payables	31	229	-	56	316
<u>Unsecured</u>					
Trade facilities	43,954	-	14,043	-	57,997
Term Loans	5,004	-	455	6,427	11,886
	<u>59,598</u>	<u>52,651</u>	<u>18,098</u>	<u>6,483</u>	<u>136,830</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	23,671	-	9,529	-	33,200
Hire purchase and finance lease payables	46	257	-	344	647
<u>Unsecured</u>					
Term Loans	8,061	-	-	38,565	46,626
	<u>31,778</u>	<u>257</u>	<u>9,529</u>	<u>38,909</u>	<u>80,473</u>
Total	<u>91,376</u>	<u>52,908</u>	<u>27,627</u>	<u>45,392</u>	<u>217,303</u>
Exchange rate RM to USD1.00	4.0800				
Exchange rate RM to THB1.00	0.1288				
Exchange rate RM to EUR1.00	4.5818				

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8 *Changes in Material Litigation*

- a) As announced on 7 May 2019, the Board of Directors of Evergreen Fibreboard Berhad (“EFB” OR “THE COMPANY”) wishes to announce that its Indonesian Subsidiary, PT Hijau Lestari Raya Fibreboard (“ PT Hijau” or “The Subsidiary”) had on 16 April 2019 been served with a Writ of Summons and Statement of Claim filed by Pt. Hutrindo Jaya Fibreboard Manufacturing, Indonesian Legal Entity, based on Deed of Amendment No. 127 (referred to as “Plaintiff I”) and Pt. Uforin Pranjén Adhesiv Industry, Indonesian Legal Entity based on Deed of Amendment No.128 (referred as “ Plaintiff II”) against the Subsidiary and the Company.

The Plaintiffs disputes that the Extraordinary General Meeting of Shareholders (EGMS) and the Annual General Meeting of Shareholders (AGMS) of PT. Hijau Lestari Raya Fibreboard, the Deeds to the Minutes of AGM No.6 dated November 24, 2017 and EGMS No.7 dated November 24, 2017 registered with the Ministry of Law and Human Rights of the Republic of Indonesia with No.AHU-AH.01.030203428, dated December 20, 2017, has allegedly been made against the law and is alleged to have contradicted the Articles of Association and Law No.40 of 2007 of Limited Liability Companies of which have been allegedly carried out before obtaining approval from the Board of Commissioners and shareholders (GMS) and concerning with the appointment of a director for the management composition without regard to the principle of good corporate governance. Plaintiffs is disputing:

- I. That the appointment of Mr. Zuhairi Bin Ozir in this EGMS of by PT. Hijau Lestari Raya Fibreboard citing incompetency and alleging that his appointment as Director is in conflict with the principles of Good corporate governance which may potentially cause a major loss to the Subsidiary and therefore the appointment of Mr. Zuhairi Bin Ozir in his position as Director of by PT. Hijau Lestari Raya Fibreboard for the management composition to be cancelled; and
- II. That the construction of the New Port (Jetty) owned by PT. Hijau Lestari Raya Fibreboard approved by the Shareholders in the AGMS of PT. Hijau Lestari Raya Fibreboard is allegedly to have violated the provisions contained in the Articles of Association of the Company and the statutory provisions that apply in the Republic of Indonesia.

9 *Dividend Payable*

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

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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 2020	31 March 2019	31 March 2020	31 March 2019
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	(12,152)	(10,567)	(12,152)	(10,567)
Weighted average number of ordinary shares in issue ('000)	845,802	845,802	845,802	845,802
Basic EPS (sen)	(1.44)	(1.25)	(1.44)	(1.25)

b. **Diluted**

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