

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2016

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 September 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 financial periods beginning on or after</u>
New MFRSs	
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments/Improvements to MFRSs	
MFRS 2 Share-based Payment	1 January 2018
MFRS 10 Consolidated Financial Statements	Deferred
MFRS 107 Statement of Cash Flows	1 January 2017
MFRS 112 Income Taxes	1 January 2017
MFRS 128 Investments in Associates and Joint Ventures	Deferred

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.

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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) 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 RM0.905 per share. Total consideration paid for the buy backs including transaction costs was RM45,250.00 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 122,000 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

No dividend was paid during the 3rd quarter ended 30 September 2016.

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8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended		9 months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Interest Income	(413)	(203)	(1,287)	(661)
Other (income)/expense including investment income	1,251	(484)	235	(828)
Interest expense/ Finance cost	1,725	2,843	5,141	8,762
Depreciation and amortization	16,375	16,903	49,001	49,072
(Gain)/loss on disposal of property, plant and equipment	1,551	592	1,372	943
Foreign exchange (gain)/loss	(936)	(8,018)	2,788	(10,963)
(Gain)/loss on derivatives	(28)	835	(866)	1,017

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 September 2016		30 September 2015	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	123,366	7,037	139,484	20,862
Thailand	99,875	14,959	93,024	11,151
Others	19,110	125	23,532	2,744
	<u>242,351</u>	<u>22,121</u>	<u>256,040</u>	<u>34,757</u>

	9 months ended		9 months ended	
	30 September 2016		30 September 2015	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	394,425	27,525	399,008	42,846
Thailand	283,386	38,950	283,572	37,820
Others	57,572	1,647	65,550	6,904
	<u>735,383</u>	<u>68,122</u>	<u>748,130</u>	<u>87,570</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 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*

On 5 September 2016, Evergreen Fibreboard Berhad (“EFB”) announced the company had acquired the remaining 51 ordinary shares of RM1.00 each in its subsidiary Company, Evergreen Agro Sdn Bhd (“EASB”) representing 51% of the total issued and paid up capital of EASB for a total cash consideration of RM51.00.

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 2016 are as follows:

	<u>RM'000</u>
Approved and contracted for	37,250
Approved but not contracted for	-
	<u>37,250</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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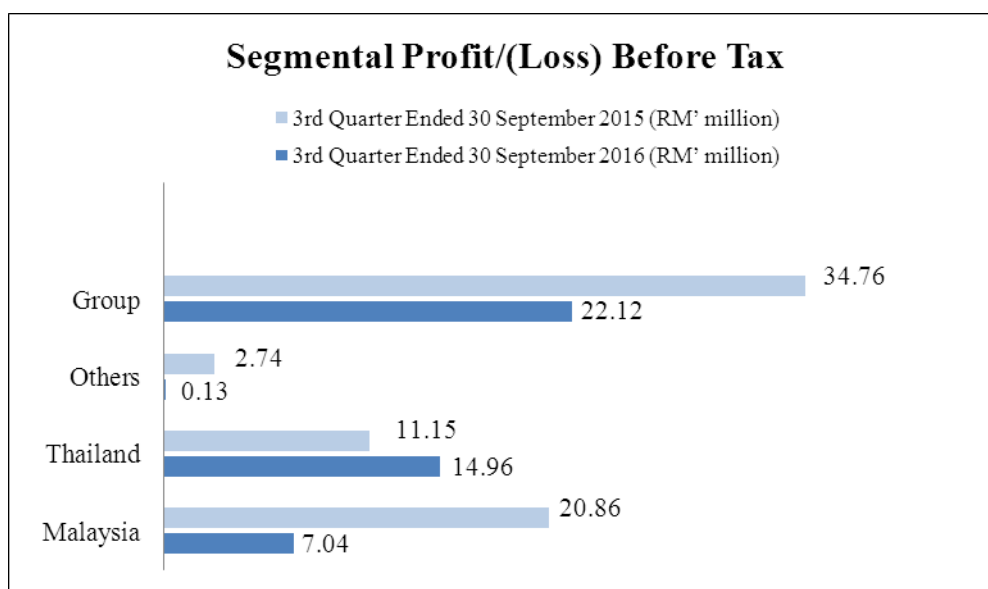
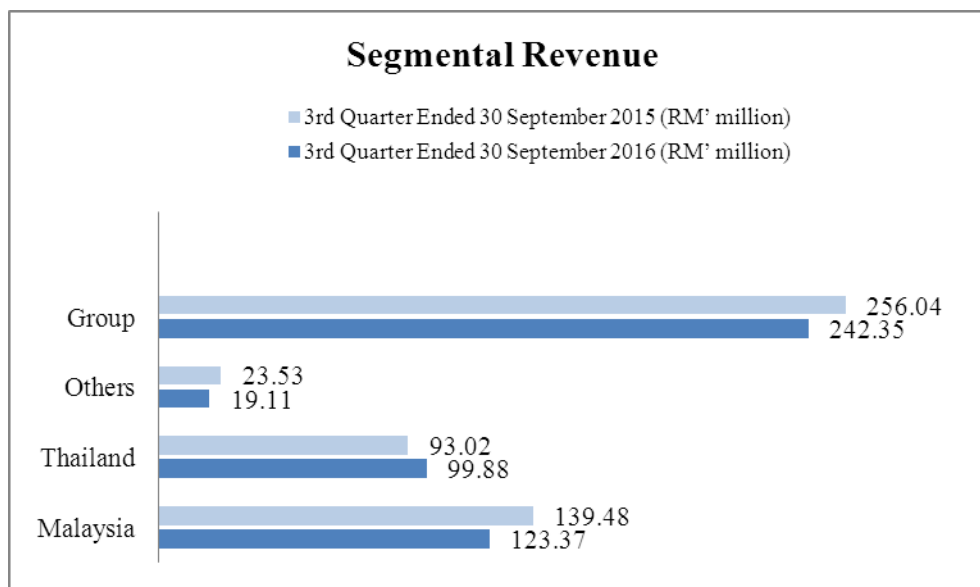
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2016

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

1 *Performance Review*

Segmental Revenue and Results – for 3rd Quarter Ended 30/09/2015 vs 30/09/2016



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 September 2016 decreased by 11.6% or RM16.11 million to RM123.37 million from RM139.48 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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Profit before tax for the current quarter decreased by RM13.82 million to RM7.04 million compared to a profit before tax of RM20.86 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to lower sales revenue and other operating expenses. The other operating expenses mainly consist of foreign exchange gain which was much lower compared to corresponding quarter and impairment of goodwill.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 September 2016 increased by 7.4% or RM6.86 million to RM99.88 million from RM93.02 million recorded in the preceding year corresponding quarter. The increase in revenue was contributed by higher sales volume.

Profit before tax for the current quarter increased by 34.2% to RM14.96 million compared to a profit before tax of RM11.15 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly due to higher in sales revenue, higher capacity utilization rate through effective management control and lower cost of log and glue.

Others segment

On Others segment's revenue for the quarter ended 30 September 2016 decreased by 18.8% to RM19.11 million from RM23.53 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly caused by lower average selling price and sales volume.

Profit before tax was reported at RM0.13 million for the current quarter, decreased by RM2.61 million compared to RM2.74 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to drop in sales revenue and higher cost of log.

Consolidated

The Group's revenue for the quarter ended 30 September 2016 decreased by 5.3% or RM13.69 million to RM242.35 million from RM256.04 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower average selling price despite of the increase of sales volume.

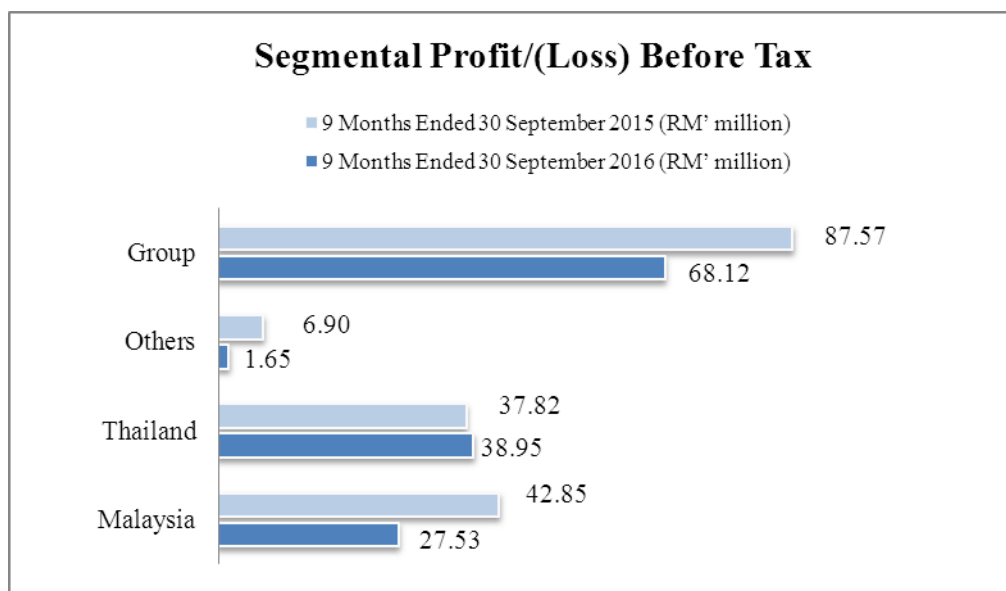
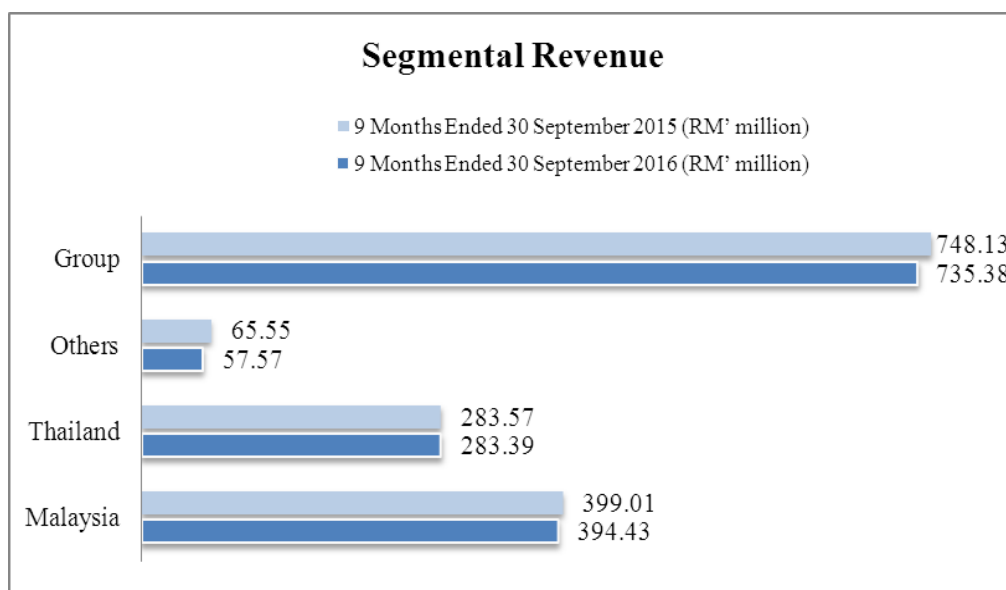
Profit before tax for the current quarter decreased by 36.4% or RM12.64 million to RM22.12 million compared to a profit before tax of RM34.76 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to lower sales revenue and other operating expenses. The other operating expenses mainly consist of foreign exchange gain which was much lower compared to corresponding quarter and impairment of goodwill.

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Segmental Revenue and Results – for 9 Months Ended 30/9/2015 vs 30/9/2016



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 1.1% or RM4.58 million to RM394.43 million, as compared to the revenue of RM399.01 million for the corresponding period last year. The decrease in revenue was mainly contributed by lower sales volumes and average selling price.

For the current year to date, profit before tax has decreased by 35.8% or RM15.32 million to RM27.53 million, as compared to a profit before tax of RM42.85 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower sales revenue and losses from foreign exchange compared to foreign exchange gains recorded in the corresponding quarter.

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Thailand segment

For the current year to date, the Thailand segment's revenue was RM283.39 million, with a marginal decrease of 0.1% or RM0.18 million, as compared to the revenue of RM283.57 million for the corresponding period last year. The decrease in revenue was due to lower average selling price despite of higher sales volume.

For the current year to date, profit before tax has increased by 3.0% or RM1.13 million to RM38.95 million, as compared a gain before tax of RM37.82 million recorded in the corresponding period last year. The increase in profit was mainly due to higher capacity utilization rate through effective management control and lower cost of log and glue.

Others Segment

For the current year to date, on Other segment's revenue, has decreased by 12.2% to RM57.57 million, as compared to the revenue of RM65.55 million for the corresponding period last year. The decrease in revenue was mainly attributable to lower average selling price and sales volume.

Profit before tax was reported at RM1.65 million for the current year to date, decreased by RM5.25 million compared to RM6.9 million recorded in the corresponding period last year. The decrease in profit was due to drop in sales revenue.

Consolidated profit before tax

For the current year to date, the Group's revenue has decreased by 1.7% to RM735.38 million, as compared to RM748.13 million for the corresponding period last year. The decrease in revenue was due to lower average selling price despite of higher sales volume.

Profit before tax was registered at RM68.12 million for the current year to date, decreased by 22.2% or RM19.45 million compared to a gain before tax of RM87.57 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower sales revenue and losses from foreign exchange compared to foreign exchange gains recorded in the corresponding quarter.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2016

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

	Current Quarter Ended 30 September 2016 <u>RM'000</u>	Immediate Preceding Quarter Ended 30 June 2016 <u>RM'000</u>
Revenue	242,351	246,238
Profit Before Tax	22,121	21,676
Net profit for the period	15,692	15,351

The current quarter revenue decreased by 1.6% to RM242.35 million, as compared to RM246.24 million recorded in the preceding quarter. The decrease in revenue was due to lower sales volume.

The Group's profit before tax was increased by 2.0% to RM22.12 million, as compared to RM21.68 million recorded in the preceding quarter. The increase in profit was mainly caused by higher capacity utilization rate through effective management control and lower cost of glue.

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 expense

	3 months ended		9 months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense	3,195	2,731	8,936	8,740
Deferred tax expense	3,234	3,718	7,495	5,987
	<u>6,429</u>	<u>6,449</u>	<u>16,431</u>	<u>14,727</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	As at
	30 September 2016	31 December 2015
	<u>RM'000</u>	<u>RM'000</u>
Retained profits of the Company and its subsidiaries:		
- Realised	671,429	623,283
- Unrealised	(18,454)	(13,020)
	<u>652,975</u>	<u>610,263</u>
Less: Consolidation adjustments	27,212	24,430
Group retained profits as per consolidated accounts	<u>680,187</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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***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2016*****8 Borrowings and Debt Securities**

The Group's borrowings are as follows: -

Denominated	As at 30 September 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	-	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>

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9 ***Financial Instruments***

As at the 30 September 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	1,651	10

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		9 months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	16,880	27,586	53,958	71,532
Weighted average number of ordinary shares in issue ('000)	820,607	513,000	820,607	513,000
Basic EPS (sen)	2.06	5.38	6.58	13.94

b. **Diluted**

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