

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30th JUNE 2013

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 March 2013, 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 2012.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2012, except for the adoption of the following new and revised Malaysian Financial Reporting Standards (MFRSs), IC Interpretation and Amendments:-

Effective for annual period beginning on 1 July 2012

- MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)

Effective for annual period beginning on 1 January 2013

- MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
- MFRS 10 Consolidated Financial Statements
- MFRS 11 Joint Arrangements
- MFRS 12 Disclosure of interests in Other Entities
- MFRS 13 Fair Value Measurement
- MFRS 119 Employee Benefits
- MFRS 127 Separate Financial Statements
- MFRS 128 Investment in Associate and Joint Ventures
- Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to IC Interpretations and MFRSs 2009-2011 Cycle

2. *Audit Report on Preceding Annual Financial Statements*

The auditors' report on the audited financial statements for the financial year ended 31 December 2012 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 were no other changes in estimates that have had a 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 June 2013 was 22,000 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 2nd quarter ended 30 June 2013.

8. *Profit before tax*

Included in the profit before tax are the following items:

	3 months ended		6 months ended	
	30 June		30 June	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Interest Income	(263)	(503)	(488)	(904)
Other income include investment income	(261)	(655)	(491)	(1,068)
Interest expense	3,679	4,098	7,456	7,660
Depreciation and amortization	17,439	17,093	34,893	34,018
Provision for & write off receivables	-	-	-	-
Provision for & write off inventories	-	-	-	-
(Gain)/ loss on disposal of properties	(41)	(116)	273	(139)
Impairment of assets	-	-	-	-
Impairment of loss on associates	-	-	-	-
Foreign exchange (gain)/ loss	1,509	(44)	(183)	(217)
(Gain)/ loss on derivatives	388	900	473	1,246

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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 June 2013		3 months ended 30 June 2012	
	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	142,173	672	172,135	12,102
Thailand	72,380	(12,750)	88,333	2,475
Others	11,292	(150)	15,914	(808)
	<u>225,845</u>	<u>(12,228)</u>	<u>276,382</u>	<u>13,769</u>

	6 months ended 30 June 2013		6 months ended 30 June 2012	
	Segment Revenue	Segment Profit before tax	Segment Revenue	Segment Profit before tax
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Malaysia	290,431	(4,944)	343,835	27,665
Thailand	137,710	(23,869)	174,222	10,285
Others	24,505	(1,759)	30,555	(3,905)
	<u>452,646</u>	<u>(30,572)</u>	<u>548,612</u>	<u>34,045</u>

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 2012.

11. Subsequent Events

In the opinion of the Directors, 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 June 2013 are as follows:

	<u>RM'000</u>
Approved and contracted for	1,919
Approved but not contracted for	607
	<u>2,526</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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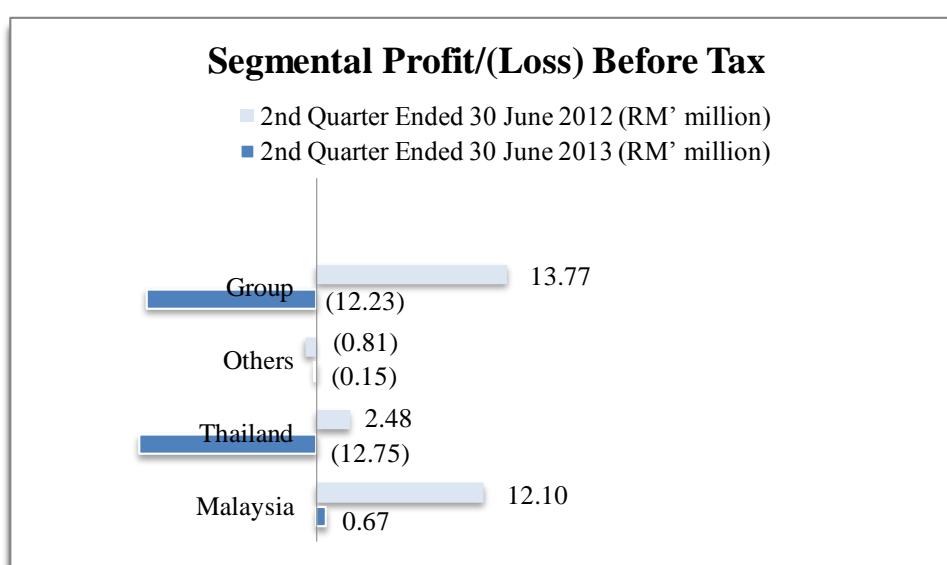
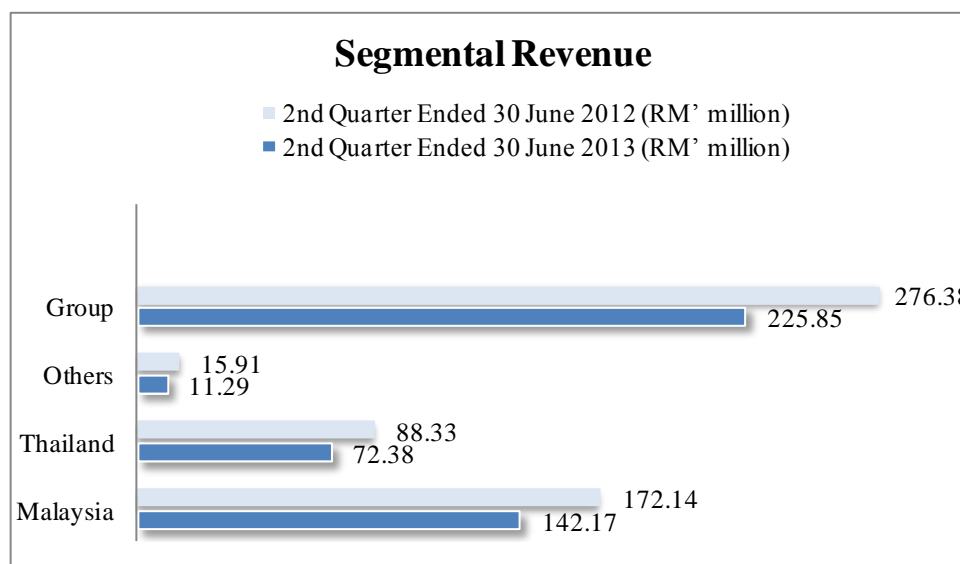
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30th JUNE 2013

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

1 *Performance Review*

Segmental Revenue and Results – for 2nd Quarter Ended 30/6/2012 vs 30/6/2013



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2013 decreased by 17.4% or RM29.97 million to RM142.17 million from RM172.14 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to the drop in sales volume and average selling price.

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Profit before tax was recorded at RM0.67 million for the current quarter, declined by RM11.43 million from RM12.1 million recorded in the preceding year corresponding quarter. The fall in profit was caused by lower revenue. However, the impact was mitigated by drop in log and glue cost.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2013 decreased by 18.1% to RM72.38 million from RM88.33 million recorded in the preceding year corresponding quarter. The decline in revenue was due to lower sales volume and drop in average selling price.

Loss before tax was reported at RM12.75 million for the current quarter compared to a profit before tax of RM2.48 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly resulted from lower revenue and unrealized foreign currency loss incurred.

Others Segment

The Others segment's revenue for the quarter ended 30 June 2013 decreased by 29.0% or RM4.62 million to RM11.29 million from RM15.91 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly attributable to lower selling price.

Loss before tax has decreased from RM0.81 million to RM0.15 million recorded in the corresponding quarter of the preceding year. The decrease in losses was contributed by a slight drop in log and operation cost.

Consolidated profit before tax

The Group's revenue for the quarter ended 30 June 2013 decreased by 18.3% to RM225.85 million from RM276.38 million recorded in the preceding year corresponding quarter. The fall in revenue was mainly contributed by lower sales volume and average selling price.

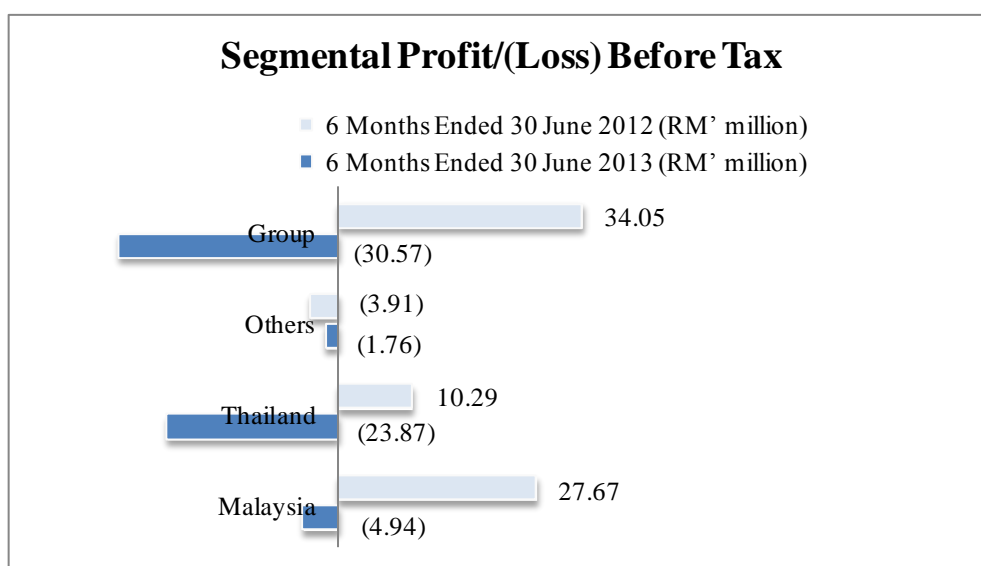
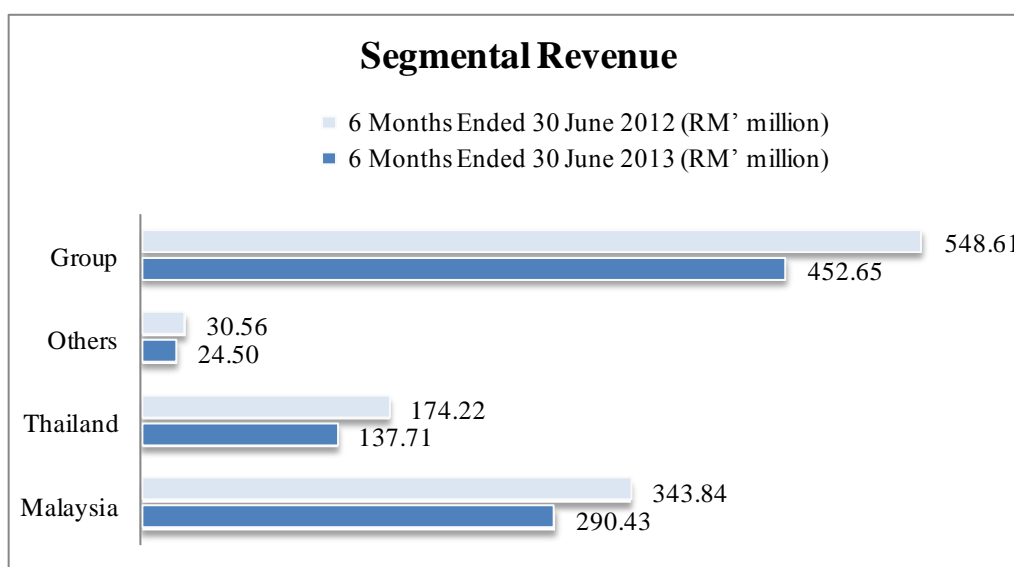
Loss before tax was registered at RM12.23 million for the current quarter, a decrease of RM26.00 million compared to profit before tax of RM13.77 million recorded in the preceding year corresponding quarter. This was mainly caused by lower revenue and unrealised foreign currency loss incurred.

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Segmental Revenue and Results – for 6 Months Ended 30/6/2012 vs 30/6/2013



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 15.5% or RM53.41 million to RM290.43 million, as compared to the revenue of RM343.84 million for the corresponding period last year. The decrease in revenue was mainly due to the drop in sales volume and average selling price.

Loss before tax was reported at RM4.94 million for the current year to date, a decrease of RM32.61 million compared to profit before tax of RM27.67 million recorded in the corresponding period last year. The fall in profit was mainly due to lower revenue.

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Thailand segment

For the current year to date, the Thailand segment's revenue was RM137.71 million, with a fall of RM36.51 million, as compared to the revenue of RM174.22 million for the corresponding period last year. The decline in revenue was due to lower sales volume and drop in average selling price.

Loss before tax was reported at RM28.87 million for the current year to date compared to a profit before tax of RM10.29 million recorded in the corresponding period last year. The decrease in profit was mainly resulted from lower revenue.

Others Segment

For the current year to date, on Other segment's revenue, has decreased by 19.80% to RM24.51 million, as compared to the revenue of RM30.56 million for the corresponding period last year. The decrease in revenue was mainly attributable to lower selling price even with slight increase in sales volume.

Loss before tax has decreased by RM2.15 million to RM1.76 million from a loss of RM3.91 million in the same period last year. The decrease in losses was contributed by drop in log and glue cost as well as operation cost.

Consolidated profit before tax

For the current year to date, the Group's revenue has decreased by 17.5% to RM452.65 million, as compared to RM548.61 million for the corresponding period last year. The fall in revenue was mainly contributed by lower sales volume and average selling price.

Loss before tax was registered at RM30.57 million for the current year to date compared to profit before tax of RM34.05 million recorded in the corresponding period last year. This was mainly caused by lower revenue.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30th JUNE 2013

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

	Current Quarter Ended 30 June 2013 <u>RM'000</u>	Immediate Preceding Quarter Ended 31 March 2013 <u>RM'000</u>
Revenue	225,845	226,801
Profit/(Loss) Before Tax	(12,228)	(18,344)
Net profit/(loss) for the period	(12,869)	(17,772)

The current quarter revenue was RM225.85 million, decreased from RM226.80 million recorded in the preceding quarter. The decline in revenue was mainly attributable to drop in average selling price.

The Group's loss before tax was decreased by RM6.3 million from RM17.77 million recorded in the preceding quarter to RM12.87 million. The performance improvement was contributed by lower log and glue cost as well as effort from various cost cutting measures.

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 confidence on US economy has stepped up. However fears on the impact of slowing growth and liquidity crunch in China; worsening current accounts and rising of private debt/GDP ratios in emerging market, dampened the sign of a synchronised global economic recovery. The global growth remains the major factor that is affecting worldwide MDF demand. However, the strengthening of USD should bring favorable impact to the Group.

Despite, the intensive competition caused by additional regional MDF production capacity from Thailand, Vietnam and Indonesia, the Group will continue to have tight cost control through-out the Group.

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5 *Taxation*

Major Components of tax expenses

	3 months ended		6 months ended	
	30 June 2013 <u>RM'000</u>	30 June 2012 <u>RM'000</u>	30 June 2013 <u>RM'000</u>	30 June 2012 <u>RM'000</u>
Current tax expenses	652	2,389	793	3,611
Deferred tax expenses	(11)	(578)	(724)	393
	<u>641</u>	<u>1,811</u>	<u>69</u>	<u>4,004</u>

The effective tax rate of the Group for the current quarter is lower than the statutory rate mainly due to the tax-exempt status granted to most of the companies in the Group.

6 *Realised and Unrealised Profits/Losses Disclosure*

	As at 30 June 2013 <u>RM'000</u>	As at 31 December 2012 <u>RM'000</u>
	Retained profits of the Company and its subsidiaries:	
- Realised	613,506	646,163
- Unrealised	(5,062)	(6,599)
	<u>608,444</u>	<u>639,564</u>
Less: Consolidation adjustments	(46,704)	(49,925)
Group retained profits as per consolidated accounts	<u>561,740</u>	<u>589,639</u>

7 *Status of Corporate Proposal Announced*

There was no outstanding corporate proposal announced as at 22 August 2013.

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**EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30th JUNE 2013****8 Borrowings and Debt Securities**

The Group's borrowings are as follows: -

Denominated	As at 30 June 2013				
	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	10,000	54,007	-	-	64,007
Term loans	-	5,836	24,439	-	30,275
Hire purchase and finance lease payables	445	8	-	375	828
<u>Unsecured</u>					
Trade facilities	76,613	-	4,880	-	81,493
Term Loans	36,990	-	15,850	-	52,840
	<u>124,048</u>	<u>59,851</u>	<u>45,169</u>	<u>375</u>	<u>229,443</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	-	2,594	31,501	-	34,095
Hire purchase and finance lease payables	1,276	44	-	-	1,320
<u>Unsecured</u>					
Term Loans	66,506	-	24,012	-	90,518
	<u>67,782</u>	<u>2,638</u>	<u>55,513</u>	<u>-</u>	<u>125,933</u>
Total	<u>191,830</u>	<u>62,489</u>	<u>100,682</u>	<u>375</u>	<u>355,376</u>

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9 *Financial Instruments*

As at the 30 June 2013, the Group has the following outstanding derivative financial instruments: -

	Notional Contract Amount (RM'000)	Fair value - Net Gains/ (Losses) (RM'000)
1. Forward contract - US Dollar		
- Less than 1 year	42,042	(1,697)
2. Structured forward contract		
- Less than 1 year	37,914	(1,909)

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 22 August 2013.

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11 *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 2012 is as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
2012	13 August 2012	Interim tax-exempt dividend	4% or 1 sen /share	RM5.130 million	8 November 2012

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 2013	30 June 2012	30 June 2013	30 June 2012
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	(11,683)	12,312	(27,899)	31,978
Weighted average number of ordinary shares in issue ('000)	512,978	512,998	512,978	512,998
Basic earnings per share (sen)	(2.28)	2.40	(5.44)	6.23

b. **Diluted**

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