

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30th SEPTEMBER 2013

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 September 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

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>
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS10, MFRS 12 and MFRS 127	Investment Entities	1 January 2014
MFRS9	Financial Instruments	1 January 2015

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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 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.

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 September 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 3rd quarter ended 30 September 2013.

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FOR THE THIRD QUARTER ENDED 30th SEPTEMBER 2013****8. Profit before tax**

Included in the profit before tax are the following items:

	3 months ended		9 months ended	
	30 September		30 September	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Interest Income	(229)	(289)	(717)	(1,193)
Other income include investment income	(609)	(3,156)	(1,100)	(4,224)
Interest expense	3,688	4,098	11,145	11,758
Depreciation and amortization	17,403	17,394	52,296	51,412
Provision for & write off of receivables	-	-	-	-
Provision for & write off of inventories	-	-	-	-
(Gain)/ loss on disposal of properties	(174)	(362)	99	(501)
Impairment of assets	-	-	-	-
Impairment of loss on associates	-	(906)	-	(906)
Foreign exchange (gain)/ loss	6,987	1,414	6,804	1,197
(Gain)/ loss on derivatives	(461)	(791)	12	455

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 2013		30 September 2012	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	141,100	(4,826)	162,306	11,643
Thailand	80,538	(596)	75,594	(2,914)
Others	12,339	(4,876)	10,135	(1,490)
	<u>233,977</u>	<u>(10,298)</u>	<u>248,035</u>	<u>7,239</u>

	9 months ended		9 months ended	
	30 September 2013		30 September 2012	
	Segment Revenue	Segment Profit before tax	Segment Revenue	Segment Profit before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	431,531	(9,769)	506,141	39,308
Thailand	218,248	(24,466)	249,816	7,372
Others	36,844	(6,635)	40,690	(5,396)
	<u>686,623</u>	<u>(40,870)</u>	<u>796,647</u>	<u>41,284</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 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.

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 2013 are as follows:

	<u>RM'000</u>
Approved and contracted for	374
Approved but not contracted for	498
	<u>872</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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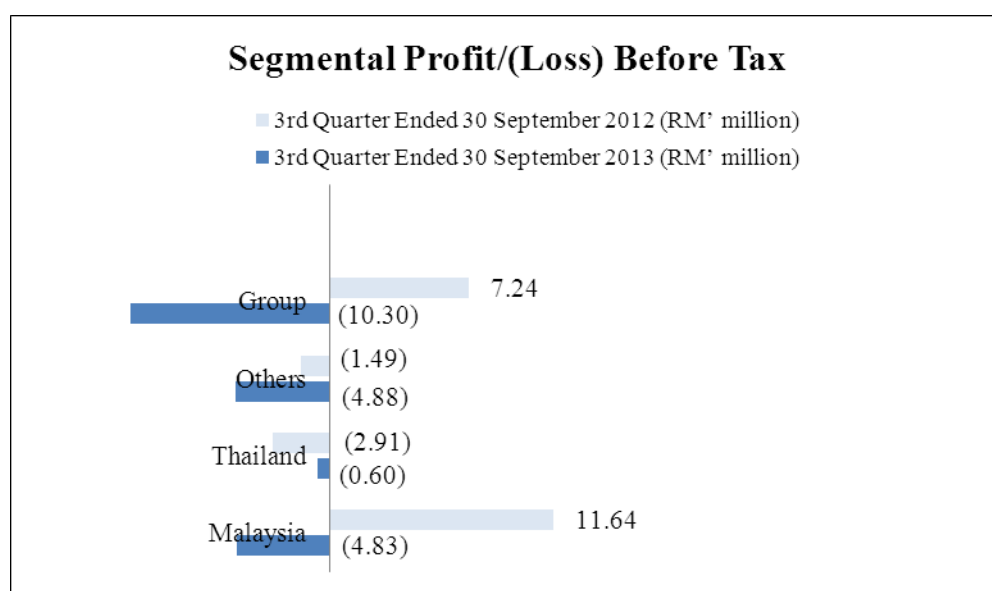
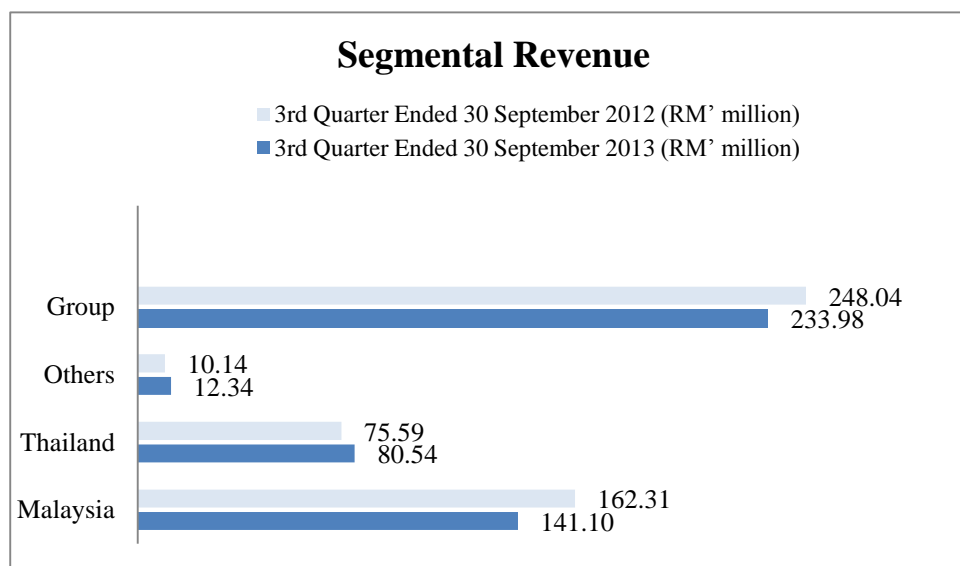
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30th SEPTEMBER 2013

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

1 *Performance Review*

Segmental Revenue and Results – for 3rd Quarter Ended 30/9/2012 vs 30/9/2013



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 September 2013 decreased by 13.1% or RM21.21 million to RM141.10 million from RM162.31 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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Loss before tax was reported at RM4.83 million for the current quarter compared to a profit before tax of RM11.64 million recorded in the corresponding quarter of the preceding year. The fall in profit was caused by lower revenue which part of the impact was mitigated by drop in log and glue cost.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 September 2013 increased by 6.5% to RM80.54 million from RM75.59 million recorded in the preceding year corresponding quarter. The increase in revenue was due to higher sales volume even with lower average selling price.

Loss before tax was reported at RM0.60 million for the current quarter compared to RM2.9 million recorded in the corresponding quarter of the preceding year. The decline in loss was mainly contributed by lower log cost.

Others Segment

The Others segment's revenue for the quarter ended 30 September 2013 increased by 21.7% to RM12.34 million from RM10.14 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributable to higher sales volume even with lower average selling price.

Loss before tax was reported at RM4.88 million for the current quarter compared to RM1.49 million recorded in the corresponding quarter of the preceding year. The increase in loss was due to the unrealized foreign exchange loss incurred.

Consolidated profit before tax

The Group's revenue for the quarter ended 30 September 2013 decreased by 5.7% to RM233.98 million from RM248.04 million recorded in the preceding year corresponding quarter. The fall in revenue was mainly contributed by lower average selling price.

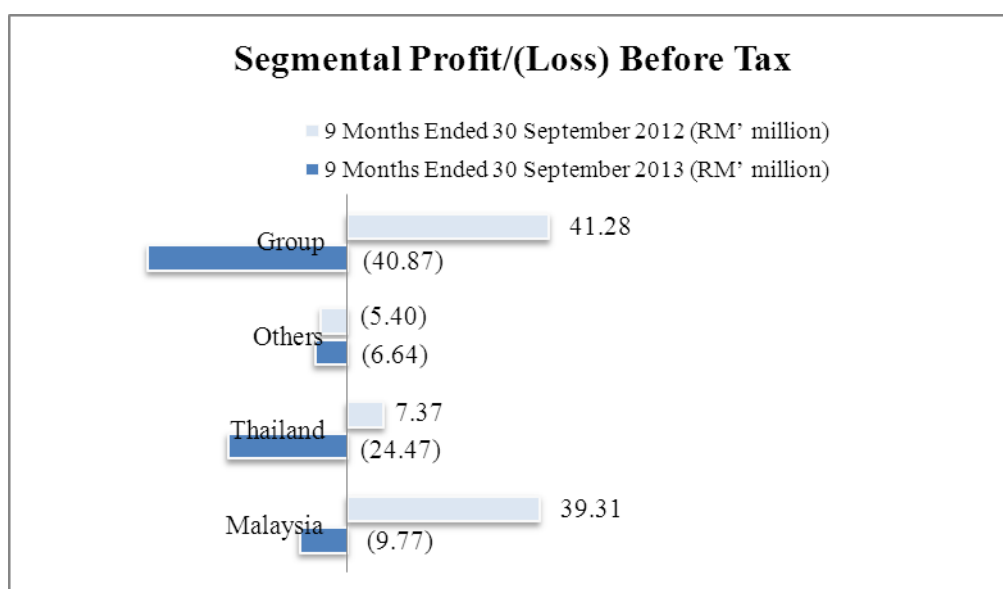
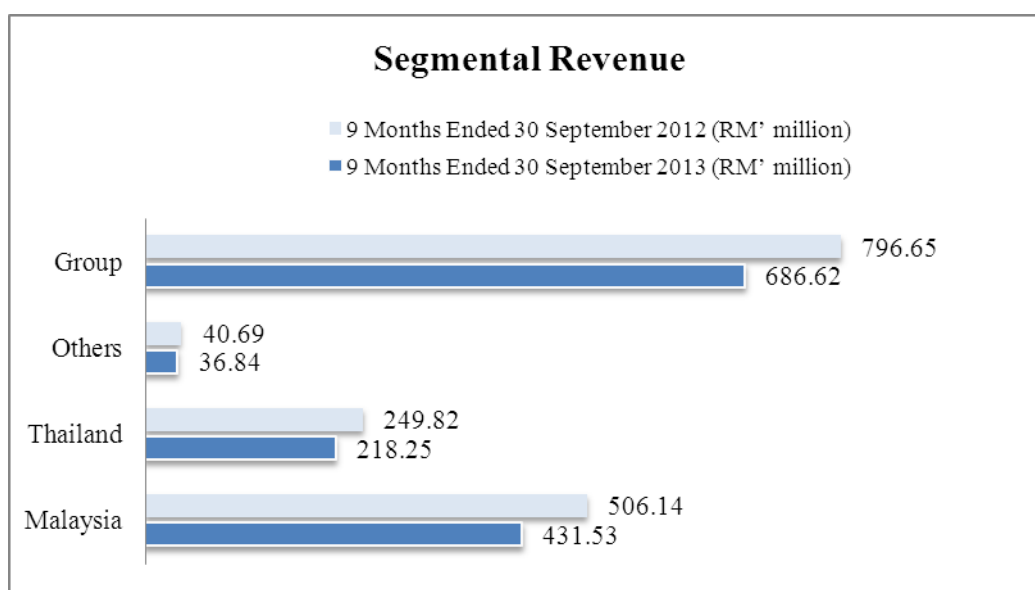
Loss before tax was registered at RM10.30 million for the current quarter, a decrease of RM17.54 million compared to profit before tax of RM7.24 million recorded in the preceding year corresponding quarter. This was mainly caused by lower revenue and unrealised foreign currency loss incurred. However, the impact was mitigated by decline in log and glue cost.

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Segmental Revenue and Results – for 9 Months Ended 30/9/2012 vs 30/9/2013



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 14.7% or RM74.61 million to RM431.53 million, as compared to the revenue of RM506.14 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 RM9.77 million for the current year to date, a decrease of RM49.08 million compared to profit before tax of RM39.31 million recorded in the corresponding period last year. The fall in profit was mainly attributable to lower revenue which this impact was partially mitigated by lower raw material cost.

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Thailand segment

For the current year to date, the Thailand segment's revenue was RM218.25 million, with a fall of RM31.57 million, as compared to the revenue of RM249.82 million for the corresponding period last year. The decline in revenue was mainly due to drop in average selling price.

Loss before tax was reported at RM24.47 million for the current year to date compared to a profit before tax of RM7.37 million recorded in the corresponding period last year. The decrease in profit was mainly resulted from lower revenue which part of the impact was mitigated by decline in log cost.

Others Segment

For the current year to date, on Other segment's revenue, has decreased by 9.5% to RM36.84 million, as compared to the revenue of RM40.69 million for the corresponding period last year. The decrease in revenue was mainly attributable to lower selling price and the accounting impact on inter Group sales.

Loss before tax has increased by RM1.24 million to RM6.64 million from a loss of RM5.40 million in the same period last year. The increase in losses was caused by the unrealised foreign currency loss incurred.

Consolidated profit before tax

For the current year to date, the Group's revenue has decreased by 13.8% to RM686.62 million, as compared to RM796.65 million for the corresponding period last year. The fall in revenue was mainly due to lower sales volume and average selling price.

Loss before tax was registered at RM40.87 million for the current year to date compared to profit before tax of RM41.28 million recorded in the corresponding period last year. This was mainly caused by lower revenue and unrealised foreign currency loss incurred. However, the impact was mitigated by decline in log and glue cost.

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

	Current Quarter Ended 30 September 2013 <u>RM'000</u>	Immediate Preceding Quarter Ended 30 June 2013 <u>RM'000</u>
Revenue	233,977	225,845
Profit/(Loss) Before Tax	(10,298)	(12,228)
Net profit/(loss) for the period	(11,299)	(12,869)

The current quarter revenue was increased by 3.6% or RM8.13 million to RM233.98 million, as compared to RM225.85 million recorded in the preceding quarter. The increase in revenue was mainly attributable to higher sales volume and average selling price.

The Group's loss before tax was decreased by 15.8% from RM12.23 million recorded in the preceding quarter to RM10.30 million. The performance improvement was contributed by higher revenue, lower log and glue cost as well as effort from various cost cutting measures. The performance could be better off if not with the unrealised foreign currency loss incurred from foreign subsidiary and low production volume and high maintenance costs incurred as a result of the scheduled plant maintenance in Malaysia during Ramadan festive.

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 forthcoming quarter remains very challenging for the Group. The increased capacity from regional competitors of the newly setup MDF production lines in Indonesia, Vietnam & Thailand and coupled with global economic uncertainty and the civil unrest in the Middle East countries have seriously impacted the pricing and demand of MDF products.

The Board is of the opinion that the additional capacity influx from regional competitors will require a bit of time for the market to absorb and if the civil unrest in the Middle East improves, the demand of MDF will improve.

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5 *Taxation*

Major Components of tax expenses

	3 months ended		9 months ended	
	30 September 2013 <u>RM'000</u>	30 September 2012 <u>RM'000</u>	30 September 2013 <u>RM'000</u>	30 September 2012 <u>RM'000</u>
Current tax expenses	94	186	887	3,797
Deferred tax expenses	907	57	183	450
	<u>1,001</u>	<u>243</u>	<u>1,070</u>	<u>4,247</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 September 2013 <u>RM'000</u>	As at 31 December 2012 <u>RM'000</u>
	Retained profits of the Company and its subsidiaries:	
- Realised	603,159	646,163
- Unrealised	(6,063)	(6,599)
	<u>597,096</u>	<u>639,564</u>
Less: Consolidation adjustments	<u>(43,490)</u>	<u>(49,925)</u>
Group retained profits as per consolidated accounts	<u>553,606</u>	<u>589,639</u>

7 *Status of Corporate Proposal Announced*

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

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

The Group's borrowings are as follows: -

Denominated	As at 30 September 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	8,995	62,520	-	-	71,515
Term loans	-	5,968	27,156	-	33,124
Hire purchase and finance lease payables	435	3	-	279	717
<u>Unsecured</u>					
Trade facilities	88,380	-	9,099	-	97,479
Term Loans	38,990	-	16,319	-	55,309
	<u>136,800</u>	<u>68,491</u>	<u>52,574</u>	<u>279</u>	<u>258,144</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	-	663	28,259	-	28,922
Hire purchase and finance lease payables	1,253	581	-	-	1,834
<u>Unsecured</u>					
Term Loans	51,352	-	26,209	-	77,561
	<u>52,605</u>	<u>1,244</u>	<u>54,468</u>	<u>-</u>	<u>108,317</u>
Total	<u><u>189,405</u></u>	<u><u>69,735</u></u>	<u><u>107,042</u></u>	<u><u>279</u></u>	<u><u>366,461</u></u>

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9 *Financial Instruments*

As at the 30 September 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	31,200	(687)
2. Structured forward contract		
- Less than 1 year	26,349	(2,197)

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 November 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		9 months ended	
	30 September 2013	30 September 2012	30 September 2013	30 September 2012
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	(8,134)	7,562	(36,033)	39,540
Weighted average number of ordinary shares in issue ('000)	512,978	512,996	512,978	512,996
Basic earnings per share (sen)	(1.59)	1.47	(7.02)	7.71

b. **Diluted**

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