

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2014

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 March 2014, 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 2013.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2013, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2014:-

Adoption of Amendments to Standards and IC Interpretations

The Group has adopted the following Amendments to Standards and IC Interpretations, with a date of initial application of 1 January 2014.

- Amendments to MFRS 10 Consolidated Financial Statements: Investment Entities
- Amendments to MFRS 12 Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127 Separate Financial Statements: Investments Entities
- Amendments to MFRS 132 Financial Instruments - Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 136 Impairment of Assets – Recoverable Amount Disclosure for Non-Financial Assets
- Amendments to MFRS 139 Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21 Levies

The adoption of the above pronouncements did not have any impact on the financial statements of the Group.

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> | | Effective for annual periods <u>beginning on or after</u> |
|--------------------|---|--|
| MFRS 9 | Financial Instruments (IFRS 9 issued by International Accounting Standards Board (IASB)) | To be announced by Malaysian Accounting Standards Board (MASB) |
| MFRS 9 | Financial Instruments (IFRS 9 issued by IASB in October 2010) | To be announced by MASB |
| MFRS 9 | Financial Instruments: Mandatory Effective Date of MFRS 9 and Transition Disclosure (Amendments to MFRS 9 and | To be announced by MASB |

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| | | |
|--|--|-------------------------|
| MFRS 9 | MFRS7) Financial Instruments (Hedge Accounting and amendments to MFRS 9, MFRS7 and MFRS139) | To be announced by MASB |
| Amendments to MFRS 119 | Defined Benefit Plans: Employee Contributions | 1 July 2014 |
| Annual Improvements to MFRSs 2010 – 2012 Cycle | | 1 July 2014 |
| Annual Improvements to MFRSs 2011 – 2013 Cycle | | 1 July 2014 |

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any 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 2013 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 31 March 2014 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.

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7. Dividends Paid

No dividend was paid during the 1st quarter ended 31 March 2014.

8. Profit before tax

Included in the profit before tax are the following items:

| | 3 months ended | | 3 months ended | |
|--|----------------|---------|----------------|---------|
| | 31 March | | 31 March | |
| | 2014 | 2013 | 2014 | 2013 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest Income | (211) | (225) | (211) | (225) |
| Other income include investment income | (1,696) | (230) | (1,696) | (230) |
| Interest expense | 3,673 | 3,777 | 3,673 | 3,777 |
| Depreciation and amortization | 16,239 | 17,454 | 16,239 | 17,454 |
| Provision for & write off of receivables | - | - | - | - |
| Provision for & write off of inventories | - | - | - | - |
| (Gain)/ loss on disposal of properties | 2 | 314 | 2 | 314 |
| Impairment of assets | - | - | - | - |
| Impairment of loss on associates | - | - | - | - |
| Foreign exchange (gain)/ loss | 22 | (1,692) | 22 | (1,692) |
| (Gain)/ loss on derivatives | (22) | 85 | (22) | 85 |

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 | |
|----------|-----------------|----------------------------------|-----------------|----------------------------------|
| | 31 March 2014 | | 31 March 2013 | |
| | Segment Revenue | Segment Profit/(Loss) before tax | Segment Revenue | Segment Profit/(Loss) before tax |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Malaysia | 144,065 | (306) | 148,258 | (5,615) |
| Thailand | 81,542 | (1,957) | 65,330 | (11,120) |
| Others | 13,909 | (606) | 13,213 | (1,609) |
| | <u>239,516</u> | <u>(2,869)</u> | <u>226,801</u> | <u>(18,344)</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 2013.

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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 31 March 2014 are as follows:

| | |
|---------------------------------|---------------|
| | <u>RM'000</u> |
| Approved and contracted for | 3,599 |
| Approved but not contracted for | 1,004 |
| | <u>4,603</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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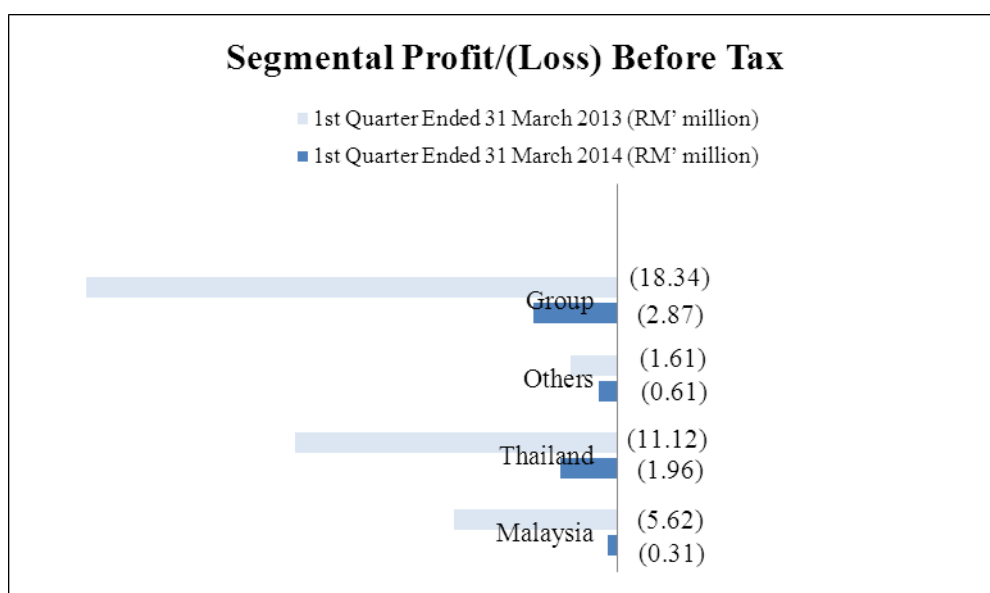
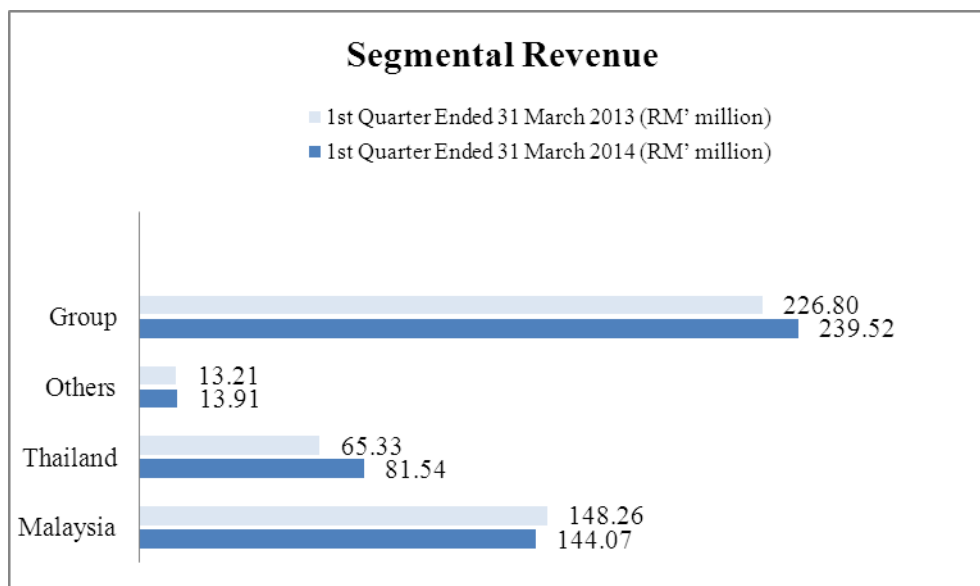
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B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1 *Performance Review*

Segmental Revenue and Results – for 1st Quarter Ended 31/3/2013 vs 31/3/2014



Malaysia segment

The Malaysia segment's revenue for the quarter ended 31 March 2014 decreased by 2.8% or RM4.19 million to RM144.07 million from RM148.26 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to the decline in sales volume of particle board as the production line is under major

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upgrade. However, the impact is mitigated by the increased of sales volume in MDF product.

Loss before tax was reported at RM0.31 million for the current quarter compared to RM5.6 million recorded in the corresponding quarter of the preceding year. The fall in loss was mainly due to higher revenue derived from MDF product as well as decline in log and glue cost.

Thailand segment

The Thailand segment's revenue for the quarter ended 31 March 2014 increased by 24.8% or RM16.21 million to RM81.54 million from RM65.33 million recorded in the preceding year corresponding quarter. The increase in revenue was due to higher sales volume.

Loss before tax was reported at RM1.96 million for the current quarter compared to RM11.12 million recorded in the corresponding quarter of the preceding year. The decline in loss was mainly resulted from lower log cost as well as operational efficiency.

Others segment

The Others segment's revenue for the quarter ended 31 March 2014 increased by 5.3% or RM0.70 million to RM13.91 million from RM13.21 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher average selling price.

Loss before tax was reported at RM0.61 million for the current quarter, decreased by RM1.00 million compared to RM1.61 million recorded in the corresponding quarter of the preceding year. The decline in loss was contributed by higher revenue and drop in log cost.

Consolidated profit before tax

The Group's revenue for the quarter ended 31 March 2014 increased by 5.6% or RM12.72 million to RM239.52 million from RM226.80 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher sales volume and the strengthening of USD currency.

Loss before tax was registered at RM2.87 million for the current quarter, a decrease of RM15.47 million compared to RM18.34 million recorded in the preceding year corresponding quarter. The decline in loss before tax was contributed by higher revenue and operational efficiency as well as drop in log cost.

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

| | Current Quarter Ended 31 March 2013 <u>RM'000</u> | Immediate Preceding Quarter Ended 31 December 2013 <u>RM'000</u> |
|----------------------------------|--|---|
| Revenue | 239,516 | 252,047 |
| Profit/(Loss) Before Tax | (2,869) | (8,148) |
| Net profit/(loss) for the period | (3,188) | (3,221) |

The current quarter revenue was decreased by 5.0% or RM12.53 million to RM239.52 million, as compared to RM252.05 million recorded in the preceding quarter. Despite of higher average selling price, the decrease in revenue was mainly attributable to lower sales volume as a result of scheduled plants maintenance in Malaysia during festive holidays.

The Group's loss before tax was decreased by 64.8% from RM8.15 million recorded in the preceding quarter to RM2.87 million. The performance improvement was contributed by higher revenue.

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*

Along with the improved global economic growth and stabilization of civil unrest in the Middle East, the global MDF demand is expected to be gradually improved.

Besides focusing on market strategy on added value products, the Group will continue to pursue its effort on productivity, efficiency and cost control measures.

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5 *Taxation*

Major Components of tax expenses

| | 3 months ended | | 3 months ended | |
|-----------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 31 March 2014 RM'000 | 31 March 2013 RM'000 | 31 March 2014 RM'000 | 31 March 2013 RM'000 |
| Current tax expenses | 304 | 141 | 304 | 141 |
| Deferred tax expenses | 15 | (713) | 15 | (713) |
| | <u>319</u> | <u>(572)</u> | <u>319</u> | <u>(572)</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 31 March 2014 RM'000 | As at 31 December 2013 RM'000 |
|---|---|--|
| | Retained profits of the Company and its subsidiaries: | |
| - Realised | 583,569 | 587,035 |
| - Unrealised | (1,653) | (1,210) |
| | <u>581,916</u> | <u>585,825</u> |
| Less: Consolidation adjustments | (37,636) | (38,963) |
| Group retained profits as per consolidated accounts | <u>544,280</u> | <u>546,862</u> |

7 *Status of Corporate Proposal Announced*

There was no outstanding corporate proposal announced as at 20 May 2014.

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FOR THE FIRST QUARTER ENDED 31st MARCH 2014****8 Borrowings and Debt Securities**

The Group's borrowings are as follows: -

| Denominated | As at 31 March 2014 | | | | |
|---|---------------------|-------------------|------------------|------------------|-----------------|
| | 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 | 8,950 | 67,335 | - | - | 76,285 |
| Term loans | - | 2,558 | 40,269 | - | 42,827 |
| Hire purchase and finance lease payables | 293 | 150 | - | 161 | 604 |
| <u>Unsecured</u> | | | | | |
| Trade facilities | 90,140 | - | 11,569 | - | 101,709 |
| Term Loans | 33,490 | - | 15,869 | - | 49,359 |
| | <u>132,873</u> | <u>70,043</u> | <u>67,707</u> | <u>161</u> | <u>270,784</u> |
| Long Term Borrowings: | | | | | |
| <u>Secured</u> | | | | | |
| Term loans | - | - | - | - | - |
| Hire purchase and finance lease payables | 1,126 | 280 | - | - | 1,406 |
| <u>Unsecured</u> | | | | | |
| Term Loans | 37,357 | - | 19,461 | - | 56,818 |
| | <u>38,483</u> | <u>280</u> | <u>19,461</u> | <u>-</u> | <u>58,224</u> |
| Total | <u>171,356</u> | <u>70,323</u> | <u>87,168</u> | <u>161</u> | <u>329,008</u> |

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9 *Financial Instruments*

As at the 31 March 2014, 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 | 29,583 | (159) |
| 2. Structured forward contract | | |
| - Less than 1 year | 5,377 | (315) |

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.

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10 *Changes in Material Litigation*

As announced on 25 April 2014, a Writ Summon and Statement of Claim under the Kuala Lumpur High Court No. 22NCVC-181-04/2014 dated 17 April 2014 has been filed against Evergreen Hevea Resources Sdn. Bhd. (“EHR” or the “defendant”) a wholly owned subsidiary of Evergreen Fibreboard Berhad (“EFB”) by Naza Industries Sdn. Bhd. (“Naza” or “the Plaintiff”). The Writ Summon has been served to EHR on 23 April 2014. The Plaintiff claimed that EHR has breached the Chip Logs Sales and Purchase Agreement, dated 12 March 2012 entered into between the Plaintiff and EHR.

11 *Dividend Payable*

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

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 | | 3 months ended | |
|--|----------------|----------|----------------|----------|
| | 31 March | 31 March | 31 March | 31 March |
| | 2014 | 2013 | 2014 | 2013 |
| Net profit/(loss) for the period attributable to owners of the Parent (RM'000) | (2,582) | (16,216) | (2,582) | (16,216) |
| Weighted average number of ordinary shares in issue ('000) | 513,000 | 513,000 | 513,000 | 513,000 |
| Basic earnings per share (sen) | (0.50) | (3.16) | (0.50) | (3.16) |

b. **Diluted**

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