

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30TH JUNE 2014

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 June 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	To be announced by MASB

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	Disclosure (Amendments to MFRS 9 and MFRS7)	
MFRS 9	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 30 June 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 2nd quarter ended 30 June 2014.

8. Profit/(Loss) before tax

Included in the profit/(loss) before tax are the following items:

	3 months ended		6 months ended	
	30 June		30 June	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Interest Income	(219)	(263)	(429)	(488)
Other income include investment income	(530)	(261)	(2,227)	(491)
Interest expense	2,975	3,679	6,648	7,456
Depreciation and amortization	15,148	17,439	31,387	34,893
Provision for & write off of receivables	-	-	-	-
Provision for & write off of inventories	-	-	-	-
(Gain)/ loss on disposal of properties	(151)	(41)	(148)	273
Impairment of assets	-	-	-	-
Impairment of loss on associates	-	-	-	-
Foreign exchange (gain)/ loss	553	1,509	575	(183)
(Gain)/ loss on derivatives	6	388	(16)	473

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 June 2014		30 June 2013	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	130,810	(18,890)	142,173	672
Thailand	66,148	(4,074)	72,380	(12,750)
Others	18,853	1,371	11,292	(150)
	<u>215,811</u>	<u>(21,593)</u>	<u>225,845</u>	<u>(12,228)</u>

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	6 months ended 30 June 2014		6 months ended 30 June 2013	
	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	274,875	(19,196)	290,431	(4,944)
Thailand	147,690	(6,031)	137,710	(23,869)
Others	32,762	765	24,505	(1,759)
	<u>455,327</u>	<u>(24,462)</u>	<u>452,646</u>	<u>(30,572)</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.

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 June 2014 are as follows:

	<u>RM'000</u>
Approved and contracted for	5,526
Approved but not contracted for	117
	<u>5,643</u>

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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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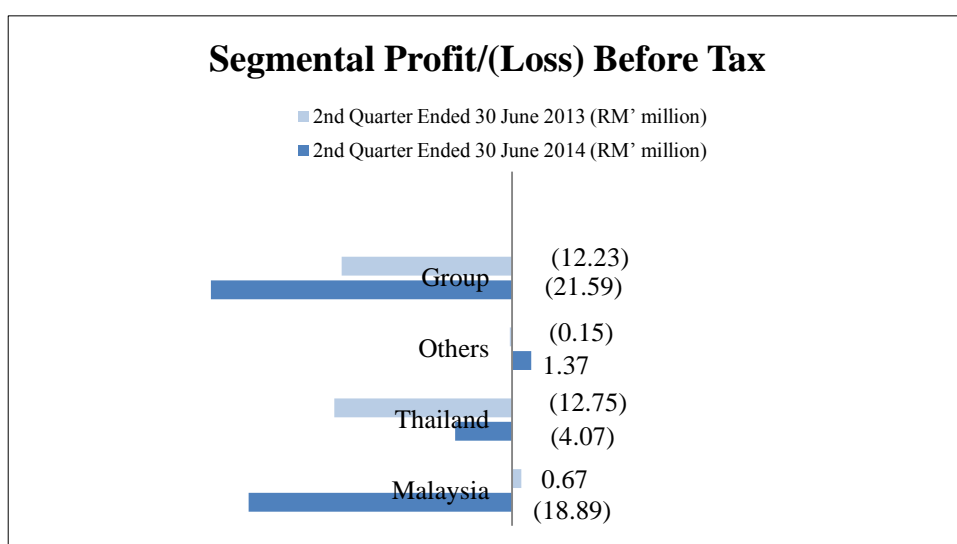
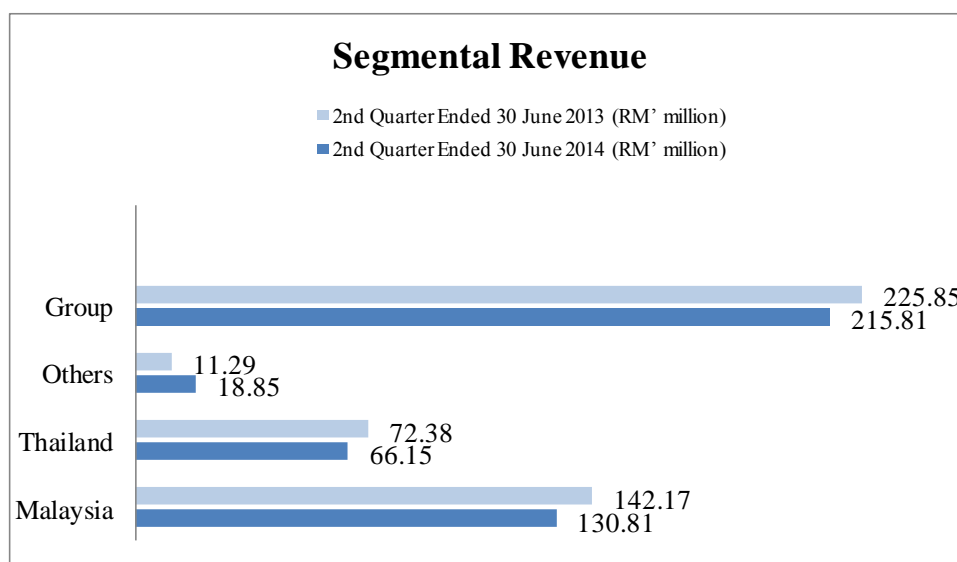
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30TH JUNE 2014

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

1 *Performance Review*

Segmental Revenue and Results – for 2nd Quarter Ended 30/6/2013 vs 30/6/2014



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2014 decreased by 8.0% or RM11.36 million to RM130.81 million from RM142.17 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 upgrade.

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Loss before tax was reported at RM18.89 million for the current quarter compared to profit before tax RM0.67 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to log concession projects secured for the Group in previous years at a higher value compared to the current market price being sold.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2014 decreased by 8.6% or RM6.23 million to RM66.15 million from RM72.38 million recorded in the preceding year corresponding quarter. The decrease in revenue was due to lower sales volume.

Loss before tax was reported at RM4.07 million for the current quarter decreased by 68.1% or RM8.68 million compared to RM12.75 million recorded in the corresponding quarter of the preceding year. The decline in loss was mainly resulted from lower log cost as well as cost measures.

Others segment

The Others segment's revenue for the quarter ended 30 June 2014 increased by 67.0% or RM7.56 million to RM18.85 million from RM11.29 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher sales volume.

Profit before tax was reported at RM1.37 million for the current quarter, increased by RM1.52 million compared to loss before tax RM0.15 million recorded in the corresponding quarter of the preceding year. The increase in profit was contributed by higher revenue and drop in log cost.

Consolidated

The Group's revenue for the quarter ended 30 June 2014 decreased by 4.4% or RM10.04 million to RM215.81 million from RM225.85 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to decline in sales volume of particle board as the production line is under major upgrade.

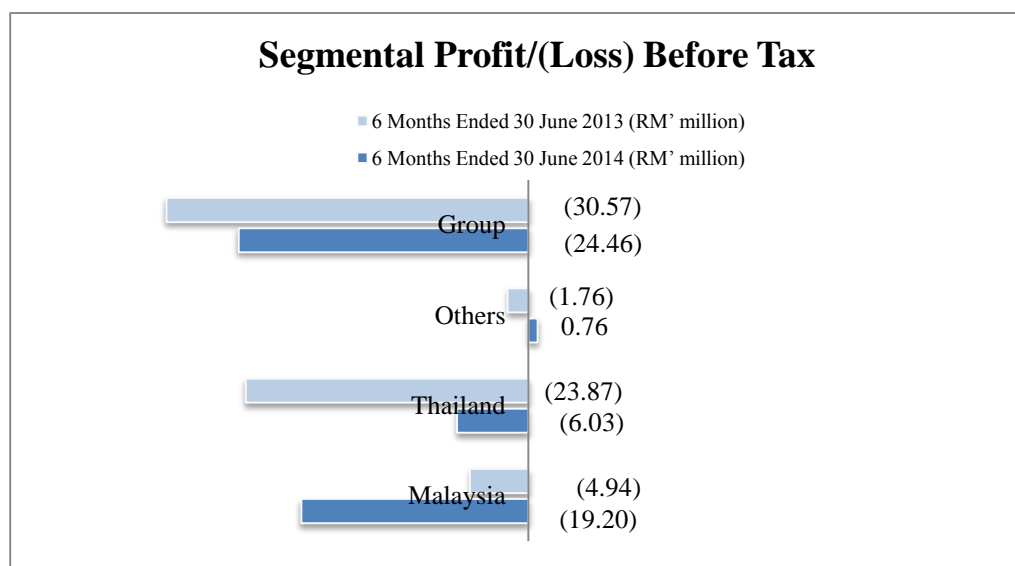
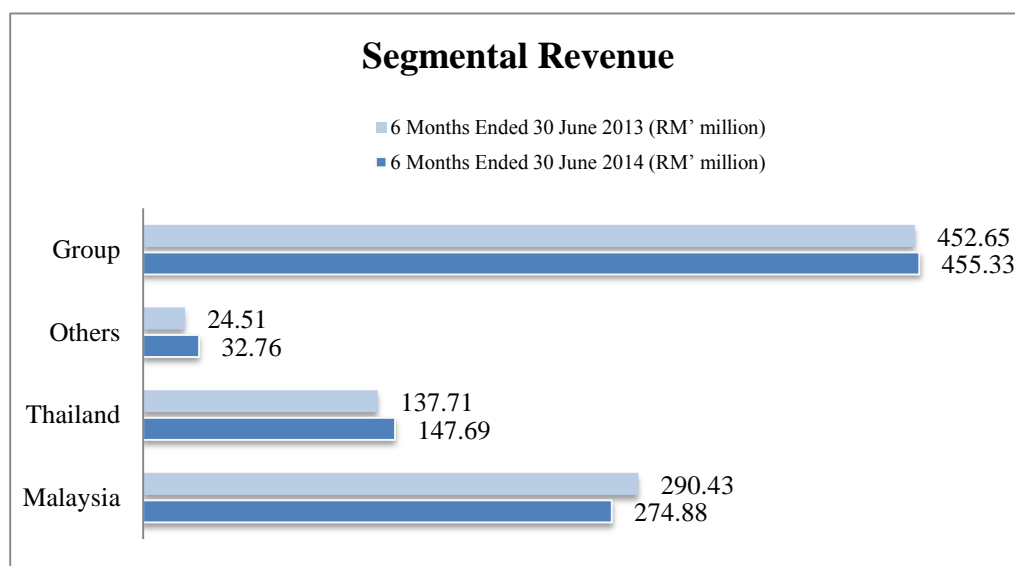
Loss before tax was registered at RM21.59 million for the current quarter compared to RM12.23 million recorded in the preceding year corresponding quarter. The loss was mainly due to log concession projects secured for the Group in previous years at a higher value compared to the current market price being sold.

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Segmental Revenue and Results – for 6 Months Ended 30/6/2013 vs 30/6/2014



Malaysia segment

For the current year to date, the Malaysia segment's revenue decreased by 5.4% or RM15.55 million to RM274.88 million, as compared to the revenue of RM290.43 million for the corresponding period last year. The decrease in revenue was mainly due to the decline in sales volume of particle board as the production line is under major upgrade.

Loss before tax was reported at RM19.20 million for the current year to date compared to RM4.94 million recorded in the corresponding period of last year. The loss was mainly due to log concession projects secured for the Group in previous years at a higher value compared to the current market price being sold.

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Thailand segment

For the current year to date, the Thailand segment's revenue was RM147.69 million, with an increase of RM9.98 million, as compared to the revenue of RM137.71 million for the corresponding period last year. The increase in revenue was due to higher sales volume.

For the current year to date, loss before tax decreased by 74.7% or RM17.84 million to RM6.03 million, as compared to RM23.87 million recorded in the corresponding period last year. The fall in loss was mainly due to higher revenue and lower log cost.

Others Segment

For the current year to date, on Other segment's revenue, has increased by 33.7% to RM32.76 million, as compared to the revenue of RM24.51 million for the corresponding period last year. The increase in revenue was mainly attributable to the higher sales volume and average selling price.

Profit before tax was reported at RM0.77 million for the current year to date, increased by RM2.53 million compared to loss before tax of RM1.76 million recorded in the corresponding period last year. The increase in profit was contributed by drop in log and glue cost.

Consolidated

For the current year to date, the Group's revenue has increased by 0.6% to RM455.33 million, as compared to RM452.65 million for the corresponding period last year. The increase in revenue was mainly due to the increase in sales volume and average selling price of MDF products.

Loss before tax was registered at RM24.46 million for the current year to date compared to RM30.57 million recorded in the corresponding period last year. The decrease in losses was mainly due to lower log and glue cost as well as cost control measures.

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2 *Comment on Material Change in Profit/(Loss) Before Taxation Against Preceding Quarter*

	Current Quarter Ended 30 June 2014 <u>RM'000</u>	Immediate Preceding Quarter Ended 31 March 2014 <u>RM'000</u>
Revenue	215,811	239,516
Profit/(Loss) Before Tax	(21,593)	(2,869)
Net profit/(loss) for the period	(22,003)	(3,188)

The current quarter revenue was decreased to RM215.81 million, as compared to RM239.52 million recorded in the preceding quarter. The decrease in revenue was mainly due to lower sales volume as Thailand's MDF production reduced due to major maintenance being carried out.

The Group's loss before tax increased from RM3.19 million recorded in the preceding quarter to RM22.0 million. The loss was mainly due to log concession projects secured for the Group in previous years at a higher value compared to the current market price being sold.

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*

Based on the gradually improved global MDF demand and slow rise mode of pricing, coupled with the Group's continuous efforts on cost control measures, maximizing productivity, equipment enhancements and automation on manufacturing processes, the Board is optimistic in achieving improve results in the near future.

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5 Taxation

Major Components of tax expenses

	3 months ended		6 months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expenses	396	652	700	793
Deferred tax expenses	14	(11)	29	(724)
	<u>410</u>	<u>641</u>	<u>729</u>	<u>69</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 2014	As at 31 December 2013
	<u>RM'000</u>	<u>RM'000</u>
Retained profits/(losses) of the Company and its subsidiaries:		
- Realised	573,321	587,035
- Unrealised	(1,806)	(1,210)
	<u>571,515</u>	<u>585,825</u>
Less: Consolidation adjustments	(48,927)	(38,963)
Group retained profits as per consolidated accounts	<u>522,588</u>	<u>546,862</u>

7 Status of Corporate Proposal Announced

There was no outstanding corporate proposal announced as at 22 August 2014.

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8 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	As at 30 June 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	71,280	1,141	-	81,371
Term loans	-	630	29,730	-	30,360
Hire purchase and finance lease payables	261	135	-	102	498
<u>Unsecured</u>					
Trade facilities	97,558	-	9,783	-	107,341
Term Loans	31,702	-	14,335	-	46,037
	<u>138,471</u>	<u>72,045</u>	<u>54,989</u>	<u>102</u>	<u>265,607</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	-	-	-	-	-
Hire purchase and finance lease payables	1,093	239	-	-	1,332
<u>Unsecured</u>					
Term Loans	30,360	-	16,038	-	46,398
	<u>31,453</u>	<u>239</u>	<u>16,038</u>	<u>-</u>	<u>47,730</u>
Total	<u>169,924</u>	<u>72,284</u>	<u>71,027</u>	<u>102</u>	<u>313,337</u>

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9 ***Financial Instruments***

As at the 30 June 2014, the Group has the following outstanding derivative financial instruments: -

	Notional Contract Amount (RM'000)	Fair value - Net Gains/ (Losses) (RM'000)
Forward contract - US Dollar		
- Less than 1 year	16,496	36

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***

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.

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As announced on 19 April 2014, The Board of Directors of EFB would like to further announce both the defendant and plaintiff has filed their defences and counterclaims. During the case management, Parties were asked whether they are willing to negotiate for settlement and both Plaintiff and Defendant informed the court that they were open for settlement. The Registrar fixed the next case management on 21.8.2014 for parties to update court on their election for mediation. On the 11 August 2014, Defendant received a copy of Plaintiff's Notice of Application for summary judgment and defendant has until 25 August 2014 serve their affidavit in reply.

11 ***Dividend Payable***

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

12 ***Earnings / (Loss) Per Share***

a. **Basic**

Basic earnings per share is calculated by dividing the net profit/(loss) 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 2014	30 June 2013	30 June 2014	30 June 2013
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	(21,692)	(11,683)	(24,274)	(27,899)
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings/(loss) per share (sen)	(4.23)	(2.28)	(4.73)	(5.44)

b. **Diluted**

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