

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2014

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 September 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 the 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 does 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>	<u>Effective for annual periods beginning on or after</u>
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
Annual Improvements to MFRSs 2012-2014 Cycle	1 January 2016
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016

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MFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint operations	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2017
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018

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 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 are no other changes in estimates that has material effect in the current quarter results.

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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 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.

7. *Dividends Paid*

No dividend was paid during the 3rd quarter ended 30 September 2014.

8. *Profit before tax*

Included in the profit before tax are the following items:

	3 months ended		9 months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Interest Income	(192)	(229)	(622)	(717)
Other income include investment income	(573)	(608)	(2,799)	(1,099)
Interest expense	3,234	3,689	9,882	11,145
Depreciation and amortization	15,909	17,403	47,296	52,296
Provision for & write off of receivables	-	-	-	-
Provision for & write off of inventories	-	-	-	-
(Gain)/ loss on disposal of properties	-	(174)	(148)	99
Impairment of assets	-	-	-	-
Impairment of loss on associates	-	-	-	-
Foreign exchange (gain)/ loss	(1,552)	6,987	(977)	6,804
(Gain)/ loss on derivatives	52	(461)	36	12

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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 September 2014		3 months ended 30 September 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	125,509	2,943	141,100	(4,826)
Thailand	85,905	6,603	80,538	(596)
Others	23,074	2,437	12,339	(4,876)
	<u>234,488</u>	<u>11,983</u>	<u>233,977</u>	<u>(10,298)</u>

	9 months ended 30 September 2014		9 months ended 30 September 2013	
	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	400,384	(16,253)	431,531	(9,769)
Thailand	233,595	572	218,248	(24,466)
Others	55,836	3,202	36,844	(6,635)
	<u>689,815</u>	<u>(12,479)</u>	<u>686,623</u>	<u>(40,870)</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.

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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 September 2014 are as follows:

	<u>RM'000</u>
Approved and contracted for	9,339
Approved but not contracted for	20,428
	<u>29,767</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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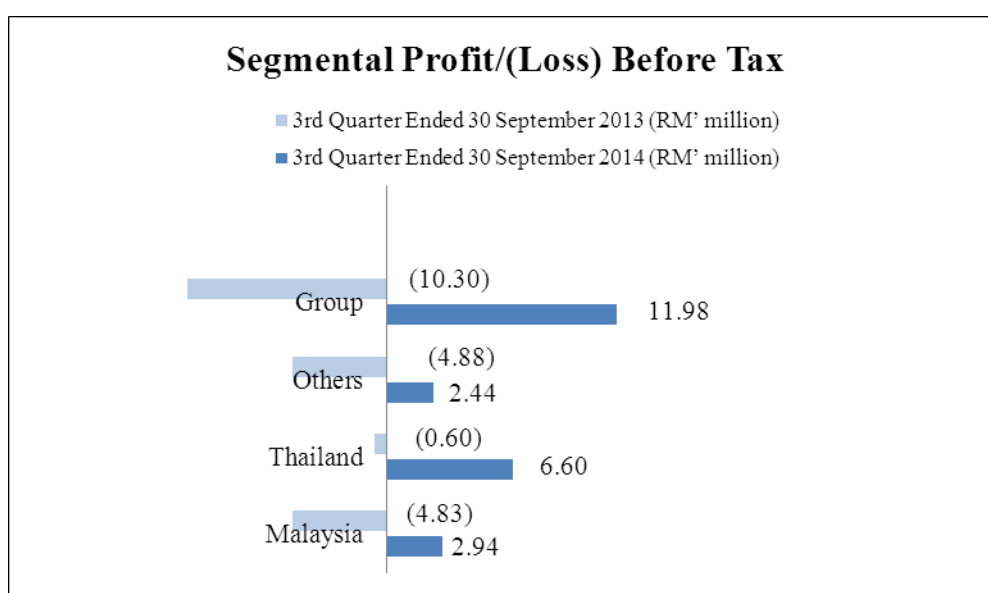
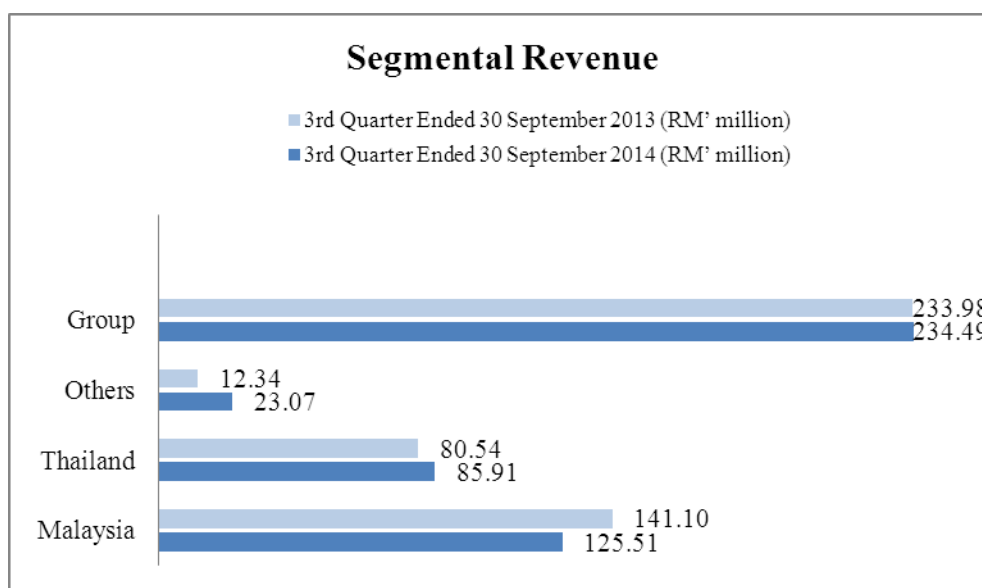
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2014

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

1 *Performance Review*

Segmental Revenue and Results – for 3rd Quarter Ended 30/9/2013 vs 30/9/2014



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 September 2014 decreased by 11.0% or RM15.59 million to RM125.51 million from RM141.10 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

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production line is under major upgrade.

Profit before tax for the current quarter increased by 160.9% or RM7.77 million to RM2.94 million compared to a loss before tax of RM4.83 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly from the lower log cost.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 September 2014 increased by 6.7% or RM5.37 million to RM85.91 million from RM80.54 million recorded in the preceding year corresponding quarter. The increase in revenue was due to higher sales volume.

Profit before tax for the current quarter increased by RM7.2 million to RM6.60 million compared to loss before tax of RM0.60 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly from the lower cost of log and glue.

Others segment

The Others segment's revenue for the quarter ended 30 September 2014 increased by 87.0% or RM10.73 million to RM23.07 million from RM12.34 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher average selling price.

Profit before tax was reported at RM2.44 million for the current quarter, increased by 150.0% or RM7.32 million compared to a loss before tax of RM4.88 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 September 2014 was marginally increased by 0.2% or RM0.51 million to RM234.49 million from RM233.98 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to higher average selling price.

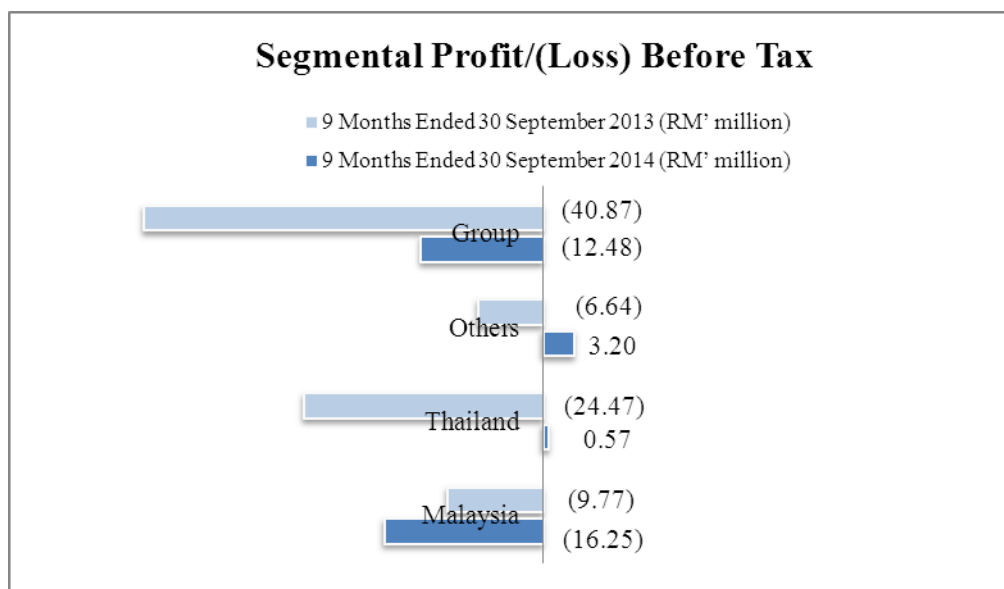
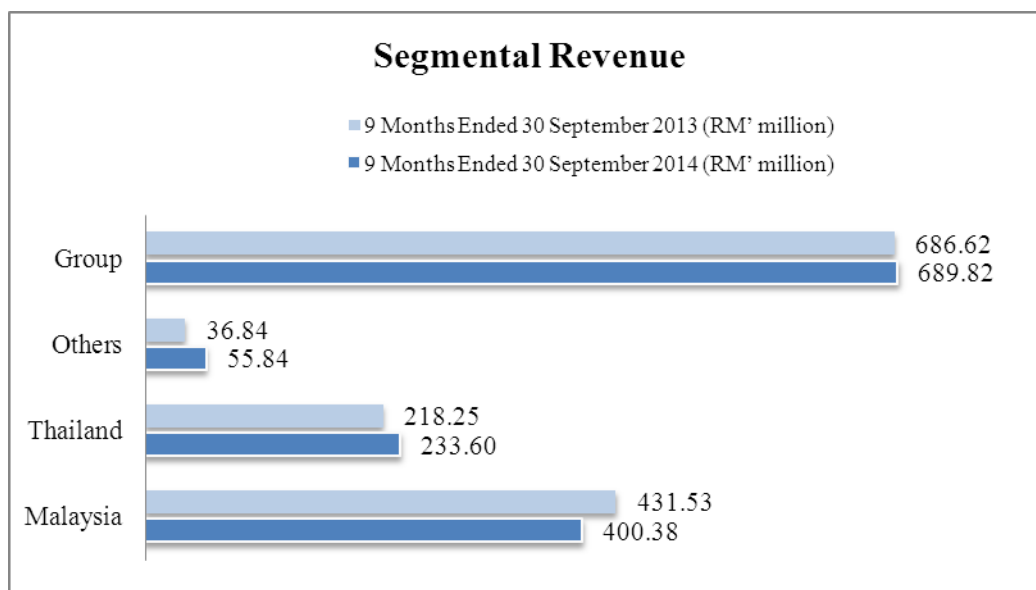
Profit before tax for the current quarter increased by 216.3% or RM22.28 million to RM11.98 million compared to a loss before tax of RM10.30 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly from a lower log and glue cost.

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Segmental Revenue and Results – for 9 Months Ended 30/9/2013 vs 30/9/2014



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 7.2% or RM31.15 million to RM400.38 million, as compared to the revenue of RM431.53 million for the corresponding period last year. The decrease in revenue was mainly due to the drop in sales volume of particle board as the production line is under major upgrade.

Loss before tax was reported at RM16.25 million for the current year to date compared to RM9.77 million recorded in the corresponding period last year. The

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loss was mainly due to provision for log cost derived from uncompleted log concession projects.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM233.60 million, with an increase of 7.0% or RM15.35 million, as compared to the revenue of RM218.25 million for the corresponding period last year. The increase in revenue was due to higher sales volume.

For the current year to date, profit before tax has increased by 102.3% or RM25.04 million to RM0.57 million, as compared to a loss before tax of RM24.47 million recorded in the corresponding period last year. The increase in profit was mainly from higher revenue and lower log cost.

Others Segment

For the current year to date, on Others segment's revenue has increased by 51.6% to RM55.84 million, as compared to the revenue of RM36.84 million for the corresponding period last year. The increase in revenue was mainly contributed by higher average selling price.

Profit before tax was reported at RM3.20 million for the current year to date, increased by RM9.84 million compared to a loss before tax of RM6.64 million recorded in the corresponding period last year. The increase in profit was contributed by higher revenue as well as a drop in log and glue cost.

Consolidated

For the current year to date, the Group's revenue has marginally increased by 0.5% to RM689.82 million, as compared to RM686.62 million for the corresponding period last year. The increase in revenue was mainly due to the increase in average selling price of MDF products.

Loss before tax was registered at RM12.48 million for the current year to date and a decreased of 69.5% or RM28.39 million compared to RM40.87 million recorded in the corresponding period last year. The drop in losses was mainly due to lower 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 2014 <u>RM'000</u>	Immediate Preceding Quarter Ended 30 June 2014 <u>RM'000</u>
Revenue	234,488	215,811
Profit/(Loss) Before Tax	11,983	(21,593)
Net profit/(loss) for the period	10,549	(22,003)

The current quarter revenue was increased by 8.66% to RM234.49 million, as compared to RM215.81 million recorded in the preceding quarter. The increase in revenue was mainly due to higher sales volume and average selling price.

The Group's profit before tax increased by 155.5% or RM33.57 million to RM11.98 million, as compared to loss before tax of RM 21.59 million recorded in the preceding quarter. The increase in profit was mainly due to higher revenue and lower log and glue cost.

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 gradual improved global MDF demand and steady rise in pricing, coupled with the Group's continuous efforts on cost control measures, maximizing productivity and equipment enhancement via modernization and automation on manufacturing processes, the Board is optimistic in achieving satisfactory results in the next quarter.

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5 *Taxation*

Major Components of tax expenses

	3 months ended		9 months ended	
	30 September 2014 RM'000	30 September 2013 RM'000	30 September 2014 RM'000	30 September 2013 RM'000
Current tax expenses	1,243	94	1,943	887
Deferred tax expenses	191	907	220	183
	<u>1,434</u>	<u>1,001</u>	<u>2,163</u>	<u>1,070</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 30 September 2014 RM'000	As at 31 December 2013 RM'000
	Retained profits of the Company and its subsidiaries:	
- Realised	571,362	587,035
- Unrealised	(1,934)	(1,210)
	<u>569,428</u>	<u>585,825</u>
Less: Consolidation adjustments	(36,765)	(38,963)
Group retained profits as per consolidated accounts	<u>532,663</u>	<u>546,862</u>

7 *Status of Corporate Proposal Announced*

There was no outstanding corporate proposal announced as at 14 November 2014.

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**EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2014****8 Borrowings and Debt Securities**

The Group's borrowings are as follows: -

Denominated	As at 30 September 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	70,707	-	-	79,657
Term loans	-	-	28,223	-	28,223
Hire purchase and finance lease payables	240	158	-	61	459
<u>Unsecured</u>					
Trade facilities	114,787	-	1,312	-	116,099
Term Loans	28,474	-	15,512	-	43,986
	<u>152,451</u>	<u>70,865</u>	<u>45,047</u>	<u>61</u>	<u>268,424</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	-	-	-	-	-
Hire purchase and finance lease payables	1,131	204	-	-	1,335
<u>Unsecured</u>					
Term Loans	23,362	-	12,395	-	35,757
	<u>24,493</u>	<u>204</u>	<u>12,395</u>	<u>-</u>	<u>37,092</u>
Total	<u>176,944</u>	<u>71,069</u>	<u>57,442</u>	<u>61</u>	<u>305,516</u>

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9 *Financial Instruments*

As at the 30 September 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	33,844	(225)

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.

As announced on 19 November 2014, the Judge has fixed for hearing on 21 January 2015 and respective Parties are to file written submissions 2 weeks before the hearing.

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		9 months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	10,075	(8,134)	(14,199)	(36,033)
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings per share (sen)	1.96	(1.59)	(2.77)	(7.02)

b. **Diluted**

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