

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 September 2015, 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 2014.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2014, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2015:-

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 2015.

Amendments/Improvements to MFRSs

| | |
|----------|--|
| MFRS 1 | First-time Adoption of Malaysian Financial Reporting Standards |
| MFRS 2 | Share-based Payment |
| MFRS 3 | Business Combinations |
| MFRS 8 | Operating Segments |
| MFRS 13 | Fair Value Measurement |
| MFRS 116 | Property, Plant and Equipment |
| MFRS 119 | Employee Benefits |
| MFRS 124 | Related Party Disclosures |
| MFRS 138 | Intangible Assets |
| MFRS 140 | Investment Property |

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

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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> |
|---|---|
| <u>New MFRSs</u> | |
| MFRS 9 Financial Instruments | 1 January 2018 |
| MFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| <u>Amendments/Improvements to MFRSs</u> | |
| MFRS 5 Non-current Asset Held for Sale and Discontinued Operations | 1 January 2016 |
| MFRS 7 Financial Instruments: Disclosures | 1 January 2016 |
| MFRS 10 Consolidated Financial Statements | 1 January 2016 |
| MFRS 11 Joint Arrangements | 1 January 2016 |
| MFRS 12 Disclosure of Interest in Other Entities | 1 January 2016 |
| MFRS 14 Regulatory Deferral Accounts | 1 January 2016 |
| MFRS 101 Presentation of Financial Statements | 1 January 2016 |
| MFRS 116 Property, Plant and Equipment | 1 January 2016 |
| MFRS 119 Employee Benefits | 1 January 2016 |
| MFRS 127 Separate financial statements | 1 January 2016 |
| MFRS 128 Investments in Associates and Joint Ventures | 1 January 2016 |
| MFRS 134 Interim Financial Reporting | 1 January 2016 |
| MFRS 138 Intangible Assets | 1 January 2016 |

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 2014 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.

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5. *Changes in Estimates*

There are no other changes in estimates that has 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 2015 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 2015.

8. *Profit before tax*

Included in the profit before tax are the following items:

| | 3 months ended | | 9 months ended | |
|---------------------------------------|----------------|---------|----------------|---------|
| | 30 September | | 30 September | |
| | 2015 | 2014 | 2015 | 2014 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest Income | (203) | (192) | (661) | (622) |
| Other (income)/ expense include | | | | |
| investment income | (484) | (573) | (828) | (2,799) |
| Interest expense | 2,843 | 3,234 | 8,762 | 9,882 |
| Depreciation and amortization | 16,903 | 15,909 | 49,072 | 47,296 |
| Loss/(Gain) on disposal of properties | 592 | - | 943 | (148) |
| Foreign exchange (gain)/ loss | (8,018) | (1,552) | (10,963) | (977) |
| Loss on derivatives | 835 | 52 | 1,017 | 36 |

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

9. *Segmental Information*

Segmental analysis is prepared based on the geographical location of the plant.

Segmental Revenue and Results

| | 3 months ended 30 September 2015 | | 3 months ended 30 September 2014 | |
|----------|-------------------------------------|--|-------------------------------------|--|
| | 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 | 139,484 | 20,862 | 125,509 | 2,943 |
| Thailand | 93,024 | 11,151 | 85,905 | 6,603 |
| Others | 23,532 | 2,744 | 23,074 | 2,437 |
| | <u>256,040</u> | <u>34,757</u> | <u>234,488</u> | <u>11,983</u> |

| | 9 months ended 30 September 2015 | | 9 months ended 30 September 2014 | |
|----------|-------------------------------------|--|-------------------------------------|--|
| | 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 | 399,008 | 42,846 | 400,384 | (16,253) |
| Thailand | 283,572 | 37,820 | 233,595 | 572 |
| Others | 65,550 | 6,904 | 55,836 | 3,202 |
| | <u>748,130</u> | <u>87,570</u> | <u>689,815</u> | <u>(12,479)</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 2014.

11. *Subsequent Events*

No material events have arisen subsequent to the Balance Sheet date that require disclosure or adjustment to the unaudited condensed interim financial statements.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

12. Changes in Composition of the Group

On 10 July 2015, Evergreen Fibreboard Berhad (“EFB”) announced the company through its wholly owned subsidiary Siam Fibreboard Co., Ltd. had on the 07th July 2015 obtained an Operating License for the Incorporation of its wholly-owned subsidiary, Siam Furniture Company Limited (Shanghai) (“SFS”) in Shanghai, Republic Of China.

These investments are for the expansion of EFB Group and are not expected to have any immediate material effect on the earnings and net assets of the EFB Group in the near future.

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 2015 are as follows:

| | |
|---------------------------------|----------------|
| | <u>RM'000</u> |
| Approved and contracted for | 105,827 |
| Approved but not contracted for | - |
| | <u>105,827</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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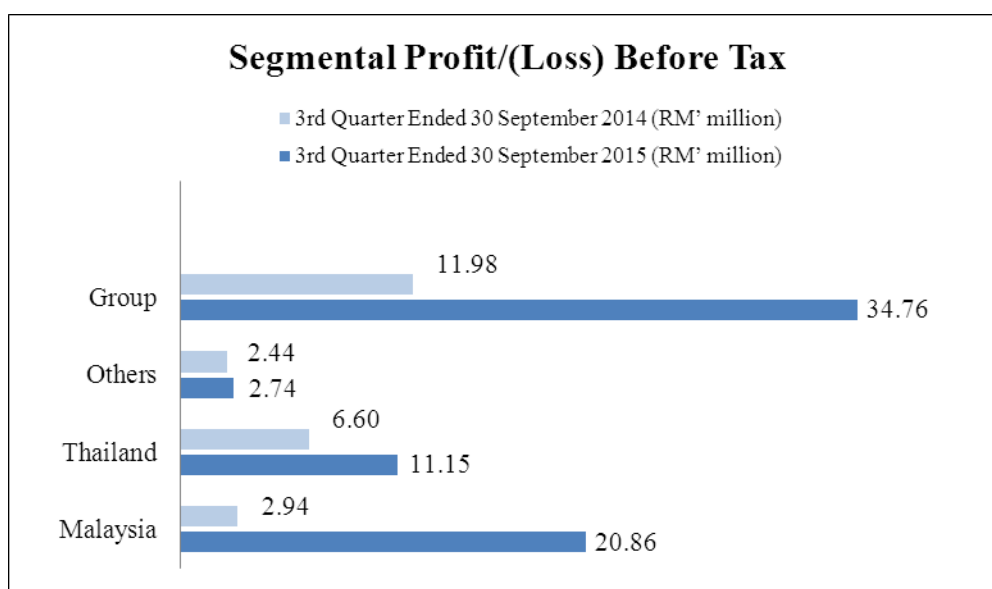
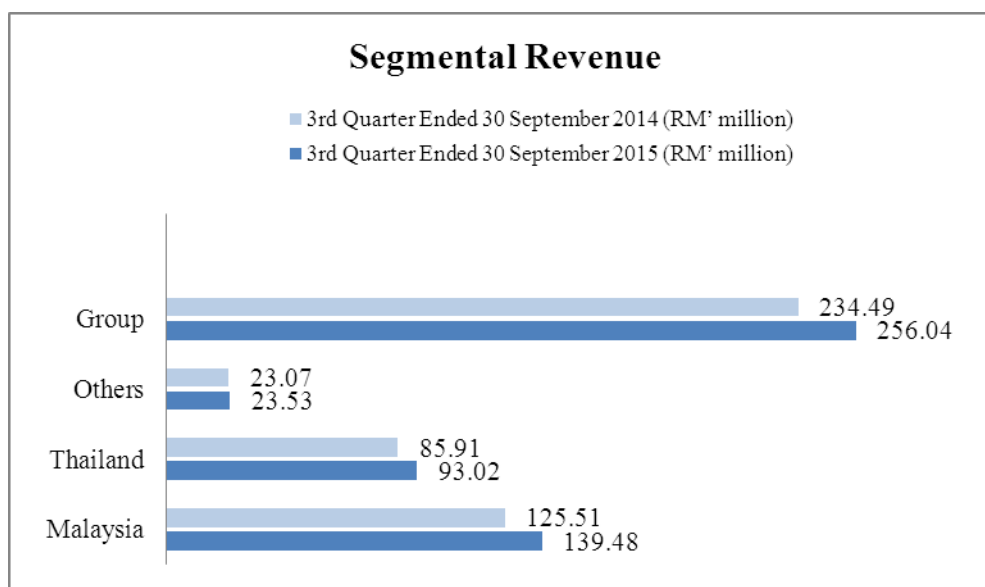
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

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

1 *Performance Review*

Segmental Revenue and Results – for 3rd Quarter Ended 30/09/2014 vs 30/09/2015



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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 September 2015 increased by 11.1% or RM13.97 million to RM139.48 million from RM125.51 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by the strengthening of USD currency.

Profit before tax for the current quarter increased by 609.5% or RM17.92 million to RM20.86 million compared to a profit before tax of RM2.94 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly from the lower glue cost, higher operational efficiency and synergistic cost savings derived from the group's recent restructuring of certain operational facilities. The increase in profit was also contributed by foreign exchange gain as a result of strengthen of USD.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 September 2015 increased by 8.3% or RM7.11 million to RM93.02 million from RM85.91 million recorded in the preceding year corresponding quarter. The increase in revenue was due to higher average selling price which was impacted from the strengthening of USD currency.

Profit before tax for the current quarter increased by 68.9% or RM4.55 million to RM11.15 million compared to a profit before tax of RM6.6 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly contributed by higher revenue, lower glue cost and effective management cost control measures.

Others segment

On Others segment's revenue for the quarter ended 30 September 2015 increased by 2.0% or RM0.46 million to RM23.53 million from RM23.07 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher selling price.

Profit before tax was reported at RM2.74 million for the current quarter, increased by 12.3% or RM0.3 million compared to RM2.44 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly resulted from higher revenue and effective cost measures undertaken by management.

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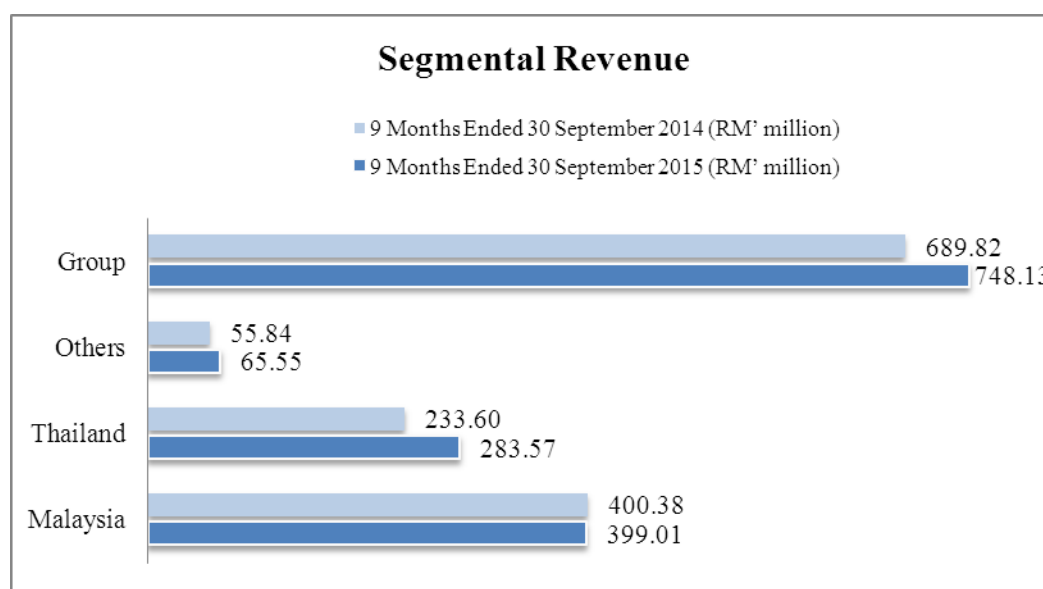
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

Consolidated

The Group's revenue for the quarter ended 30 September 2015 increased by 9.2% or RM21.55 million to RM256.04 million from RM234.49 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher selling price which was impacted from the strengthening of USD.

Profit before tax for the current quarter increased by 190.2% or RM22.78 million to RM34.76 million compared to a profit before tax of RM11.98 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly contributed by the lower cost of glue, higher operational efficiency and synergistic cost savings derived from the group's recent restructuring of certain operational facilities. The increase in profit was also contributed by foreign exchange gain as a result of strengthen of USD.

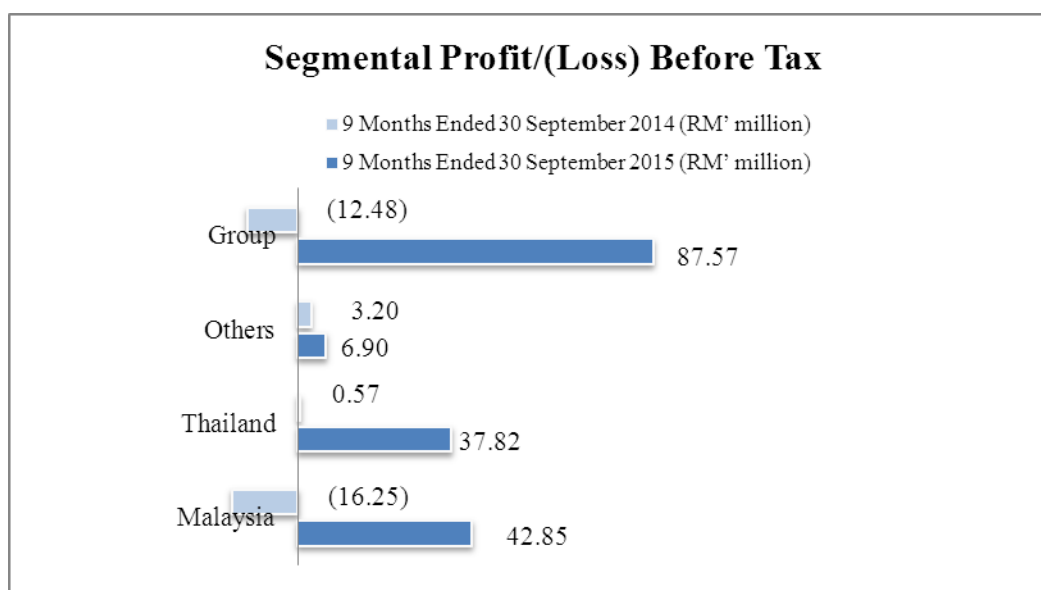
Segmental Revenue and Results – for 9 Months Ended 30/9/2014 vs 30/9/2015



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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 0.3% or RM1.37 million to RM399.01 million, as compared to the revenue of RM400.38 million for the corresponding period last year. The decrease in revenue was mainly caused by drop in sales volume which was resulted from restructuring of certain operational facilities. The impact has been mitigated by the strengthening of USD currency.

For the current year to date, profit before tax has increased by 363.7% or RM59.1 million to RM42.85 million, as compared to a loss before tax of RM16.25 million recorded in the corresponding period last year. The increase in profit was mainly contributed by the lower log and glue cost, the strengthening of USD currency, higher operational efficiency and synergistic cost savings derived from the group's recent restructuring of certain operational facilities.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM283.57 million, with an increase of 21.4% or RM49.97 million, as compared to the revenue of RM233.60 million for the corresponding period last year. The increase in revenue was due to higher sales volume and impact from the strengthening of USD currency.

For the current year to date, profit before tax has increased by 6535.1% or RM37.25 million to RM37.82 million, as compared a profit before tax of RM0.57 million recorded in the corresponding period last year. The increase in profit was mainly due to higher revenue, lower log and glue cost and effective management cost control measures.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

Others Segment

For the current year to date, on Other segment's revenue, has increased by 17.4% to RM65.55 million, as compared to the revenue of RM55.84 million for the corresponding period last year. The increase in revenue was mainly attributable to the higher sales volume.

Profit before tax was reported at RM6.90 million for the current year to date, increased by 115.6% or RM3.70 million compared to RM3.20 million recorded in the corresponding period last year. The increase in profit was contributed by higher revenue, lower log and glue cost and effective cost measures undertaken by management.

Consolidated profit before tax

For the current year to date, the Group's revenue has increased by 8.5% to RM748.13 million, as compared to RM689.82 million for the corresponding period last year. The increase in revenue was due to higher sales volume and impact from the strengthening of USD currency.

Profit before tax was registered at RM87.57 million for the current year to date, increased by 801.7% or RM100.05 million compared to a loss before tax of RM12.48 million recorded in the corresponding period last year. The increase in profit was mainly contributed by higher revenue, the lower cost of log and glue and effective cost measures undertaken by management.

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

| | Current Quarter Ended 30 Sept 2015 RM'000 | Immediate Preceding Quarter Ended 30 June 2015 RM'000 |
|----------------------------------|--|--|
| Revenue | 256,040 | 259,962 |
| Profit/(Loss) Before Tax | 34,757 | 28,032 |
| Net profit/(loss) for the period | 28,308 | 24,029 |

The current quarter revenue decreased by 1.5% to RM256.04 million, as compared to RM259.96 million recorded in the preceding quarter. The decrease in revenue was mainly contributed by lower sales volume.

The Group's profit before tax increased by 24.0% or RM6.73 million to RM34.76 million, as compared to RM28.03 million recorded in the preceding quarter. The increase in profit was mainly contributed by the lower cost of glue, higher operational efficiency and synergistic cost savings derived from the group's recent restructuring of certain operational facilities.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

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 steady global MDF demand and the appreciation of US dollar for which our exports are priced, are external factors that continuously enhance the Group's performance. Coupled with the Group's internal efforts on better products mix, cost control measures, maximizing productivity and equipment enhancement via modernization and automation on manufacturing processes, the Board is optimistic in achieving better results in the next quarter.

5 Taxation

Major Components of tax expenses

| | 3 months ended | | 9 months ended | |
|-----------------------|----------------------|----------------------|----------------------|----------------------|
| | 30 September 2015 | 30 September 2014 | 30 September 2015 | 30 September 2014 |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| Current tax expenses | 2,731 | 1,243 | 8,740 | 1,943 |
| Deferred tax expenses | 3,718 | 191 | 5,987 | 220 |
| | <u>6,449</u> | <u>1,434</u> | <u>14,727</u> | <u>2,163</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 | As at |
|---|----------------------|---------------------|
| | 30 September 2015 | 31 December 2014 |
| | <u>RM'000</u> | <u>RM'000</u> |
| Retained profits of the Company and its subsidiaries: | | |
| - Realised | 647,815 | 522,893 |
| - Unrealised | (14,235) | (1,557) |
| | <u>633,580</u> | <u>521,336</u> |
| Less: Consolidation adjustments | (18,258) | 22,454 |
| Group retained profits as per consolidated accounts | <u>615,321</u> | <u>543,790</u> |

7 Status of Corporate Proposal Announced

There was no outstanding corporate proposal announced as at 13 November 2015.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

8 Borrowings and Debt Securities

The Group's borrowings are as follows: -

| Denominated | As at 30 September 2015 | | | | |
|---|-------------------------|-------------------|------------------|------------------|-----------------|
| | 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 | 1,950 | 45,768 | - | - | 47,718 |
| Term loans | - | - | 11,471 | - | 11,471 |
| Hire purchase and finance lease payables | 311 | 221 | - | 10 | 543 |
| <u>Unsecured</u> | | | | | |
| Trade facilities | 121,953 | - | 14,658 | 4,481 | 141,092 |
| Term Loans | 3,722 | - | 11,619 | - | 15,341 |
| | <u>127,936</u> | <u>45,989</u> | <u>37,747</u> | <u>4,491</u> | <u>216,163</u> |
| Long Term Borrowings: | | | | | |
| <u>Secured</u> | | | | | |
| Term loans | - | - | 14,679 | - | 14,679 |
| Hire purchase and finance lease payables | 959 | - | - | - | 959 |
| <u>Unsecured</u> | | | | | |
| Term Loans | 18,358 | - | 5,895 | - | 24,253 |
| | <u>19,317</u> | <u>-</u> | <u>20,574</u> | <u>-</u> | <u>39,891</u> |
| Total | <u>147,253</u> | <u>45,989</u> | <u>58,321</u> | <u>4,491</u> | <u>256,054</u> |

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2015

9 ***Financial Instruments***

As at the 30 September 2015, 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 | 13,055 | (1,017) |

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 13 November 2015.

11 ***Dividend Payable***

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

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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 2015 | 30 September 2014 | 30 September 2015 | 30 September 2014 |
| Net profit/(loss) for the period attributable to owners of the Parent (RM'000) | 27,586 | 10,075 | 71,532 | (14,199) |
| Weighted average number of ordinary shares in issue ('000) | 513,000 | 513,000 | 513,000 | 513,000 |
| Basic earnings per share (sen) | 5.38 | 1.96 | 13.94 | (2.77) |

b. **Diluted**

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