

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017

A INFORMATION REQUIRED BY MFRS 134

1. Basis of Preparation

These condensed consolidated interim financial statements, for the period ended 30 June 2017, 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 financial year ended 31 December 2016.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2016, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2017.

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 financial 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
MFRS 16 Leases	1 January 2019
<u>Amendments/Improvements to MFRSs</u>	
MFRS 2 Share-based Payment	1 January 2018
MFRS 4 Insurance Contracts	1 January 2018
MFRS 10 Consolidated Financial Statements	Deferred
MFRS 128 Investments in Associates and Joint Ventures	1 January 2018/ Deferred
MFRS 140 Investment Property	1 January 2018
<u>New IC Int</u>	
IC Int 22 Foreign Currency Transactions and Advance Consideration	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 2016 was not subjected to any qualification.

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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.

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 2017 was 422,000 shares and the shares are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act, 2016.

7. Dividends Paid

No dividend was paid during the 2nd quarter ended 30 June 2017.

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8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended		6 months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Interest Income	(436)	(446)	(758)	(874)
Other expense/(income) including investment income	(502)	(520)	(70)	(1,016)
Interest expense/ Finance cost	1,749	1,740	3,316	3,416
Depreciation and amortisation	16,783	16,065	33,002	32,626
(Gain)/loss on disposal of property, plant and equipment	(62)	428	(62)	(179)
Foreign exchange (gain)/loss	3,394	(2,182)	3,517	3,724
(Gain)/loss on derivatives	-	(15)	-	(838)

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 2017		30 June 2016	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	134,928	5,934	139,593	12,148
Thailand	103,725	4,288	85,902	9,381
Others	20,329	344	20,743	147
	<u>258,982</u>	<u>10,566</u>	<u>246,238</u>	<u>21,676</u>

	6 months ended		6 months ended	
	30 June 2017		30 June 2016	
	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	256,151	15,850	271,059	20,488
Thailand	215,355	10,071	183,511	23,991
Others	36,977	1,567	38,462	1,522
	<u>508,483</u>	<u>27,488</u>	<u>493,032</u>	<u>46,001</u>

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10. *Carrying Amount of Revalued Assets*

The valuation of property, plant and equipment has been brought forward without amendment from the audited financial statements for the year ended 31 December 2016.

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.

12. *Changes in Composition of the Group*

On 2 March 2017, Evergreen Fibreboard Berhad (“EFB”) announced the company had acquired the remaining 11,539,500 ordinary shares of RM1.00 each in its subsidiary Company, Craft Master Timber Products Sdn Bhd (“CMTPSB”) representing 49% of the total issued and paid up capital of CMTPSB for a total cash consideration of RM380,000. After the acquisition, CMTPSB becomes a wholly-owned subsidiary of EFB.

The acquisition is 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 June 2017 are as follows:

	<u>RM'000</u>
Approved and contracted for	23,799
Approved but not contracted for	-
	<u>23,799</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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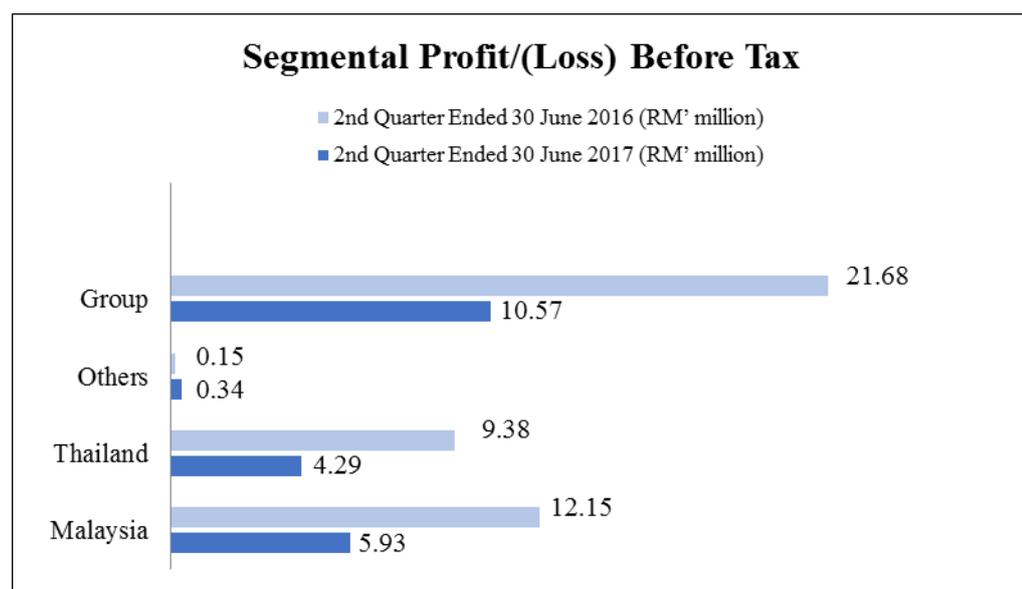
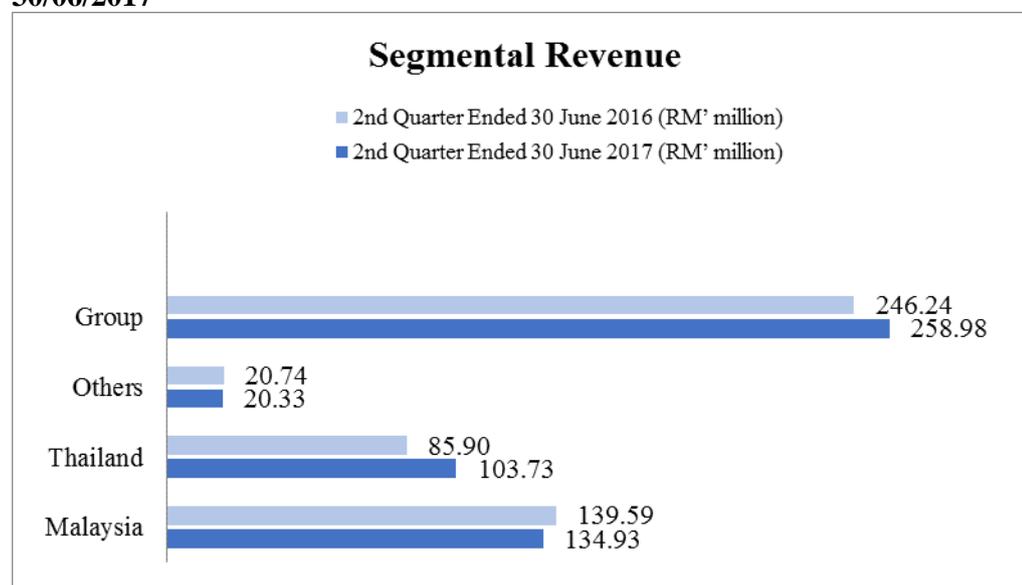
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B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1 *Performance Review*

Segmental Revenue and Results – for 2nd Quarter Ended 30/06/2016 vs 30/06/2017



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2017 decreased by 3.3% or RM4.66 million to RM134.93 million from RM139.59 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower sales volumes, despite of higher average selling price as the Group emphasis more on high premium products.

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Profit before tax for the current quarter decreased by RM6.22 million to RM5.93 million compared to a profit before tax of RM12.15 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to lower sales revenue, higher log and glue cost and foreign exchange loss incurred in current quarter compared to foreign exchange gain in the corresponding quarter of the preceding year. Production volume was reduced as a result of shortage supply of rubber wood and scheduled plants shut down for maintenance during the Ramadan festive period.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2017 increased by 20.8% or RM17.83 million to RM103.73 million from RM85.90 million recorded in the preceding year corresponding quarter. The increase in revenue was contributed by higher sales volumes and average selling price.

Profit before tax for the current quarter decreased to RM4.29 million compared to a profit before tax of RM9.38 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to higher cost of log and glue.

Others segment

On Others segment's revenue for the quarter ended 30 June 17 decreased by 2.0% to RM20.33 million from RM20.74 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly attributed by lower sales volume which the impact was mitigated by higher average selling price.

Profit before tax was reported at RM0.34 million for the current quarter, increased by RM0.19 million compared to RM0.15 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly due to lower foreign exchange loss compared to the corresponding quarter.

Consolidated

The Group's revenue for the quarter ended 30 June 2017 increased by 5.2% or RM12.74 million to RM258.98 million from RM246.24 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to higher average selling price as the Group emphasis more on high premium products.

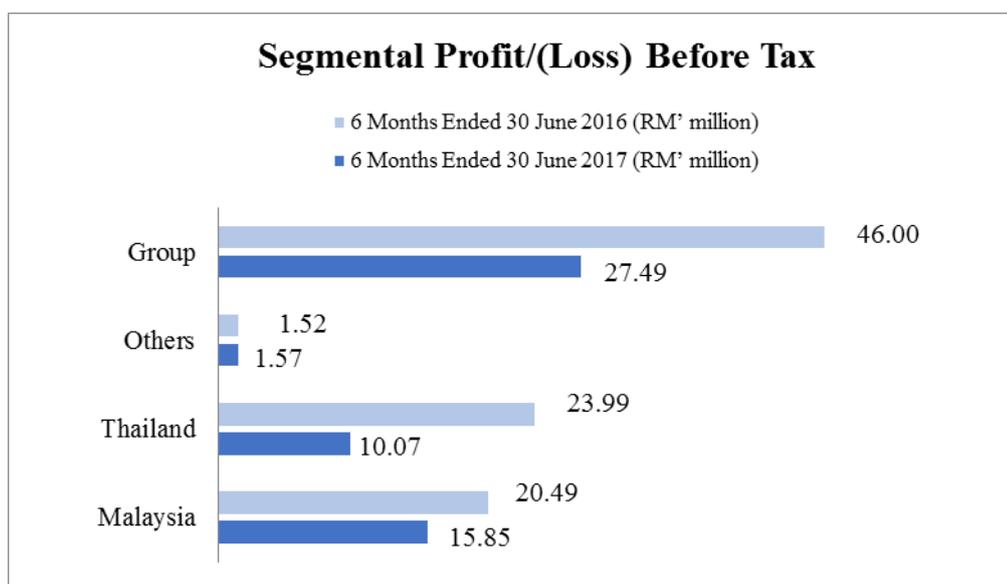
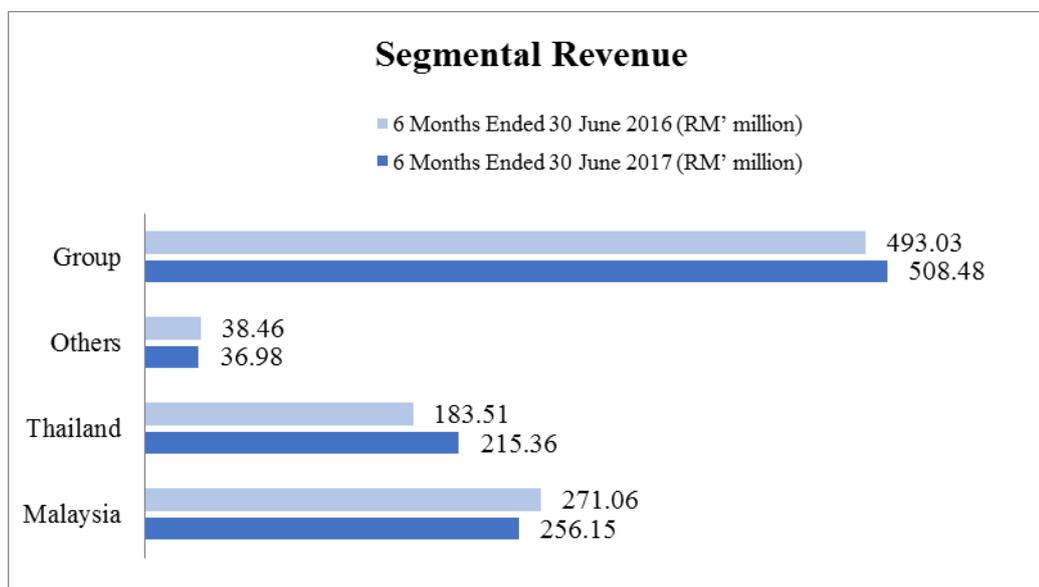
Profit before tax for the current quarter decreased by 51.2% or RM11.11 million to RM10.57 million compared to a profit before tax of RM21.68 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to higher log and glue cost, scheduled plants shut down for maintenance and impacted from foreign exchange loss incurred in current quarter compared to foreign exchange gain in the corresponding quarter of the preceding year.

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Segmental Revenue and Results – for 6 Months Ended 30/06/2016 vs 30/06/2017



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 5.5% to RM256.15 million, as compared to the revenue of RM271.06 million for the corresponding period last year. The decrease in revenue was mainly due to lower sales volume, despite of higher average selling price as the Group emphasis more on high premium products.

For the current year to date, profit before tax has decreased by RM4.64 million to RM15.85 million, as compared to a profit before tax of RM20.49 million recorded

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in the corresponding period last year. The decrease in profit was mainly due to lower sales revenue, higher log and glue cost and lower production volume. The production volume was affected by shortage supply of rubber wood and scheduled plants shut down for maintenance.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM215.36 million, with an increase of 17.4% or RM31.85 million, as compared to the revenue of RM183.51 million for the corresponding period last year. The increase in revenue was due to higher sales volumes and average selling price.

For the current year to date, profit before tax has decreased by RM13.92 million to RM10.07 million, as compared to RM23.99 million recorded in the corresponding period last year. The decrease in profit was mainly due to higher cost of log and glue.

Others Segment

For the current year to date, on Other segment's revenue, has decreased by 3.8% to RM36.98 million, as compared to the revenue of RM38.46 million for the corresponding period last year. The decrease in revenue was mainly attributable to lower sales volumes.

Profit before tax was reported at RM1.57 million for the current year to date, increased by RM0.05 million compared to RM1.52 million recorded in the corresponding period last year. The increase in profit was due to lower foreign exchange loss compared to corresponding period last year.

Consolidated profit before tax

For the current year to date, the Group's revenue has increased by 3.1% or RM15.45 million to RM508.48 million, as compared to RM493.03 million for the corresponding period last year. The increase in revenue was due to higher average selling price as the Group emphasis more on high premium products.

Profit before tax was registered at RM27.49 million for the current year to date, decreased by 40.2% or RM18.51 million compared to profit before tax of RM46.00 million recorded in the corresponding period last year. The decrease in profit was mainly due to higher log and glue cost and scheduled plants shut down for maintenance during the Ramadan festive period.

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

	Current Quarter Ended 30 June 2017 <u>RM'000</u>	Immediate Preceding Quarter Ended 31 March 2017 <u>RM'000</u>
Revenue	258,982	249,501
Profit Before Tax	10,566	16,922
Net profit for the period	6,580	10,926

The current quarter revenue increased by 3.8% or RM9.48 million to RM258.98 million, as compared to RM249.50 million recorded in the preceding quarter. The increase in revenue was due to higher average selling price as the Group emphasis more on high premium products.

The Group's profit before tax was decreased by 37.6% to RM10.57 million, as compared to RM16.92 million recorded in the preceding quarter. The decrease in profit was mainly due to scheduled plants shut down for maintenance during the Ramadan festive period, coupled with higher foreign exchange loss incurred in current quarter.

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*

Optimism in the EU and US economy augurs well for the longer term prospects of the furniture market. However, the Group's performance in the first half of 2017 was lately impacted by the short supply of rubber wood logs which not only reduced Group's production output but also crimped margins. With the Malaysian government's recent announcement to ban export of raw rubber wood sawn timber and the long overdue drier season, supply of logs should normalize moving forward. The Group expects a satisfactory performance moving forward.

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5 Tax Expense

Major Components of tax expense

	3 months ended		6 months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense	3,052	2,976	6,393	5,741
Deferred tax expense	934	3,349	3,589	4,261
	<u>3,986</u>	<u>6,325</u>	<u>9,982</u>	<u>10,002</u>

The effective tax rate of the Group for the current quarter is higher than the statutory rate mainly due to not recognising deferred tax assets on non-performing companies.

6 Realised and Unrealised Profits/Losses Disclosure

	As at	As at
	30 June 2017	31 December 2016
	<u>RM'000</u>	<u>RM'000</u>
Retained profits of the Company and its subsidiaries:		
- Realised	706,586	686,772
- Unrealised	(28,429)	(26,756)
	<u>678,157</u>	<u>660,016</u>
Less: Consolidation adjustments	37,634	39,036
Group retained profits as per consolidated accounts	<u>715,791</u>	<u>699,052</u>

7 Status of Corporate Proposal Announced

There was no outstanding corporate proposal announced as at the date of this report.

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8 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	As at 30 June 2017				Total RM'000
	In RM RM'000	In Baht RM'000	In USD RM'000	In Euro RM'000	
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	38,836	-	-	38,836
Term loans	8,123	-	5,293	-	13,416
Hire purchase and finance lease payables	44	1,037	-	-	1,081
<u>Unsecured</u>					
Trade facilities	33,600	-	13,750	-	47,350
Term Loans	5,652	-	2,662	6,924	15,238
	<u>47,419</u>	<u>39,873</u>	<u>21,705</u>	<u>6,924</u>	<u>115,921</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	24,285	-	-	-	24,285
Hire purchase and finance lease payables	173	-	-	-	173
<u>Unsecured</u>					
Term Loans	16,806	-	1,097	51,579	69,482
	<u>41,264</u>	<u>-</u>	<u>1,097</u>	<u>51,579</u>	<u>93,940</u>
Total	<u>88,683</u>	<u>39,873</u>	<u>22,802</u>	<u>58,503</u>	<u>209,861</u>

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9 *Changes in Material Litigation*

There is no material litigation pending as at the date of this report.

10 *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 2016 is as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
2016	19 May 2017	Final single tier dividend	2 sen /share	RM16.92 million	18 August 2017

11 *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		6 months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	6,200	16,459	16,739	37,078
Weighted average number of ordinary shares in issue ('000)	846,424	807,669	846,424	807,669
Basic EPS (sen)	0.73	2.04	1.98	4.59

b. **Diluted**

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