

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 March 2019, 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 2018.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2018, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2019. The initial application of the accounting standards, interpretations or amendments that are effective from 1 January 2019 do not have any material financial impacts to the current and prior financial period of the Group.

<u>Description</u>	<u>Effective for financial periods beginning on or after</u>
<u>New MFRSs</u>	
MFRS 16 Leases	1 January 2019
<u>Amendments/Improvements to MFRSs</u>	
MFRS 3 Business Combinations	1 January 2019
MFRS 9 Financial Instruments	1 January 2019
MFRS 11 Joint Arrangements	1 January 2019
MFRS 112 Income Taxes	1 January 2019
MFRS 119 Employee Benefits	1 January 2019
MFRS 123 Borrowing Costs	1 January 2019
MFRS 128 Investments in Associates and Joint Ventures	1 January 2019/ Deferred
<u>New IC Int</u>	
IC Int 23 Uncertainty over Income Tax Treatments	1 January 2019

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 17 Insurance Contracts	1 January 2021

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Amendments/Improvements to MFRSs

MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2021 [#]
MFRS 2	Share-based Payment	1 January 2020*
MFRS 3	Business Combinations	1 January 2020*/ 1 January 2021 [#]
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021 [#]
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7	Financial Instruments: Disclosures	1 January 2021 [#]
MFRS 9	Financial Instruments	1 January 2021 [#]
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 15	Revenue from Contracts with Customers	1 January 2021 [#]
MFRS 101	Presentation of Financial Statements	1 January 2020*/ 1 January 2021 [#]
MFRS 107	Statements of Cash Flows	1 January 2021 [#]
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020*
MFRS 116	Property, Plant and Equipment	1 January 2021 [#]
MFRS 119	Employee Benefits	1 January 2021 [#]
MFRS 128	Investments in Associates and Joint Ventures	1 January 2021 [#] / Deferred
MFRS 132	Financial instruments: Presentation	1 January 2021 [#]
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 136	Impairment of Assets	1 January 2021 [#]
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*/ 1 January 2021 [#]
MFRS 138	Intangible Assets	1 January 2020*/ 1 January 2021 [#]
MFRS 140	Investment Property	1 January 2021 [#]

Amendments to IC Int

IC Int 12	Service Concession Arrangements	1 January 2020*
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020*
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020*
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020*
IC Int 132	Intangible Assets – Web Site Costs	1 January 2020*

* *Amendments to References to the Conceptual Framework in MFRS Standards*

[#]*Amendments as to the consequence of effective of MFRS 17 Insurance Contracts*

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.

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2. Audit Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2018 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 except on period where adverse weather may affect log supply.

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 31 March 2019 was 622,000 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 1st quarter ended 31 March 2019.

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8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended 31 March		3 months ended 31 March	
	2019	2018	2019	2018
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest Income	(418)	(385)	(418)	(385)
Other expense/(income) including investment income	(420)	(2,397)	(420)	(2,397)
Interest expense/ Finance cost	1,801	1,764	1,801	1,764
Depreciation and amortisation	18,768	17,550	18,768	17,550
(Gain)/ loss on disposal of property, plant and equipment	(1)	(10,889)	(1)	(10,889)
Goodwill written off	-	8,000	-	8,000
Foreign exchange (gain)/loss	(1,749)	1,568	(1,749)	1,568

9. Segmental Information

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

	3 months ended 31 March 2019		3 months ended 31 March 2018	
	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	143,434	(5,038)	163,809	7,749
Thailand	83,845	(4,352)	78,320	3,865
Others	18,440	(759)	22,049	1,959
	<u>245,719</u>	<u>(10,149)</u>	<u>264,178</u>	<u>13,573</u>

10. Valuation of Investment and Property, Plant and Equipment

No valuation was conducted during the period on the Group's property, plant and equipment.

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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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 2019 are as follows:

	<u>RM'000</u>
Approved and contracted for	18,287
Approved but not contracted for	-
	<u>18,287</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. However, no such transactions arise.

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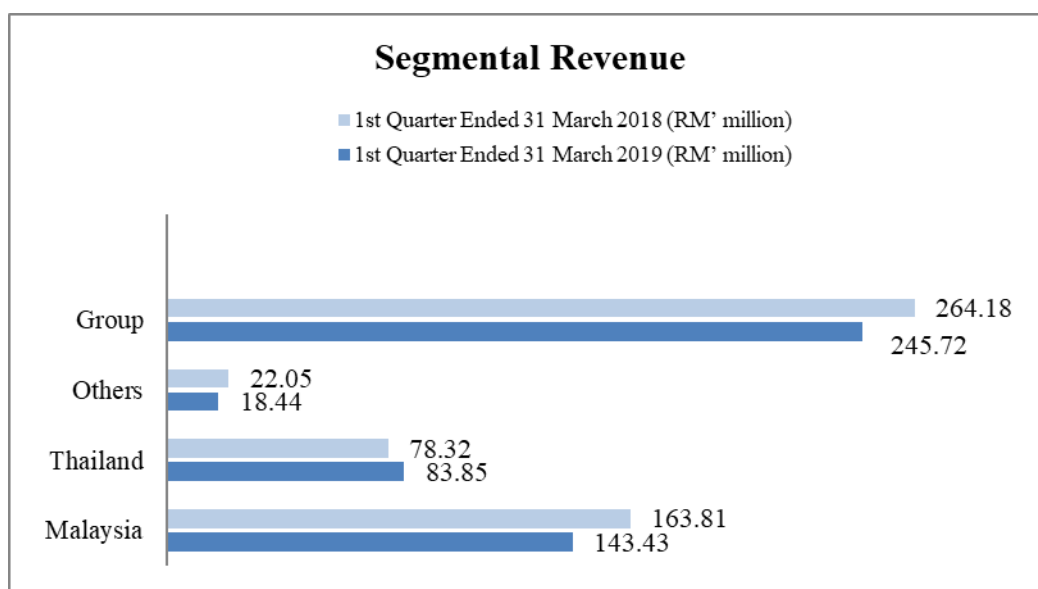
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019

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

1 *Performance Review*

	3 months ended		Changes %
	31 March 2019 <u>(RM'000)</u>	31 March 2018 <u>(RM'000)</u>	
Revenue	245,719	264,178	-7.0%
Operating Profit	31,888	56,032	-43.1%
Profit/(Loss) Before Interest and Tax	(8,348)	15,337	-154.4%
Profit/(Loss) Before Tax	(10,149)	13,573	-174.8%
Profit/(Loss) After Tax	(10,940)	7,488	-246.1%
Profit/(Loss) Attributable to Owners of the Company	(10,567)	6,769	-256.1%

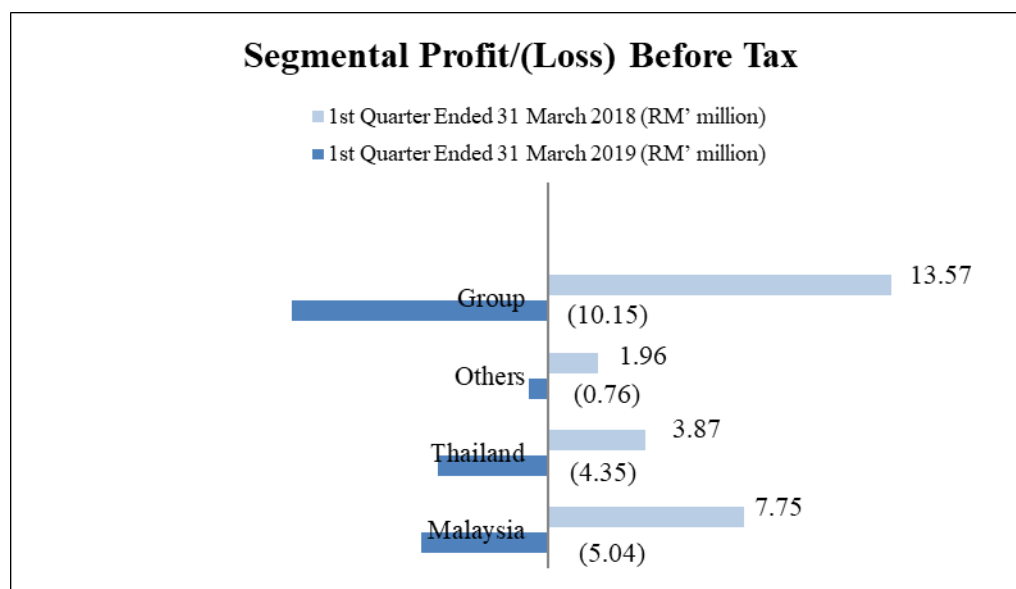
Segmental Revenue and Results – for 1st Quarter Ended 31/03/2018 vs 31/03/2019



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Malaysia segment

The Malaysia segment's revenue for the quarter ended 31 March 2019 decreased by 12.4% or RM20.38 million to RM143.43 million from RM163.81 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to the lower average selling prices and sales volume as a result of severe competition from the region.

Loss before tax was reported at RM5.04 million for the current quarter, compared to profit before tax of RM7.75 million recorded in the corresponding quarter of the preceding year. The loss was mainly resulted from lower average selling prices, higher cost of glue and lower capacity utilization.

Thailand segment

The Thailand segment's revenue for the quarter ended 31 March 2019 increased by 7.1% or RM5.53 million to RM83.85 million from RM78.32 million recorded in the preceding year corresponding quarter. Despite of lower average selling price, the increase in revenue was mainly attributable to higher sales volume in current quarter compared to preceding year corresponding quarter.

Loss before tax was reported at RM4.35 million for the current quarter, compared to a profit before tax of RM3.87 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to higher cost of raw materials couple with lower average selling prices.

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Others segment

On Others segment's revenue for the quarter ended 31 March 2019 decreased by 16.4% to RM18.44 million from RM22.05 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly caused by lower sales volume and lower average selling price.

Loss before tax was reported at RM0.76 million for the current quarter compared to profit before tax of RM1.96 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to lower sales revenue and lower capacity utilisation.

Consolidated

The Group's revenue for the quarter ended 31 March 2019 decreased by 7.0% or RM18.46 million to RM245.72 million from RM264.18 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to the lower average selling prices and sales volume as a result of severe competition from the region.

Loss before tax was reported at RM10.15 million for the current quarter, compared to profit before tax of RM13.57 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to lower margin resulted from lower average selling prices and higher operational cost which is due to lower capacity utilization.

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

	Current Quarter 31-Mar-19 <u>RM'000</u>	Immediate Preceding Quarter 31-Dec-18 <u>RM'000</u>	Changes <u>%</u>
Revenue	245,719	279,095	-12.0%
Operating Profit	31,888	38,402	-17.0%
Profit/(Loss) Before Interest and Tax	(8,348)	(6,940)	20.3%
Profit/(Loss) Before Tax	(10,149)	(8,673)	17.0%
Profit/(Loss) After Tax	(10,940)	(9,357)	16.9%
Profit/(Loss) Attributable to Owners of the Company	(10,567)	(8,016)	31.8%

The current quarter revenue decreased by 12.0% or RM33.38 million to RM245.72 million, as compared to RM279.10 million recorded in the preceding quarter. The decrease in revenue was mainly due to lower sales volumes and average selling prices.

The Group's loss before tax was reported at RM10.15 million for the current

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quarter, compared to loss before tax of RM8.67 million recorded in the preceding quarter. The loss was mainly due to lower margin resulted from lower average selling price, higher cost of raw materials and a lower other income recorded in the current quarter compared to preceding 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*

Increasing capacities from neighboring countries will make it a challenging year ahead. The Group will focus on achieving the right specification for quality, productivity and a competitive cost that gives the optimum result in terms of profit margin and operational efficiency.

5 *Tax Expense*

Major Components of tax expense

	3 months ended		3 months ended	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'0000</u>
Current tax expense	1,759	3,917	1,759	3,917
Deferred tax expense	(968)	2,168	(968)	2,168
	<u>791</u>	<u>6,085</u>	<u>791</u>	<u>6,085</u>

The effective tax rate of the Group for the current year to date is higher than the statutory rate due to current tax expenses incurred on profit-making companies.

6 *Status of Corporate Proposal Announced*

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

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7 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	As at 31 March 2019				Total and Others 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	-	52,422	-	-	52,422
Term loans	10,609	-	3,600	-	14,209
Hire purchase and finance lease payables	31	229	-	56	316
<u>Unsecured</u>					
Trade facilities	43,954	-	14,043	-	57,997
Term Loans	5,004	-	455	6,427	11,886
	<u>59,598</u>	<u>52,651</u>	<u>18,098</u>	<u>6,483</u>	<u>136,830</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	23,671	-	9,529	-	33,200
Hire purchase and finance lease payables	46	257	-	344	647
<u>Unsecured</u>					
Term Loans	8,061	-	-	38,565	46,626
	<u>31,778</u>	<u>257</u>	<u>9,529</u>	<u>38,909</u>	<u>80,473</u>
Total	<u>91,376</u>	<u>52,908</u>	<u>27,627</u>	<u>45,392</u>	<u>217,303</u>
Exchange rate RM to USD1.00		4.0800			
Exchange rate RM to THB1.00		0.1288			
Exchange rate RM to EUR1.00		4.5818			
Exchange rate RM to SGD1.00		3.0144			

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Denominated	As at 31 March 2018				
	In RM	In Baht	In USD	In Euro and Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	51,954	-	-	51,954
Term loans	8,519	-	3,786	-	12,305
Hire purchase and finance lease payables	77	249	-	-	326
<u>Unsecured</u>					
Trade facilities	14,518	-	-	-	14,518
Term Loans	5,004	-	1,152	6,664	12,820
	<u>28,118</u>	<u>52,203</u>	<u>4,938</u>	<u>6,664</u>	<u>91,923</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	34,833	-	12,021	-	46,854
Hire purchase and finance lease payables	504	495	-	-	999
<u>Unsecured</u>					
Term Loans	13,060	-	511	46,649	60,220
	<u>48,397</u>	<u>495</u>	<u>12,532</u>	<u>46,649</u>	<u>108,073</u>
Total	<u>76,515</u>	<u>52,698</u>	<u>17,470</u>	<u>53,313</u>	<u>199,996</u>
Exchange rate RM to USD1.00		3.8550			
Exchange rate RM to THB1.00		0.1237			
Exchange rate RM to EUR1.00		4.7505			
Exchange rate RM to SGD1.00		2.9445			

8 *Changes in Material Litigation*

As announced on 7 May 2019, the Board of Directors of Evergreen Fibreboard Berhad (“EFB” OR “THE COMPANY”) wishes to announce that its Indonesian Subsidiary, PT Hijau Lestari Raya Fibreboard (“ PT Hijau” or “The Subsidiary”) had on 16 April 2019 been served with a Writ of Summons and Statement of Claim filed by Pt. Hutrindo Jaya Fibreboard Manufacturing, Indonesian Legal Entity, based on Deed of Amendment No. 127 (referred to as “Plaintiff I”) and Pt. Uforin Pranjen Adhesiv Industry, Indonesian Legal Entity based on Deed of Amendment No.128 (referred as “ Plaintiff II”) against the Subsidiary and the Company.

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The Plaintiffs disputes that the Extraordinary General Meeting of Shareholders (EGMS) and the Annual General Meeting of Shareholders (AGMS) of PT. Hijau Lestari Raya Fibreboard, the Deeds to the Minutes of AGM No.6 dated November 24, 2017 and EGMS No.7 dated November 24, 2017 registered with the Ministry of Law and Human Rights of the Republic of Indonesia with No.AHU-AH.01.030203428, dated December 20, 2017, has allegedly been made against the law and is alleged to have contradicted the Articles of Association and Law No.40 of 2007 of Limited Liability Companies of which have been allegedly carried out before obtaining approval from the Board of Commissioners and shareholders (GMS) and concerning with the appointment of a director for the management composition without regard to the principle of good corporate governance. Plaintiffs is disputing:

- A) That the appointment of Mr. Zuhairi Bin Ozir in this EGMS of by PT. Hijau Lestari Raya Fibreboard citing incompetency and alleging that his appointment as Director is in conflict with the principles of Good corporate governance which may potentially cause a major loss to the Subsidiary and therefore the appointment of Mr. Zuhairi Bin Ozir in his position as Director of by PT. Hijau Lestari Raya Fibreboard for the management composition to be cancelled; and

- B) That the construction of the New Port (Jetty) owned by PT. Hijau Lestari Raya Fibreboard approved by the Shareholders in the AGMS of PT. Hijau Lestari Raya Fibreboard is allegedly to have violated the provisions contained in the Articles of Association of the Company and the statutory provisions that apply in the Republic of Indonesia.

9 ***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 2018 is as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
2018	24 May 2019	Final single tier dividend	0.48 sen /share	RM4.06 million	16 August 2019

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10 *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 2019	31 March 2018	31 March 2019	31 March 2018
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	(10,567)	6,769	(10,567)	6,769
Weighted average number of ordinary shares in issue ('000)	845,885	846,002	845,885	846,002
Basic EPS (sen)	(1.25)	0.80	(1.25)	0.80

b. **Diluted**

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