

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 June 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 30 June 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 2nd quarter ended 30 June 2019.

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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	
	2019	2018	2019	2018
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest Income	(426)	(394)	(844)	(779)
Other expense/(income) including investment income	16	(3,193)	(403)	(5,591)
Interest expense/ Finance cost	1,946	1,612	3,747	3,376
Depreciation and amortisation	19,098	18,271	37,866	35,821
(Gain)/ loss on disposal of property, plant and equipment	(344)	(466)	(345)	(11,355)
Goodwill written off	-	-	-	8,000
Foreign exchange (gain)/loss	(381)	(5,518)	(2,130)	(3,950)

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 2019		30 June 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	133,698	(3,766)	157,843	6,474
Thailand	77,156	(6,296)	115,506	7,549
Others	21,074	587	16,566	(164)
	<u>231,928</u>	<u>(9,475)</u>	<u>289,915</u>	<u>13,859</u>

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	6 months ended 30 June 2019		6 months ended 30 June 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	277,132	(8,804)	321,652	14,223
Thailand	161,001	(10,648)	193,826	11,414
Others	39,514	(172)	38,615	1,795
	<u>477,647</u>	<u>(19,624)</u>	<u>554,093</u>	<u>27,432</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.

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 2019 are as follows:

	<u>RM'000</u>
Approved and contracted for	11,101
Approved but not contracted for	-
	<u>11,101</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. However, no such transactions arise.

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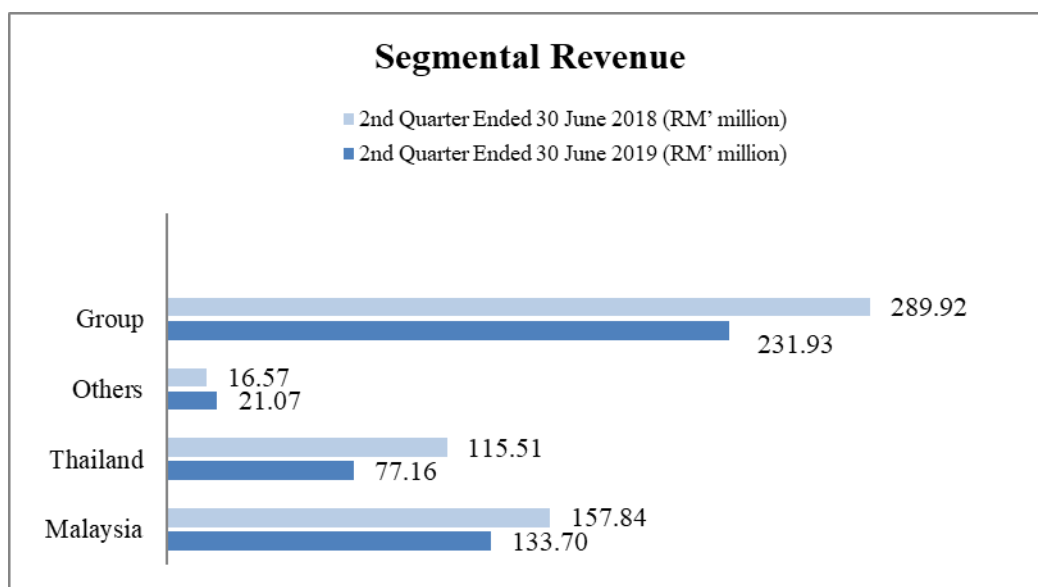
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

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

1 *Performance Review*

	3 months ended		Changes %	6 months ended		Changes %
	30 June 2019 (RM'000)	30 June 2018 (RM'000)		30 June 2019 (RM'000)	30 June 2018 (RM'000)	
Revenue	231,928	289,915	-20%	477,647	554,093	-13.8%
Operating Profit	32,059	55,691	-42.4%	63,947	111,723	-42.8%
Profit/(Loss) Before Interest and Tax	(7,529)	15,471	-148.7%	(15,877)	30,808	-151.5%
Profit/(Loss) Before Tax	(9,475)	13,859	-168.4%	(19,624)	27,432	-171.5%
Profit/(Loss) After Tax	(10,076)	12,119	-183.1%	(21,016)	19,607	-207.2%
Profit/(Loss) Attributable to Owners of the Company	(10,364)	11,959	-186.7%	(20,931)	18,728	-211.8%

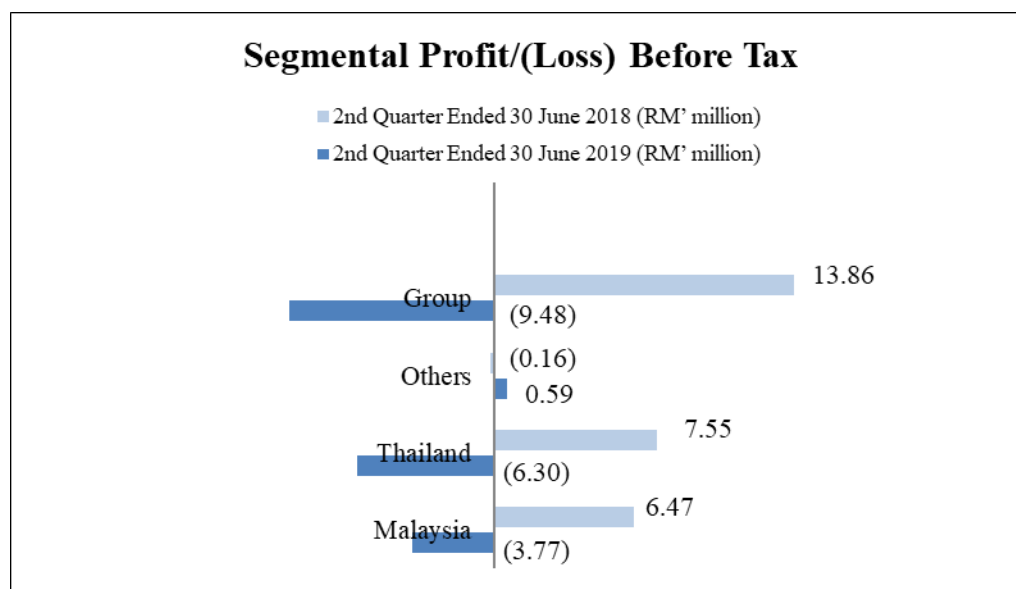
Segmental Revenue and Results – for 2nd Quarter Ended 30/06/2018 vs 30/06/2019



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Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2019 decreased by 15.3% or RM24.14 million to RM133.70 million from RM157.84 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower of sales volume as a result of severe competition from the region despite of higher average selling price as a result of strengthening of US Dollar.

Loss before tax was reported at RM3.77 million for the current quarter, compared to profit before tax of RM6.47 million recorded in the corresponding quarter of the preceding year. The loss was mainly resulted from lower sales revenue, higher operational cost due to lower sales volume couple with foreign exchange loss being recorded in the current quarter compared to foreign exchange gain of RM4.66 million being recorded in the corresponding quarter of the preceding year.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2019 decreased by 33.2% or RM38.35 million to RM77.16 million from RM115.51 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 RM6.30 million for the current quarter, compared to a profit before tax of RM7.55 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to lower margin resulted from lower average selling prices, higher cost of log couple with higher operational cost which is due to lower sales volume.

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Others segment

On Others segment's revenue for the quarter ended 30 June 2019 increased by 27.2% to RM21.07 million from RM16.57 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher sales volume despite of lower average selling price.

Profit before tax was reported at RM0.59 million for the current quarter compared to loss before tax of RM0.16 million recorded in the corresponding quarter of the preceding year. The profit before tax was mainly attributable to higher sales revenue.

Consolidated

The Group's revenue for the quarter ended 31 June 2019 decreased by 20.0% or RM57.99 million to RM231.93 million from RM289.92 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.

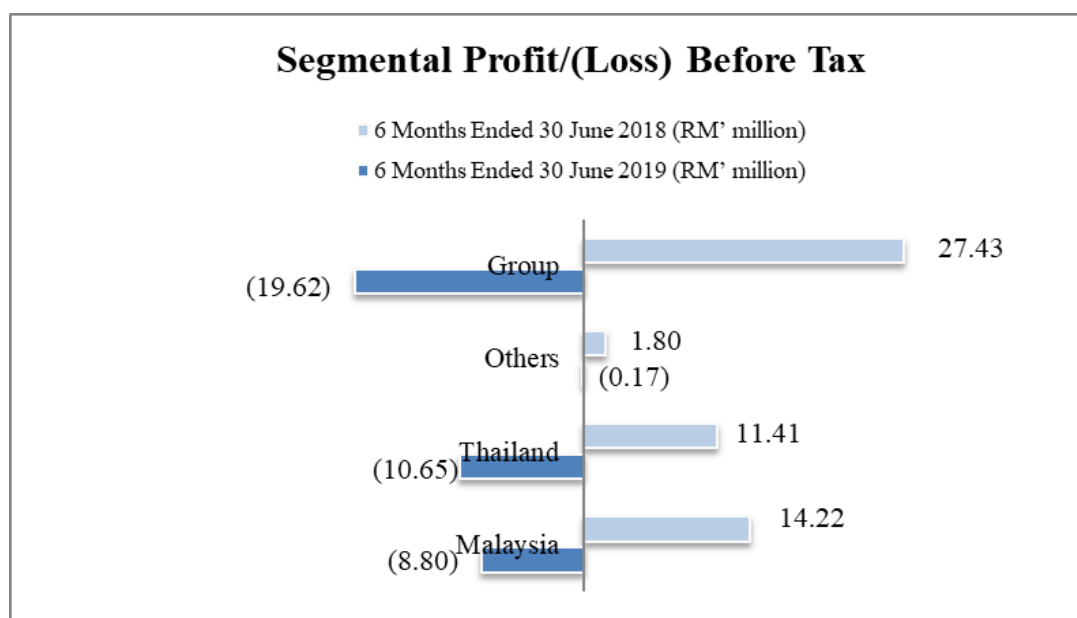
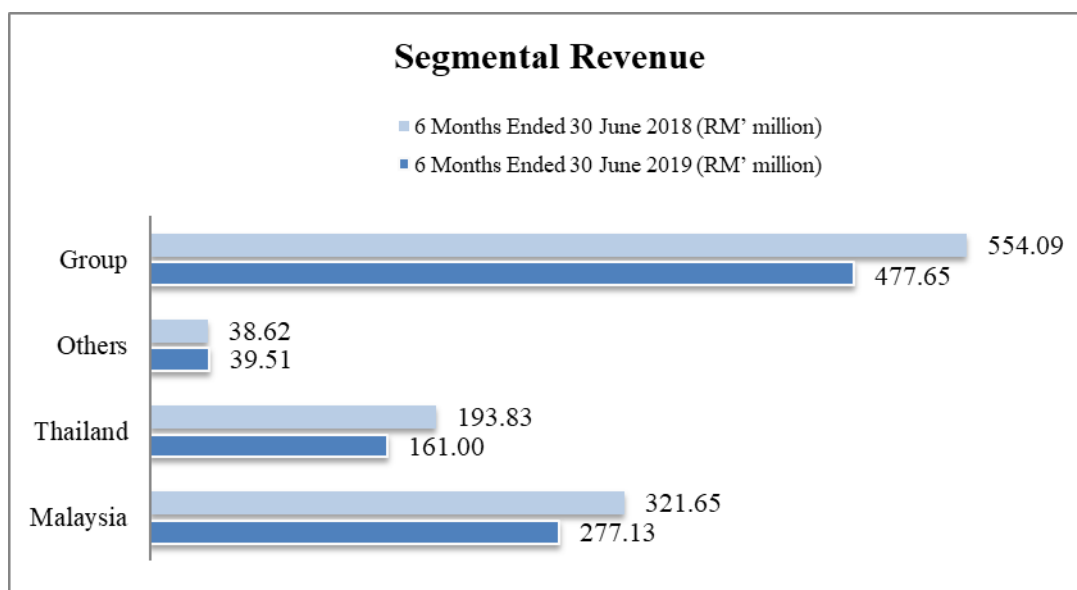
Loss before tax was reported at RM9.48 million for the current quarter, compared to profit before tax of RM13.86 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to lower margin resulted from lower average selling prices, higher of log cost, higher operational cost which is due to lower sales volume as well as foreign exchange loss being recorded in the current quarter compared to foreign exchange gain being recorded in the corresponding quarter of the preceding year.

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Segmental Revenue and Results – for 6 Months Ended 30/06/2018 vs 30/06/2019



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 13.8% to RM277.13 million, as compared to the revenue of RM321.65 million for the corresponding period last year. 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.

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Loss before tax was reported at RM8.80 million for the current year to date, as compared to a profit before tax of RM14.22 million recorded in the corresponding period last year. The loss was mainly due to lower profit margin resulted from lower average selling price, higher operational cost which is due to lower sales volume and lower foreign exchange gain being recorded in the current year to date.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM161.00 million, with a decrease of 16.9% or RM32.83 million, as compared to the revenue of RM193.83 million for the corresponding period last year. The decrease in revenue was mainly due to lower sales volume and average selling price.

For the current year to date, loss before tax was reported at RM10.65 million, as compared to a profit before tax of RM11.41 million recorded in the corresponding period last year. The loss was mainly due to lower margin resulted from lower average selling prices, higher cost of log and higher operational cost which is due to lower sales volume.

Others Segment

For the current year to date, on Other segment's revenue, has increased by 2.3% to RM39.51 million, as compared to the revenue of RM38.62 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volumes despite of lower average selling price.

Loss before tax was reported at RM0.17 million for the current year to date, as compared to a profit before tax of RM1.80 million recorded in the corresponding period last year. The loss was mainly due to lower margin resulted from lower average selling price.

Consolidated profit before tax

For the current year to date, the Group's revenue has decreased by 13.8% or RM76.44 million to RM477.65 million, as compared to RM554.09 million for the corresponding period last year. 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 RM19.62 million for the current year to date, as compared to a profit before tax of RM27.43 million recorded in the corresponding period last year. The loss was mainly due to lower margin resulted from lower average selling prices and higher operational cost which is due to lower sales volume.

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

	Current Quarter 30-Jun-19 <u>RM'000</u>	Immediate Preceding Quarter 31-Mar-19 <u>RM'000</u>	Changes %
Revenue	231,928	245,719	-5.6%
Operating Profit	32,059	31,888	0.5%
Profit/(Loss) Before Interest and Tax	(7,529)	(8,348)	-9.8%
Profit/(Loss) Before Tax	(9,475)	(10,149)	-6.6%
Profit/(Loss) After Tax	(10,076)	(10,940)	-7.9%
Profit/(Loss) Attributable to Owners of the Company	(10,364)	(10,567)	-1.9%

The current quarter revenue decreased by 5.6% or RM13.79 million to RM231.93 million, as compared to RM245.72 million recorded in the preceding quarter. The decrease in revenue was mainly due to lower sales volumes despite of higher average selling prices.

The Group's loss before tax was reported at RM9.48 million for the current quarter, compared to loss before tax of RM10.15 million recorded in the preceding quarter. The decrease in loss before tax was mainly contributed by higher average selling price.

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 panel board market remains competitive with continued additional capacities coming online in neighbouring countries. With prices being dictated by external market forces, the Group continues to focus on achieving a better product mix that can yield better margins and streamlining its cost structure without sacrificing quality through improved production process. Moving forward, the Group believes prospect will be better.

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5 Tax Expense

Major Components of tax expense

	3 months ended		6 months ended	
	30 June 2019 <u>RM'000</u>	30 June 2018 <u>RM'000</u>	30 June 2019 <u>RM'000</u>	30 June 2018 <u>RM'000</u>
Current tax expense	1,665	2,348	3,424	6,265
Deferred tax expense	(1,064)	(608)	(2,032)	1,560
	<u>601</u>	<u>1,740</u>	<u>1,392</u>	<u>7,825</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 30 June 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	-	40,405	-	-	40,405
Term loans	10,609	-	4,173	-	14,782
Hire purchase and finance lease payables	23	239	-	58	320
<u>Unsecured</u>					
Trade facilities	65,913	-	4,954	-	70,867
Term Loans	5,004	-	262	6,576	11,842
	<u>81,549</u>	<u>40,644</u>	<u>9,389</u>	<u>6,634</u>	<u>138,216</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	21,019	-	13,506	-	34,525
Hire purchase and finance lease payables	55	191	-	315	561
<u>Unsecured</u>					
Term Loans	6,811	-	-	36,169	42,980
	<u>27,885</u>	<u>191</u>	<u>13,506</u>	<u>36,484</u>	<u>78,066</u>
Total	<u>109,434</u>	<u>40,835</u>	<u>22,895</u>	<u>43,118</u>	<u>216,282</u>
Exchange rate RM to USD1.00		4.1280			
Exchange rate RM to THB1.00		0.1347			
Exchange rate RM to EUR1.00		4.6878			
Exchange rate RM to SGD1.00		3.0519			

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Denominated	As at 30 June 2018				
	In RM	In Baht	In USD	In Euro and Others	Total
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	43,873	-	-	43,873
Term loans	10,056	-	3,565	-	13,621
Hire purchase and finance lease payables	79	259	-	-	338
<u>Unsecured</u>					
Trade facilities	24,145	-	-	-	24,145
Term Loans	5,004	-	748	6,611	12,363
	<u>39,284</u>	<u>44,132</u>	<u>4,313</u>	<u>6,611</u>	<u>94,340</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	31,797	-	11,529	-	43,326
Hire purchase and finance lease payables	477	407	-	-	884
<u>Unsecured</u>					
Term Loans	11,810	-	286	42,972	55,068
	<u>44,084</u>	<u>407</u>	<u>11,815</u>	<u>42,972</u>	<u>99,278</u>
Total	<u>83,368</u>	<u>44,539</u>	<u>16,128</u>	<u>49,583</u>	<u>193,618</u>
Exchange rate RM to USD1.00		4.0400			
Exchange rate RM to THB1.00		0.1219			
Exchange rate RM to EUR1.00		4.7127			

8 *Changes in Material Litigation*

- a) As announced on 21 June 2019, the Board of Directors of EFB wishes to announce that 2 (two) of its major Subsidiaries, AllGreen Timber Products Sdn. Bhd. (“AGTP”) and Evergreen Fibreboard (JB) Sdn. Bhd. (“EJB”) had on 15 June 2019 been served with a Winding-Up Petition dated 12 June 2019 by Soon Lian Engineering Construction (“the Petitioner” or “SLEC”) via its Advocates & Solicitors.

The filing of the Winding-Up Petition against AGTP and EJB was due to the fact of an on-going dispute pertaining to claims for works / services allegedly provided by SLEC.

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EFB is disputing the amount being claimed by SLEC due to the fact that some of the claims were not supported with proper documentations as per AGTP's and EJB's policies and therefore EFB is of the view these claims are baseless and were made with the intention to defame the Group's reputation. Hence, EFB will rigorously defend its position on this case.

The amount claimed by the Petitioner is immaterial relative to the value of the assets of the subsidiary companies and will not in any way jeopardize their operations.

As announced on 16 August 2019, EFB wishes to announce that the Winding-Up Petitions on AGTP has been withdrawn by the Petitioner with no order to cost and on EJB, the Winding-Up Petition has been dismissed by the Johor Bahru High Court with no order to cost.

- b) 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 Pranjén Adhesiv Industry, Indonesian Legal Entity based on Deed of Amendment No.128 (referred as " Plaintiff II") against the Subsidiary and the Company.

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:

- I. 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
- II. 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

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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

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		6 months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	(10,364)	11,959	(20,931)	18,728
Weighted average number of ordinary shares in issue ('000)	845,802	846,002	845,802	846,002
Basic EPS (sen)	(1.23)	1.41	(2.47)	2.21

b. **Diluted**

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