

EVERGREEN FIBREBOARD BERHAD (217120 W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 31 December 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
<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 December 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 4th quarter ended 31 December 2019.

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8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended		12 months ended	
	31 December		31 December	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest Income	(337)	(513)	(1,667)	(1,692)
Other expense/(income) including investment income	556	(11,867)	(784)	(27,596)
Interest expense/ Finance cost	1,801	1,546	8,001	6,675
Depreciation and amortisation	18,611	18,971	76,040	73,431
(Gain)/ loss on disposal of property, plant and equipment	(18)	424	(380)	(10,775)
Goodwill written off	-	-	-	8,000
Foreign exchange (gain)/loss	110	(2,487)	(4,589)	(7,006)

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	
	31 December 2019		31 December 2018	
Segment	Segment Revenue	Segment Profit/(Loss) before tax	Segment Revenue	Segment Profit/(Loss) before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	138,327	(3,034)	146,203	(11,473)
Thailand	84,068	(14,870)	96,050	1,146
Others	18,412	(172)	20,668	906
	<u>240,807</u>	<u>(18,076)</u>	<u>262,921</u>	<u>(9,421)</u>

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	12 months ended 31 December 2019		12 months ended 31 December 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	557,396	(10,414)	637,289	1,819
Thailand	327,769	(32,230)	392,788	20,420
Others	82,763	355	75,466	3,516
	<u>967,928</u>	<u>(42,289)</u>	<u>1,105,543</u>	<u>25,755</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 31 December 2019 are as follows:

	<u>RM'000</u>
Approved and contracted for	3,562
Approved but not contracted for	130
	<u>3,692</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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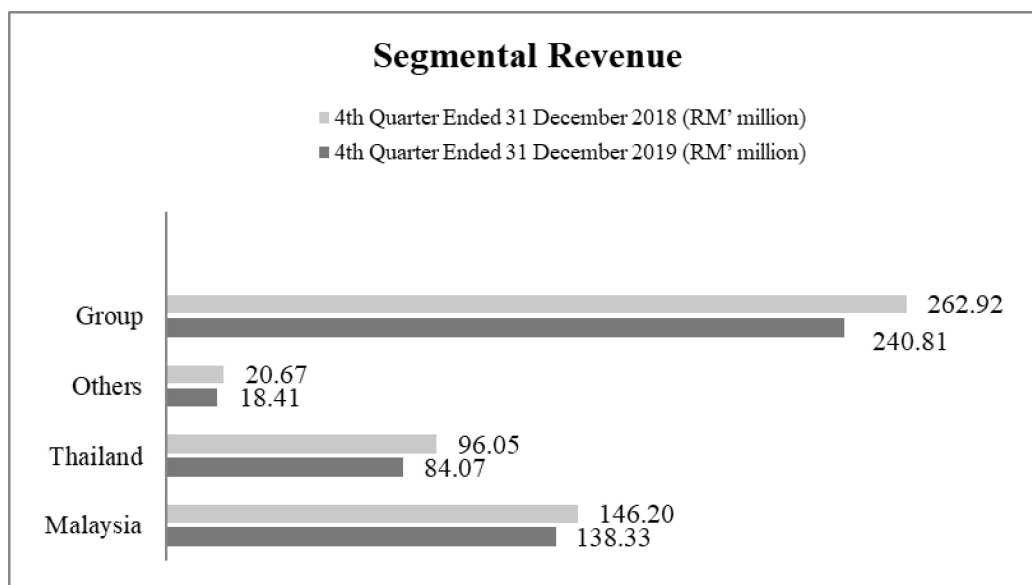
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019

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

1 *Performance Review*

	3 months ended		Changes %	12 months ended		Changes %
	31 December 2019 (RM'000)	31 December 2018 (RM'000)		31 December 2019 (RM'000)	31 December 2018 (RM'000)	
Revenue	240,807	262,921	-8.4%	967,928	1,105,543	-12.4%
Operating Profit	23,301	29,372	-20.7%	120,291	190,631	-36.9%
Profit/(Loss) Before Interest and Tax	(16,275)	(7,875)	106.7%	(34,288)	32,430	-205.7%
Profit/(Loss) Before Tax	(18,076)	(9,421)	91.9%	(42,289)	25,755	-264.2%
Profit/(Loss) After Tax	(14,481)	(9,171)	57.9%	(42,023)	16,179	-359.7%
Profit/(Loss) Attributable to Owners of the Company	(14,463)	(7,719)	87.4%	(42,061)	16,354	-357.2%

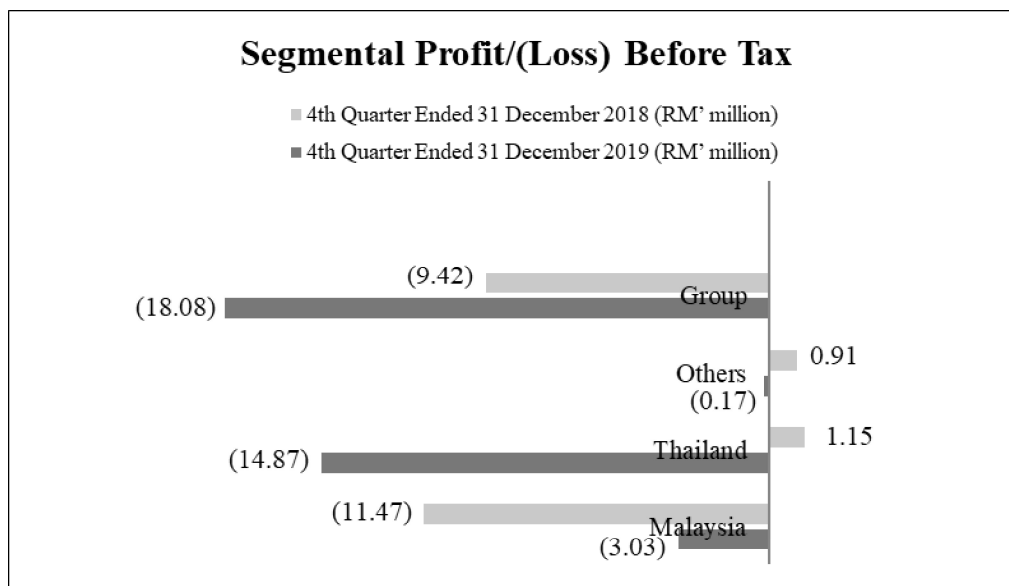
Segmental Revenue and Results – for 4th Quarter Ended 31/12/2018 vs 31/12/2019



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Malaysia segment

The Malaysia segment's revenue for the quarter ended 31 December 2019 decreased by 5.4% or RM7.87 million to RM138.33 million from RM146.2 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower sales volume and average selling price as a result of severe competition from the region. The impact was mitigated by higher revenue from downstream products.

Loss before tax for the quarter ended 31 December 2019 decreased by 73.6% to RM3.03 million from RM11.47 million recorded in the corresponding quarter of the preceding year. The decrease in loss before tax was mainly attributable by higher profit generated from Particle Board plant in Segamat and effect of operational control measure.

Thailand segment

The Thailand segment's revenue for the quarter ended 31 December 2019 decreased by 12.5% or RM11.98 million to RM84.07 million from RM96.05 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to the lower sales volume as a result of severe competition from the region.

Loss before tax was reported at RM14.87 million for the current quarter, compared to a profit before tax of RM1.15 million recorded in the corresponding quarter of the preceding year. The loss was mainly due to lower sales volume that resulted higher operational cost, higher log cost, lower foreign exchange gain being recorded in the current quarter couple with impairment on solid furniture inventories that originally targeted for China market.

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Others segment

On Others segment's revenue for the quarter ended 31 December 2019 decreased by 10.9% to RM18.41 million from RM20.67 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower sales volume.

Loss before tax was reported at RM0.17 million for the current quarter, compared to profit before tax of RM0.91 million recorded in the corresponding quarter of the preceding year. The decrease in profit before tax was mainly due to lower margin resulted from lower sales volume.

Consolidated

The Group's revenue for the quarter ended 31 December 2019 decreased by 8.4% or RM22.11 million to RM240.81 million from RM262.92 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to the lower sales volume and average selling price as a result of severe competition from the region. The impact was mitigated by higher revenue from Particle Board and downstream products.

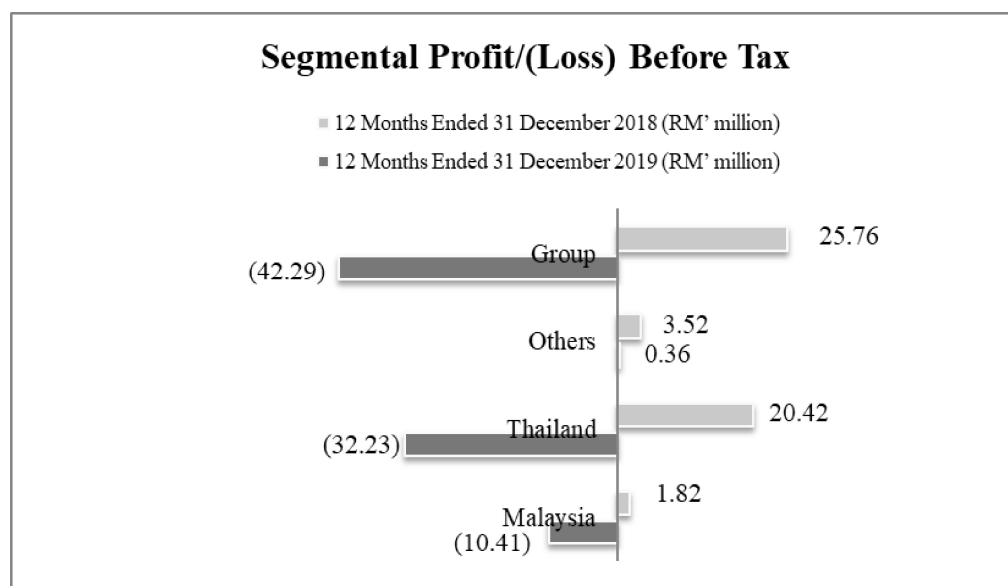
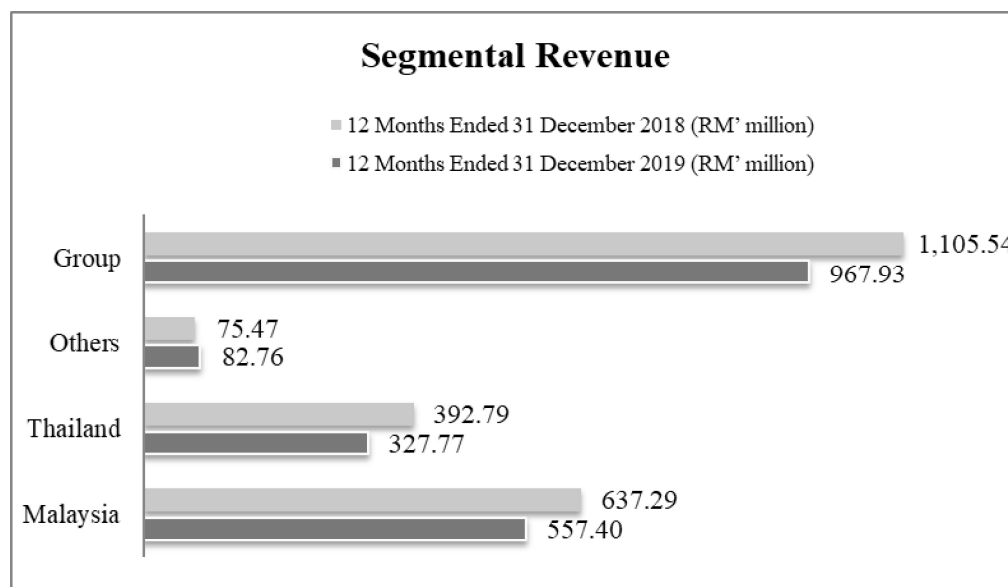
Loss before tax for the quarter ended 31 December 2019 increased by RM8.66 million to RM18.08 million from RM9.42 million recorded in the corresponding quarter of the preceding year. The increase in loss before tax was mainly from Thailand segment's operation which caused by higher operational cost, higher log cost and impairment on solid furniture inventories that originally targeted for China market.

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Segmental Revenue and Results – for 12 Months Ended 31/12/2018 vs 31/12/2019



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 12.5% to RM557.40 million, as compared to the revenue of RM637.29 million for the corresponding period last year. The decrease in revenue was mainly due to the lower sales volume and average selling prices as a result of severe competition from the region.

Loss before tax was reported at RM10.41 million for the current year to date, as compared to a profit before tax of RM1.82 million recorded in the corresponding

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period last year. The loss was mainly due to lower profit margin and higher operational cost that resulted from lower sales volume couple with 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 RM327.77 million, with a decrease of 16.6% or RM65.02 million, as compared to the revenue of RM392.79 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 RM32.23 million, as compared to a profit before tax of RM20.42 million recorded in the corresponding period last year. The loss was mainly due to lower margin resulted from lower average selling prices, higher log cost and higher operational cost which caused by lower sales volume.

Others Segment

For the current year to date, on Other segment's revenue, has increased by 9.7% to RM82.76 million, as compared to the revenue of RM75.47 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volumes despite of lower average selling price.

Profit before tax for the current year to date decreased by RM3.16 million to RM0.36 million from RM3.52 million recorded in the corresponding period of last year. The decrease in profit before tax 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 12.4% or RM137.61 million to RM967.93 million, as compared to RM1,105.54 million for the corresponding period last year. The decrease in revenue was mainly due to the lower sales volume and average selling prices as a result of severe competition from the region.

Loss before tax was reported at RM42.29 million for the current year to date, as compared to a profit before tax of RM25.76 million recorded in the corresponding period last year. The loss was mainly due to lower margin resulted from lower average selling prices, higher operational cost which is due to lower sales volume and higher log cost.

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

	Current Quarter 31-Dec-19 <u>RM'000</u>	Immediate Preceding Quarter 30-Sep-19 <u>RM'000</u>	Changes %
Revenue	240,807	249,474	-3.5%
Operating Profit	23,301	33,043	-29.5%
Profit/(Loss) Before Interest and Tax	(16,275)	(2,136)	661.9%
Profit/(Loss) Before Tax	(18,076)	(4,589)	293.9%
Profit/(Loss) After Tax	(14,481)	(6,526)	121.9%
Profit/(Loss) Attributable to Owners of the Company	(14,463)	(6,667)	116.9%

The current quarter revenue decreased by 3.5% or RM8.67 million to RM240.81 million, as compared to RM249.47 million recorded in the preceding quarter. The decrease in revenue was mainly due to lower average selling price and sales volume.

The Group's loss before tax was reported at RM18.08 million for the current quarter, compared to loss before tax of RM4.59 million recorded in the preceding quarter. The increase in loss before tax was mainly from Thailand segment's operation which caused by higher operational cost, higher log cost and impairment on solid furniture inventories that originally targeted for China market.

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*

Global growth decelerated markedly in 2019 and foresee to continue in year 2020 due to continued weakness in global trade and investment couple with the outbreak of the Covid-19. This will have impact on the Group strategy towards our solid furniture products which originally targeted for China market. The panel board market remains competitive with over capacities in Vietnam and Thailand. With these uncertain external market forces, the Group continues to focus on achieving a better product mix that can yield better margins and streamlining its cost structure.

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5 ***Tax Expense***

Major Components of tax expense

	3 months ended		12 months ended	
	31 December 2019 <u>RM'000</u>	31 December 2018 <u>RM'000</u>	31 December 2019 <u>RM'000</u>	31 December 2018 <u>RM'000</u>
Current tax expense	(1,923)	705	4,039	9,705
Deferred tax expense	(1,672)	(955)	(4,305)	(129)
	<u>(3,595)</u>	<u>(250)</u>	<u>(266)</u>	<u>9,576</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 December 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	-	42,129	-	-	42,129
Term loans	9,809	-	10,270	-	20,079
Hire purchase and finance lease payables	23	257	-	60	340
<u>Unsecured</u>					
Trade facilities	77,888	-	7,057	-	84,945
Term Loans	5,004	-	-	6,442	11,446
	<u>92,724</u>	<u>42,386</u>	<u>17,327</u>	<u>6,502</u>	<u>158,939</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	16,515	-	23,895	-	40,410
Hire purchase and finance lease payables	43	18	-	284	345
<u>Unsecured</u>					
Term Loans	4,311	-	-	32,208	36,519
	<u>20,869</u>	<u>18</u>	<u>23,895</u>	<u>32,492</u>	<u>77,274</u>
Total	<u>113,593</u>	<u>42,404</u>	<u>41,222</u>	<u>38,994</u>	<u>236,213</u>
Exchange rate RM to USD1.00		4.0930			
Exchange rate RM to THB1.00		0.1359			
Exchange rate RM to EUR1.00		4.5919			
Exchange rate RM to SGD1.00		3.0433			

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As at 31 December 2018

Denominated	In RM RM'000	In Baht RM'000	In USD RM'000	In Euro RM'000	Total RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	44,312	-	-	44,312
Term loans	10,609	-	3,649	-	14,258
Hire purchase and finance lease payables	38	296	-	56	390
<u>Unsecured</u>					
Trade facilities	41,158	-	10,133	-	51,291
Term Loans	5,004	-	644	6,648	12,296
	<u>56,809</u>	<u>44,608</u>	<u>14,426</u>	<u>6,704</u>	<u>122,547</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	26,323	-	10,573	-	36,896
Hire purchase and finance lease payables	66	258	-	344	668
<u>Unsecured</u>					
Term Loans	9,311	-	-	39,888	49,199
	<u>35,700</u>	<u>258</u>	<u>10,573</u>	<u>40,232</u>	<u>86,763</u>
Total	<u>92,509</u>	<u>44,866</u>	<u>24,999</u>	<u>46,936</u>	<u>209,310</u>
Exchange rate RM to USD1.00		4.1360			
Exchange rate RM to THB1.00		0.1277			
Exchange rate RM to EUR1.00		4.7390			

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.

EFB is disputing the amount being claimed by SLEC due to the fact that some of

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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 provisions contained in the Articles of Association of the Company and the statutory provisions that apply in the Republic of Indonesia.

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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		12 months ended	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	(14,463)	(7,719)	(42,061)	16,354
Weighted average number of ordinary shares in issue ('000)	845,802	845,884	845,802	845,884
Basic EPS (sen)	(1.71)	(0.91)	(4.97)	1.93

b. **Diluted**

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