

EVERGREEN FIBREBOARD BERHAD

Registration No.: 199101006810

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2023

A INFORMATION REQUIRED BY MFRS 134

1. Basis of Preparation

These condensed consolidated interim financial statements, for the period ended 30 June 2023, 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 2022.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2022, except for the adoption of the Amendments to Standards and Issue Committee (IC) Interpretations effective as of 1 January 2023. The initial application of the accounting standards, interpretations or amendments that are effective from 1 January 2023 do not have any material financial impacts to the current and prior financial period of the Group.

New MFRS

MFRS 17 Insurance Contracts

Amendments/Improvements to MFRSs

MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards #
MFRS 3	Business combinations #
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations #
MFRS 7	Financial Instrument: Disclosures #
MFRS 9	Financial Instruments #
MFRS 15	Revenue from Contracts with Customers #
MFRS 17	Insurance Contracts
MFRS 101	Presentation of Financial Statements # *
MFRS 107	Statement of Cash Flows #
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
MFRS 112	Income Taxes
MFRS 116	Property, Plant and Equipment #
MFRS 119	Employee Benefits #
MFRS 128	Investments in Associates and Joint Venture #
MFRS 132	Financial Instruments : Presentation #
MFRS 136	Impairment of Assets #
MFRS 137	Provision, Contingent Liabilities and Contingent Assets #
MFRS 138	Intangible Assets #
MFRS 140	Investment Property #

Amendments as to the consequences of effective of MFRS 17 Insurance Contracts

* Amendment to MFRS 101 Presentation of Financial Statements in relation to Disclosure of Accounting Policies

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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:

		Effective for financial periods <u>beginning on or after</u>
MFRS 7	Financial Instruments : Disclosures	1 January 2024
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 16	Leases	1 January 2024
MFRS 101	Presentation of Financial Statements	1 January 2024
MFRS 107	Statement of Cash Flows	1 January 2024
MFRS 128	Investments in Associates and Joint Ventures	Deferred

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 2022 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.

5. *Changes in Estimates*

There are no other changes in estimates that has material effect in the current quarter results.

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6. Debt and Equity Securities

There was 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 2023 was 1,757,200 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 2023.

8. Loss/(Profit) before tax

Included in the loss/(profit) before tax are the following items:

	3 months ended		6 months ended	
	30 June		30 June	
	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000
Interest Income	(274)	(204)	(887)	(441)
Other (income)/loss including investment income	(530)	(992)	(1,065)	(1,649)
Interest expense	1,150	1,214	2,549	2,429
Depreciation and amortisation	16,245	17,939	32,376	35,738
Provision for & write off of receivables	-	60	60	120
(Gain)/loss on disposal of property, plant and equipment	(7)	(1,315)	(7)	(1,337)
Impairment of assets	-	1,000	-	2,000
Foreign exchange (income)/loss	(1,926)	(1,916)	(2,907)	(3,706)

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9. ***Segmental Information***

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

Segmental Revenue and Results

	3 months ended 30 June 2023		3 months ended 30 June 2022	
	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	77,611	(10,943)	140,241	873
Thailand	129,122	13,009	159,738	19,866
Others	28,413	2,612	30,132	2,388
	<u>235,146</u>	<u>4,678</u>	<u>330,111</u>	<u>23,127</u>

	6 months ended 30 June 2023		6 months ended 30 June 2022	
	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	132,231	(27,189)	269,528	(217)
Thailand	219,568	7,358	327,062	40,124
Others	53,977	4,770	52,846	5,297
	<u>405,776</u>	<u>(15,061)</u>	<u>649,436</u>	<u>45,204</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 requires 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.

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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 2023 are as follows:

	<u>RM'000</u>
Approved and contracted for	46,336
Approved but not contracted for	<u>32,575</u>
	<u>78,911</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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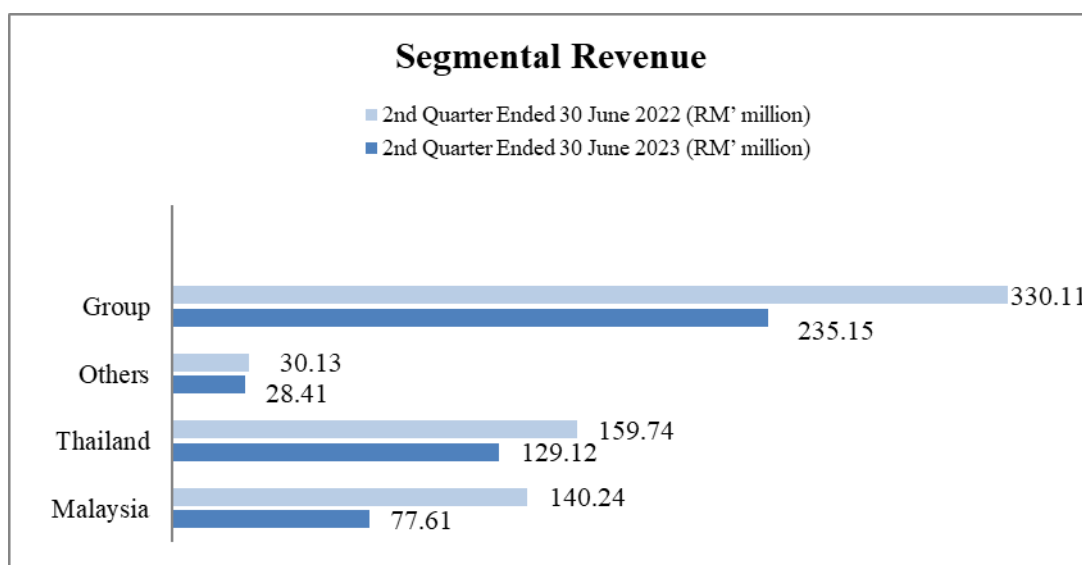
EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2023

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 2023 (RM'000)	30 June 2022 (RM'000)		30 June 2023 (RM'000)	30 June 2022 (RM'000)	
Revenue	235,146	330,111	-28.8%	405,776	649,436	-37.5%
Operating Profit	43,616	89,654	-51.4%	52,745	169,005	-68.8%
Profit/(Loss) Before Interest and Tax	5,829	24,341	-76.1%	(12,512)	47,633	-126.3%
Profit/(Loss) Before Tax	4,678	23,127	-79.8%	(15,061)	45,204	-133.3%
Profit/(Loss) After Tax	4,808	18,339	-73.8%	(14,771)	35,867	-141.2%
Profit/(Loss) Attributable to Owners of the Company	4,808	18,339	-73.8%	(14,771)	35,867	-141.2%

Segmental Revenue and Results – for 2nd Quarter Ended 30/6/2022 vs 30/6/2023

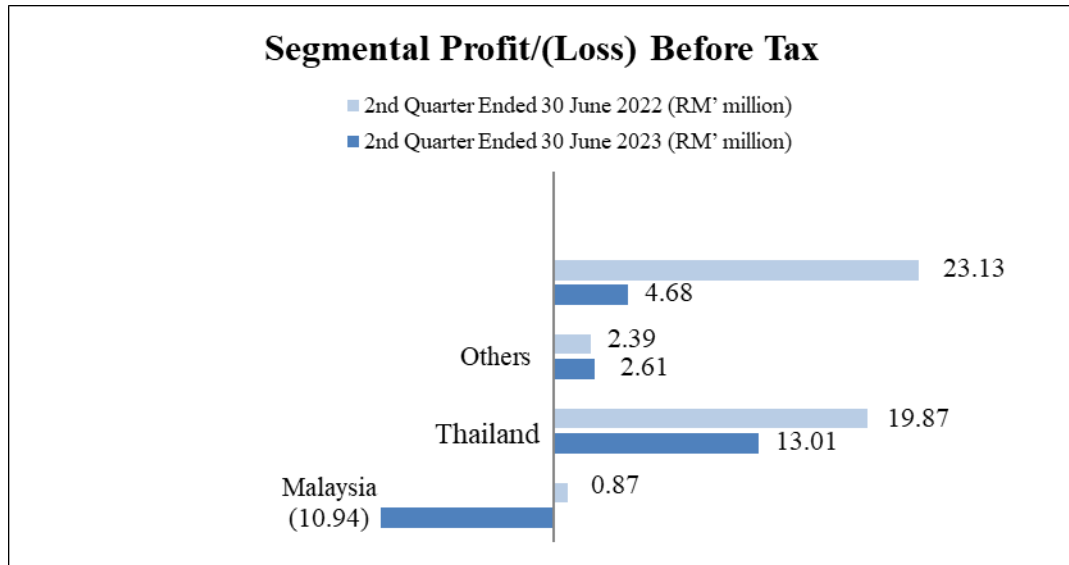


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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2023



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2023 decreased by 44.7% or RM62.63 million to RM77.61 million from RM140.24 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly due to lower sales volume especially from panel boards as one of the production line was idled in preparation of being relocated to the Indonesian operation. Sales volume was lower due to continued soft furniture demand from the USA and Europe regions caused by high interest rates limiting consumer spending. This impacts both RTA and panel board segments.

Loss before tax was reported at RM10.94 million for the quarter ended 30 June 2023 as compared to profit before tax of RM0.87 million recorded in the corresponding quarter of the preceding year. The loss before tax was due to lower sales margin, higher operational cost as a result of hike in electricity surcharge, higher minimum wage and lower productivity from idling cost.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2023 decreased by 19.2% or RM30.62 million to RM129.12 million from RM159.74 million recorded in the preceding year corresponding quarter. The decrease in revenue was due to lower average selling price as a result from soft furniture demand from the USA and Europe regions caused by high interest rates limiting consumer spending.

Profit before tax for the quarter ended 30 June 2023 decreased by RM6.86 million to RM13.01 million from RM19.87 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due lower sales margin and lower foreign exchange gain recorded in the current quarter.

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Others segment

The Others segment's revenue for the quarter ended 30 June 2023 decreased by 5.7% or RM1.72 million to RM28.41 million from RM30.13 million recorded in the preceding year corresponding quarter. The decrease in revenue was due to lower average selling price caused by softer market demand.

Profit before tax for the quarter ended 30 June 2023 increased by RM0.22 million to RM2.61 million from RM2.39 million recorded in the corresponding quarter of the preceding year. The increase in profit was mainly due to lower material cost and higher foreign exchange gain recorded in the current quarter.

Consolidated

The Group's revenue for the quarter ended 30 June 2023 decreased by 28.8% or RM94.96 million to RM235.15 million from RM330.11 million recorded in the preceding year corresponding quarter. The decrease in revenue was mainly resulted from lower sales volume and average selling price. Sales volume was lower due to continued soft furniture demand from the USA and Europe regions caused by high interest rates limiting consumer spending. This impacts both RTA and panel board segments.

Profit before tax for the quarter ended 30 June 2023 decreased by RM18.45 million to RM4.68 million from RM23.13 million recorded in the corresponding quarter of the preceding year. The decrease in profit was mainly due to lower revenue and higher operational cost as a result of hike in electricity surcharge and higher minimum wage recorded in the current quarter.

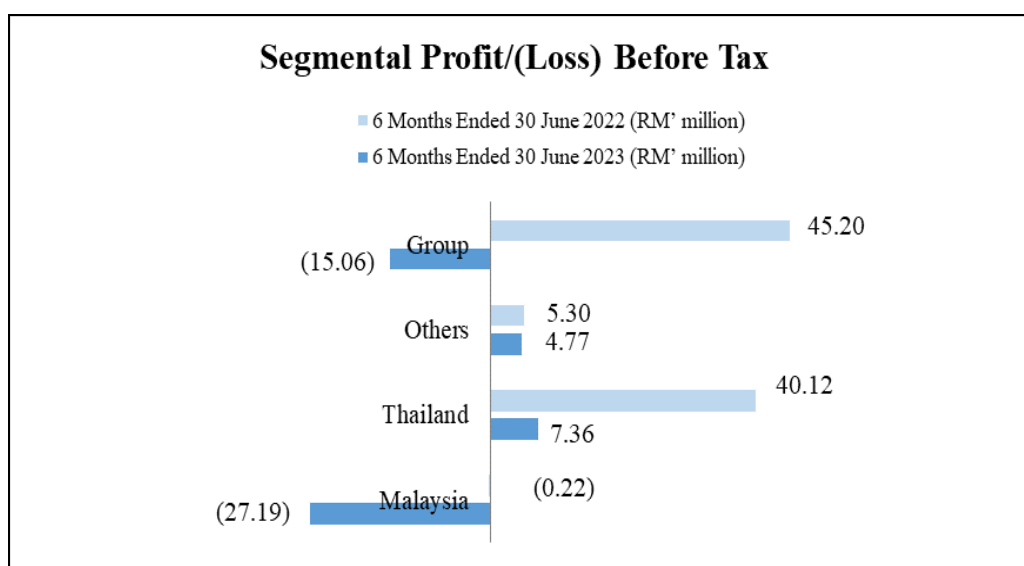
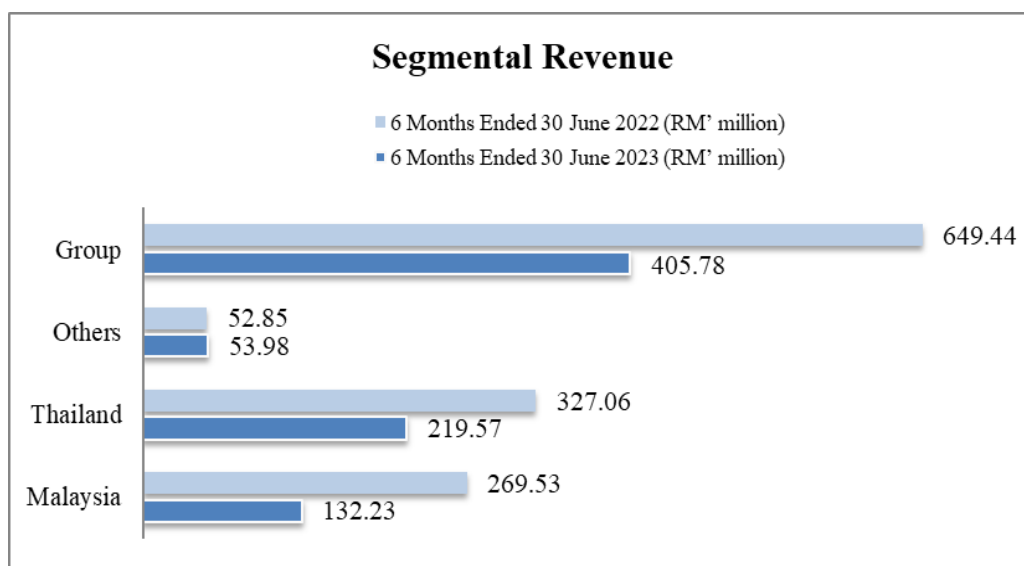
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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2023

Segmental Revenue and Results – for 6 Months Ended 30/06/2022 vs 30/06/2023



Malaysia segment

For the current year to date, the Malaysia segment's revenue has decreased by 50.9% to RM132.23 million, as compared to the revenue of RM269.53 million for the corresponding period last year. The decrease in revenue was mainly due to lower sales volume especially from panel boards as one of the production line was idled in preparation of being relocated to the Indonesian operation. Sales volume was lower due to continued soft furniture demand from the USA and Europe regions caused by high interest rates limiting consumer spending. This impacts both RTA and panel board segments.

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Loss before tax was reported at RM27.19 million for the current year to date, as compared to a loss before tax of RM0.22 million recorded in the corresponding period last year. The increase in loss before tax was due to lower sales margin, higher operational cost as a result of hike in electricity surcharge, higher minimum wage and foreign exchange loss being recorded in current year to date.

Thailand segment

For the current year to date, the Thailand segment's revenue was RM219.57 million, with a decrease of 32.9% or RM107.49 million, as compared to the revenue of RM327.06 million for the corresponding period last year. The decrease in revenue was due to lower sales volume and average selling price as a result from continued soft furniture demand from the USA and Europe regions caused by high interest rates limiting consumer spending.

For the current year to date, profit before tax was reported at RM7.36 million, as compared to a profit before tax of RM40.12 million recorded in the corresponding period last year. The decrease in profit was mainly due lower sales margin, higher operational cost and lower foreign exchange gain in the current year to date.

Others Segment

For the current year to date, on Other segment's revenue, has increased by 2.1% to RM53.98 million, as compared to the revenue of RM52.85 million for the corresponding period last year. The increase in revenue was mainly attributable to higher sales volume despite lower average selling price.

For the current year to date, profit before tax stood at RM4.77 million, which is comparable to the profit before tax of RM5.3 million recorded in the corresponding period last year.

Consolidated profit before tax

For the current year to date, the Group's revenue has decreased by 37.5% or RM243.66 million to RM405.78 million, as compared to RM649.44 million for the corresponding period last year. The decrease in revenue was mainly resulted from lower sales volume and average selling price. Sales volume was lower due to continued soft furniture demand from the USA and Europe regions caused by high interest rates limiting consumer spending. This impacts both RTA and panel board segments.

Loss before tax was reported at RM15.06 million for the current year to date, as compared to a profit before tax of RM45.20 million recorded in the corresponding period last year. The decrease in profit was mainly due to lower sales volume and higher operational cost as a result of hike in electricity surcharge and higher minimum wage recorded in the current year to date.

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Comment on Material Change in Profit Before Taxation Against Preceding Quarter

	Current Quarter 30-Jun-23 <u>RM'000</u>	Immediate Preceding Quarter 31-Mar-23 <u>RM'000</u>	Changes %
Revenue	235,146	170,630	37.8%
Operating Profit	43,616	9,129	377.8%
Profit/(Loss) Before Interest and Tax	5,829	(18,341)	131.8%
Profit/(Loss) Before Tax	4,678	(19,739)	123.7%
Profit/(Loss) After Tax	4,808	(19,579)	124.6%
Profit/(Loss) Attributable to Owners of the Company	4,808	(19,579)	124.6%

The current quarter revenue increased by 37.8% to RM235.15 million, as compared to RM170.63 million recorded in the preceding quarter. The increase in revenue was mainly resulted from higher sales volume and average selling price from panel boards as well as downstream products.

The Group's profit before tax was reported at RM4.68 million for the current quarter, compared to loss before tax of RM19.74 million recorded in the preceding quarter. The profit before tax was mainly contributed from higher sales margin, lower raw material cost and operational cost.

2 *Profit Forecast or Profit Guarantee*

Not applicable as the Group did not issue any Profit Forecast or Profit Guarantee.

3 *Commentary of Prospects*

Whilst central banks try to contain inflation by hiking interest rate while at the same trying to avoid a recession, the war in Ukraine looks set to continue. As a result, furniture demand from the USA and European regions remained underwhelming. In Malaysia, the significant hike in cost of electricity has placed additional burdens on industries which were already negatively impacted from changes in the Employment Act. The government has announced that the green electricity tariff will see a five-fold hike in August 2023. On a brighter note, MDF demand in the Middle East region has improved, which helped the Group to be profitable in the current quarter.

Signs of improvement in sales persist in the third quarter while operating condition remains challenging especially in Malaysia as explained above. Whether such improvements are sustainable depends on the resolution of the various challenges mentioned above and the return of consumer confidence.

The Group continues to restructure in order to mitigate and overcome the challenges from external and macro-economic factors. The relocation of the panel board line from Malaysia to Indonesia is ongoing. Management remains cautious and will maintain a healthy cash balance to ensure sufficient liquidity.

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4 ***Tax Expense***

Major Components of tax expense

	3 months ended		6 months ended	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense	972	6,698	1,659	12,042
Deferred tax expense	(1,102)	(1,910)	(1,949)	(2,705)
	<u>(130)</u>	<u>4,788</u>	<u>(290)</u>	<u>9,337</u>

The effective tax rate for the current quarter was higher than the statutory tax rate mainly due to the tax expense is mainly from profitable companies and certain expenses are not deductible for tax purpose.

5 ***Status of Corporate Proposal Announced***

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

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6 ***Borrowings and Debt Securities***

The Group's borrowings are as follows: -

Denominated	As at 30 June 2023				
	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	928	-	-	-	928
Term loans	7,858	-	6,534	-	14,392
Lease liabilities	63	-	-	70	133
<u>Unsecured</u>					
Trade facilities	93,492	-	6,577	-	100,069
Term Loans	-	-	-	7,134	7,134
Lease liabilities	900	-	-	-	900
	<u>103,241</u>	<u>-</u>	<u>13,111</u>	<u>7,204</u>	<u>123,556</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	990	-	5,323	-	6,313
Lease liabilities	68	-	-	49	117
<u>Unsecured</u>					
Term Loans	-	-	-	10,701	10,701
Lease liabilities	1,444	-	-	-	1,444
	<u>2,502</u>	<u>-</u>	<u>5,323</u>	<u>10,750</u>	<u>18,575</u>
Total	<u>105,743</u>	<u>-</u>	<u>18,434</u>	<u>17,954</u>	<u>142,131</u>

Exchange rate RM to USD1.00	4.6645
Exchange rate RM to THB1.00	0.1321
Exchange rate RM to EUR1.00	5.0852
Exchange rate RM to SGD1.00	3.4468

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As at 30 June 2022

Denominated	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	-	37,380	-	-	37,380
Term loans	4,609	-	9,713	-	14,322
Lease liabilities	20	-	-	81	101
<u>Unsecured</u>					
Trade facilities	88,845	-	5,728	-	94,573
Term Loans	2,000	-	-	6,427	8,427
Lease liabilities	1,014	-	-	-	1,014
	<u>96,488</u>	<u>37,380</u>	<u>15,441</u>	<u>6,508</u>	<u>155,817</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	8,165	-	11,200	-	19,365
Lease liabilities	-	-	-	108	108
<u>Unsecured</u>					
Term Loans	-	-	-	16,182	16,182
Lease liabilities	959	-	-	-	959
	<u>9,124</u>	<u>-</u>	<u>11,200</u>	<u>16,290</u>	<u>36,614</u>
Total	<u>105,612</u>	<u>37,380</u>	<u>26,641</u>	<u>22,798</u>	<u>192,431</u>

Exchange rate RM to USD1.00	4.4060
Exchange rate RM to THB1.00	0.1246
Exchange rate RM to EUR1.00	4.6140
Exchange rate RM to SGD1.00	3.1684

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7 *Changes in Material Litigation*

There was no material litigation pending as at 18 August 2023.

8 *Dividend Payable*

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

9 *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 2023	30 June 2022	30 June 2023	30 June 2022
Net profit/(loss) for the period attributable to owners of the Parent (RM'000)	4,808	18,339	(14,771)	35,867
Weighted average number of ordinary shares in issue ('000)	844,667	845,439	844,667	845,439
Basic EPS (sen)	0.57	2.17	(1.75)	4.24

b. Diluted

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