# EVERGREEN FIBREBOARD BERHAD (217120W)
(Incorporated in Malaysia)

***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31st DECEMBER 2010***

## A INFORMATION REQUIRED BY FRS 134

### 1. *Basis of Preparation*

The unaudited interim financial statements are prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 and Part A of Appendix 9B of the Bursa Malaysia Securities Berhad Listing Requirements.

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2009.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2009, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2010. On 1 January 2010, the Group adopted the following FRSs:-

a) FRS 101 : Presentation of Financial Statements

Prior to the adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and notes to the financial statements. With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes to the financial statements.

b) FRS 139 : Financial Instruments: Recognition and Measurement

The adoption of FRS 139 has resulted in changes to the accounting policies relating to recognition and measurement of financial instruments. A financial instrument is recognised in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is recognized initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

i) Forward foreign currency exchange contracts

Prior to the adoption of FRS 139, derivative contracts are off balance sheet items and gains and losses were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now required to be initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value at each balance sheet date. In accordance with the requirement of this standard, the Group has designated derivative contracts as cash flow hedges or being accounted for as fair value through profit and loss. Changes in the fair values of the derivative instruments designated as cash flow hedges is included in other comprehensive income, to the extent that the hedges are effective. As for the fair value changes in derivative contracts designated as fair value through profit and loss is included in the income statement. As allowed under the transitional provisions of FRS 139, the Group has not applied the standard retrospectively.

ii) Marketable securities

Prior to the adoption of FRS 139, investment in equity securities, other than investments in subsidiaries and associates were stated at cost less allowance for diminution in value which is other than temporary. With the adoption of FRS 139, quoted investments in noncurrent equity securities, other than investments in subsidiaries and associates are now categorised and measured as fair value through profit or loss.

iii)Borrowings

Prior to the adoption of FRS 139, transaction costs attributable to borrowings were expensed off as incurred. With the adoption of FRS 139, borrowings are now recognised initially at fair value, plus directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. As allowed under the transitional provisions of FRS 139, the Group has not applied the standard retrospectively.

c) FRS 117 Leases

Prior to the adoption of the Amendment to FRS 117, leasehold lands were treated as operating leases. The considerations paid were classified and presented as prepaid lease payments in the statement of financial position. With the adoption of the Amendment to FRS 117, the classification of a leasehold land as a finance lease or an operating lease is based on the extent to which risks and rewards incident to ownership lie. The Group has concluded to remain the existing leasehold land as operating lease.

d) FRS 8 Operating Segments

FRS 8 requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. As the Group’s chief operating decision maker, the Group’s Board of Directors, relies on internal reports that are similar to those currently disclosed externally, no further segmental information disclosures will be necessary.

The new FRSs and Interpretations above are expected to have no significant impact on 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 2009 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 were no other changes in estimates that have had a material effect in the current quarter results.

6. ***Debt and Equity Securities***

During the financial quarter ended 31 December 2010, there was no issuance, cancellation, share buy-back, resale of shares bought back and repayment of debt and equity security by the Group.

7. ***Dividends Paid***

A final tax-exempt dividend of 16% or 4 sen per share in respect of the financial year ended 31 December 2009 amounting to RM20,520,000 was declared on 17 May 2010 and paid on 16 August 2010.

A tax-exempt interim dividend of 8% or 2 sen per share in respect of the financial year ending 31 December 2010 amounting to RM10,260,000 was declared on 17 May 2010 and paid on 29 June 2010.

A tax-exempt interim dividend of 8% or 2 sen per share in respect of the financial year ending 31 December 2010 amounting to RM10,260,000 was declared on 16 August 2010 and paid on 15 November 2010.

A tax-exempt interim dividend of 6% or 1.50 sen per share in respect of the financial year ending 31 December 2010 amounting to RM7,695,000 was declared on 19 November 2010 and paid on 18 February 2011.

8. ***Segmental Information***

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

Segmental Revenue and Results

| | 12 months ended 31 December 2010 | | 12 months ended 31 December 2009 | |
|---|---|---|---|---|
| | Segment Revenue RM'000 | Segment Results RM'000 | Segment Revenue RM'000 | Segment Results RM'000 |
| Malaysia | 593,459 | 99,526 | 502,843 | 67,234 |
| Thailand | 349,357 | 24,144 | 258,620 | 22,532 |
| Others | 8,370 | (8,519) | 10,051 | (9,014) |
| | 951,186 | 115,151 | 771,514 | 80,752 |

9. ***Carrying Amount of Revalued Assets***

The valuations of property, plant and equipment have been brought forward without amendment from the audited financial statements for the year ended 31 December 2009.

10. ***Subsequent Events***

In the opinion of the Directors, no material events have arisen subsequent to the Balance Sheet date that require disclosure or adjustment to the unaudited condensed interim financial statements.

11. ***Changes in Composition of the Group***

On 27 September 2010, Evergreen Fibreboard Berhad ("EFB") announced to accept the offer to acquire Evergreen Timber Products Pte Ltd's ("ETP") shareholding of 250,800 ordinary shares of RM1.00 each representing 41.80% in the capital of Dawa Timber Industries(M) Sdn Bhd ("DTI") at a total consideration of RM6,270,000. With this acquisition, EFB shall hold 86.47% in DTI and DTI will become a subsidiary of EFB. The acquisition is completed on 30 November 2010.

On 3 January 2011, Evergreen Fibreboard Berhad ("EFB") announced the acquisition of 2,500,000 ordinary shares of RM1.00 each representing 100% paid up capital of Evergreen Adhesive & Chemicals (Gurun) Sdn. Bhd. ("EACG") for a cash consideration of RM2,500,000.00. The principal activity of EACSB is to manufacture adhesive and glue resin. The acquisition is completed on 9 February 2011.

The investments stated above are for the expansion of the EFB Group and do not have any immediate material effect on the earnings and net assets of the EFB Group in the near future.

12. ***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.

13. ***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 2010 is as follows:

| | RM'000 |
|---|---|
| Approved and contracted for | 1,178 |
| Approved but not contracted for | 10,114 |
| | 11,292 |

14. ***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.

## B <u>ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD</u>

### 1 *Performance Review*

The Group's revenue for the quarter ended 31 December 2010 increased by 8.0% to RM242.14 million from RM224.15 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to higher average selling price and higher sales volume.

Despite the higher revenue, profit before tax has declined to RM14.16 million for the current quarter from RM34.52 million recorded in the corresponding quarter of the preceding year. The decline in profit was mainly due to the hike in log cost triggered by the prolonged rainy season and high latex prices, increase in glue cost and the impact of the weakening US dollar. In addition, floods in Thailand had caused temporary shutdown in Thailand plant and disrupted its operation as logistic and wood supply was affected.

For the financial year ended 31 December 2010 (FY2010), the Group's revenue increased by 23.3% or RM 179.68 million to RM951.19 million as compared to the revenue of RM771.51 million for the financial year ended 31 December 2009 (FY2009). As a result, the Group recorded a profit before tax of RM115.15 million, an increase of 42.6% or RM34.40 million over the FY2009. The strong recovery in the group's revenue and profit was contributed by higher sales volume and selling price as demand recovered following the financial crisis and higher capacity utilization rate through effective management control.

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

| | Current Quarter Ended 31 December 2010 RM'000 | Immediate Preceding Quarter Ended 30 September 2010 RM'000 |
|---|---:|---:|
| Revenue | 242,138 | 228,894 |
| Profit Before Tax | 14,160 | 23,018 |
| Net profit for the period | 15,660 | 19,520 |

The current quarter revenue increased by 5.8% to RM242.14 million as compared to the preceding quarter mainly contributed by higher sales volume. However, the average selling price was marginally lower due to the impact of weaker US dollar which ultimately affected the profit margin. The decline in profit was also impacted by higher glue prices as a result of reduced supply of methanol (glue's main raw material), while log prices was affected by prolong rainy season and high latex prices.

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***

Going forward, the Group is expecting the MDF prices especially in the second half year, to be raised in line with the expected stronger demand which is able to cover the impact of weaken USD as well as higher raw materials cost.

Given the Group's continual efforts to further improve operational efficiency and effective control over its costs, the Board is optimistic of achieving satisfactory results in near future.

5 ***Taxation***

Major Components of tax expenses

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| | 31 December 2010 RM'000 | 31 December 2009 RM'000 | 31 December 2010 RM'000 | 31 December 2009 RM'000 |
| Current tax expenses | 699 | 3,023 | 7,868 | 5,398 |
| Deferred tax expenses | (2,199) | (6,385) | 4,165 | (5,639) |
| | (1,500) | (3,362) | 12,033 | (241) |

The effective tax rate of the Group for the current quarter is lower than the statutory rate mainly due to the tax-exempt status granted to most of the operating companies in the Group.

6 ***Realised and Unrealised Profits/Losses Disclosure***

| | As at 31 December 2010 RM'000 |
|---|---|
| Total retained profits of the Company and its subsidiaries: | |
| - Realised | 546,024 |
| - Unrealised | (8,566) |
| | 537,458 |

| | |
|---|---|
| Total share of retained profits from associated company: | |
| - Realised | 6,401 |
| - Unrealised | - |
| | 543,859 |
| Less: Consolidation adjustments | (27,907) |
| Total group retained profits as per consolidated accounts | 515,952 |

7 ***Unquoted Investment and/or Properties***

There was no disposal of unquoted investments and/or properties in the quarter ended 31 December 2010.

8 ***Quoted Securities***

Details of investment in quoted and marketable securities held by the Group were as follows:

| Movement during | 12 months ended 31 December 2010 RM Million |
|---|---|
| Total Purchases of securities | 7.5 |
| Sale of securities | 10.0 |
| Profit/ (Loss) | 0.1 |

| Balances | As at 31 December 2010 RM Million |
|---|---|
| At cost | 0.4 |
| At carry value | 0.4 |
| At market value | 0.4 |

This investment is short term and low risk and the income derived is tax- exempt.

9 ***Status of Corporate Proposal Announced***

a. The Public Issue of 93,660,000 new ordinary shares of RM0.25 each in the Company at an issue price of RM1.14 had all been fully subscribed on its closing date on 25 February 2005 and the entire share capital of the Company of 480,000,000 ordinary shares were listed on the Main Board of Bursa Malaysia Securities Berhad on 10 March 2005. The Company raised RM106,772,400.00 from the public issue and the utilization of proceeds as at 14 February 2011 (the latest practicable date not earlier than seven (7) days from the date of issue of this report) is as follows:-

| | Proposed Utilization RM'000 | Utilization as at 14 February 2011 RM'000 | Balance RM'000 |
|---|---|---|---|
| Repayment of revolving credit and term loan | 32,000 | 32,000 | Nil |
| Purchase of property and equipment | 9,000 | 8,872 | 128 |
| Listing Expenses | 5,208 | 5,208 | Nil |
| Group working capital | 60,564 | 60,564 | Nil |
| | 106,772 | 106,644 | 128 |

10 ***Borrowings and Debt Securities***

The Group's borrowings are as follows: -

| | As at 31 December 2010 | | | | |
|---|---|---|---|---|---|
| Denominated | In RM | In Baht | In USD | Others | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Short Term Borrowings:** | | | | | |
| Secured | | | | | |
| Trade facilities | - | - | - | - | - |
| Term loans | - | 38,005 | - | - | 38,005 |
| Hire purchase and finance lease payables | 256 | 459 | - | 56 | 771 |
| Unsecured | | | | | |
| Trade facilities | - | - | - | - | - |
| Term Loans | 69,750 | - | 18,105 | - | 87,855 |
| | 70,006 | 38,464 | 18,105 | 56 | 126,631 |
| **Long Term Borrowings:** | | | | | |
| Secured | | | | | |
| Term loans | - | 81,904 | - | - | 81,904 |
| Hire purchase and finance lease payables | 157 | 286 | - | 242 | 685 |
| Unsecured | | | | | |
| Term Loans | 116,043 | - | 37,818 | - | 153,861 |
| | 116,200 | 82,190 | 37,818 | 242 | 236,450 |
| Total | 186,206 | 120,654 | 55,923 | 298 | 363,081 |

## 10 *Financial Instruments*

As at the 31 December 2010, the Group has the following outstanding derivative financial instruments: -

| | Notional Contract Amount (RM'000) | Fair value - Net Gains/ (Losses) (RM'000) |
|---|---|---|
| 1. Forward contract - US Dollar | | |
| - Less than 1 year | 62,684 | (114) |
| - 1 to 3 years | 6,539 | 272 |
| | | |
| 2. Cross currency interest rate Swap | 13,500 | |
| • Interest Rate Swap | | |
| - Less than 1 year | *6,000 | (14) |
| - 1 to 3 years | *7,500 | (17) |
| • Currency swap | | |
| - Less than 1 year | *6,000 | 218 |
| - 1 to 3 years | *7,500 | 272 |
| | | |
| 3. Structured forward contract | | |
| - Less than 1 year | 20,040 | (26) |

The forward foreign currency contracts are entered into for the purposes of hedging the Group's foreign currency exposures arising from expected export sales and import purchases. In accordance with the requirement of this standard, the Group has designated certain forward contracts as cash flow hedges or accounted as fair value through profit and loss. Changes in the fair values of the forward contracts designated as cash flow hedges are included in other comprehensive income, to the extent that the hedges are effective. Upon maturity of the instruments, the amounts retained in other comprehensive income will be reclassified to the profit or loss. As for the fair value changes in forward contracts designated as fair value through profit and loss is included in the income statement.

The Group has entered into cross currency interest rate swap. This contract has two elements consisting of a cross currency swap and an interest rate swap. The Group entered into the swap to benefit from lower USD LIBOR interest rates. The interest rate swap is accounted for at fair value through profit or loss, whereas the Group applies hedge accounting to the currency swap. The fair values of the above derivatives are affected by fluctuations in the foreign currency exchange and interest rates.

Structured foreign exchange products are entered for the purposes of hedging the Group's foreign currency exposure. Such products allows the Group to sell USD at a better than market par forward rate or at prevailing market spot rate by allowing some market participation. This structure gives the Group a better than market par forward rate to a certain level, after which the Group receives a rebate over the prevailing market spot rate.

Due to the above, and the fact that these contracts have been entered into with credit-worthy financial institutions, the Group does not foresee any significant credit or market risks associated with the above foreign exchange contracts.

The derivatives have been recorded on the Consolidated Statement of Financial Position for this reporting period in compliance with FRS 139.

There are no transaction costs for the above hedging instrument.

11 ***Changes in Material Litigation***

There was no material litigation pending as at 14 February 2011.

12 ***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 2009 & 31 December 2010 are as follows:

| Financial Year Ended | Date Declared/ Approved | Type of Dividend | Dividend Rate | Amount Paid (RM) | Payment Date |
|---|---|---|---|---|---|
| 2009 | 17 May 2010 | Final tax-exempt dividend | 16% or 4 sen /share | RM20.52 million | 16 August 2010 |
| 2010 | 17 May 2010 | Interim tax-exempt dividend | 8% or 2 sen /share | RM10.26 million | 29 June 2010 |
| 2010 | 16 August 2010 | Interim tax-exempt dividend | 8% or 2 sen /share | RM10.26 million | 15 November 2010 |
| 2010 | 19 November 2010 | Interim tax-exempt dividend | 6% or 1.50 sen /share | RM7.695 million | 18 February 2010 |

13 ***Provision of Financial Assistance***

In December 2006, the Group had provided a short term loan facility of THB9.5 million to an associate company, Dynea Krabi Co., Ltd.

14 ***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 2010 | 31 December 2009 | 31 December 2010 | 31 December 2009 |
| Net profit for the period attributable to owners of the Parent (RM'000) | 17,745 | 39,130 | 106,839 | 84,950 |
| Weighted average number of ordinary shares in issue ('000) | 513,000 | 513,000 | 513,000 | 513,000 |
| Basic earnings per share (sen) | 3.46 | 7.63 | 20.83 | 16.56 |

b. **Diluted**

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