

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2011

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 2010.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2011. On 1 January 2011, the Group adopted the following FRSs:-

	Effective for annual period beginning on
Amendments to FRS 132: Classification of Rights Issues	1 March 2010
FRS 1: First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3: Business Combinations (revised)	1 July 2010
Amendments to FRS 127: Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 2: Share-based Payment	1 July 2010
Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138: Intangible Assets	1 July 2010
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17: Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 1: Limited Exemption for Comparative FRS 7 Disclosure for First-time Adopters	1 January 2011
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
Additional Exemptions for First-Time Adopters (Amendments to FRS 1)	1 January 2011
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)	1 January 2011
IC Interpretation 4: Determining whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	1 January 2011
TR 3: Guidance on Disclosures of Transition to IFRSs	1 January 2011

The application of the above FRSs, Amendments to FRSs and Interpretations did not have any significant effect on financial performance, position or presentation of the financials of the Group.

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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 2010 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 March 2011, 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 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.

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8. *Segmental Information*

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

Segmental Revenue and Results

	3 months ended 31 March 2011		3 months ended 31 March 2010	
	Segment Revenue RM'000	Segment Results RM'000	Segment Revenue RM'000	Segment Results RM'000
Malaysia	142,849	10,157	143,506	24,551
Thailand	83,746	(3,454)	95,158	14,381
Others	6,962	(2,399)	25	(1,975)
	<u>233,557</u>	<u>4,304</u>	<u>238,689</u>	<u>36,957</u>

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 2010.

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 10 March 2011, Evergreen Fibreboard Berhad ("EFB")'s wholly-owned subsidiary, Siam Fibreboard Company Limited ("SFCL"), incorporated a company known as Asian Oak Company Limited ("AOC") under the Civil and Commercial Code of Thailand. SFCL has 99.99% direct interest in the capital of AOC. The principal activity of AOC is to carry out the business relating to manufacturing, processing and marketing of wood products.

The Board of Directors of Evergreen Fibreboard Berhad ("EFB") is pleased to announce that the Company had on 25 April 2011 incorporated a company known as Evergreen Agro Sdn Bhd (Company No. 942013-D) ("EASB") in Malaysia under the Companies Act, 1965 as private limited company. EFB has 50% direct interest in the capital of EASB. The principal activity of EASB is to carry out the business of planters, cultivators and buyers of rubber and every kind of produce of the soil.

The investment stated above is 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.

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(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2011

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 March 2011 is as follows:

	RM'000
Approved and contracted for	10,446
Approved but not contracted for	7,980
	<hr/>
	18,426

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.

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(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2011

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

1 *Performance Review*

The Group's revenue for the quarter ended 31 March 2011 decreased by 2.2% to RM233.56 million from RM238.69 million recorded in the preceding year corresponding quarter. The decline in revenue was due to lower sales volume which was a result of lower production volume due to major maintenance being carried out on most of the plant in the Group.

The Group's profit before tax also decline from RM36.96 million recorded in the corresponding quarter of the preceding year to RM4.3 million for the current quarter mainly due to the impact of weakening US dollar and drastic hike in log cost which was triggered by the prolonged rainy season.

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

	Current Quarter Ended 31 March 2011 RM'000	Immediate Preceding Quarter Ended 31 December 2010 RM'000
Revenue	233,557	242,167
Profit Before Tax	4,304	14,456
Net profit for the period	4,574	15,991

The current quarter revenue decreased by 3.6% to RM233.56 million as compared to the preceding quarter was mainly attributed to lower sales volume of 3.2% which was a result of lower production volume due to major maintenance being carried out on most of the plants in the Group. Despite higher average selling price the profit margin was ultimately affected by the higher cost of raw materials and the impact from the weakening US dollar.

3 *Profit Forecast or Profit Guarantee*

Not applicable as no Profit Forecast or Profit Guarantee has been issued by the Group.

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(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2011

4 *Commentary of Prospects*

The current global economic situation looks uncertain given the geo-political environment in the Middle East. However based on the current increase in MDF & Particle Board demand being experienced and the successful increase in the average selling price, the Board is confident of achieving a better result in the next quarter.

5 *Taxation*

Major Components of tax expenses

	3 months ended		3 months ended	
	31 March 2011 RM'000	31 March 2010 RM'000	31 March 2011 RM'000	31 March 2010 RM'000
Current tax expenses	898	1,965	898	1,965
Deferred tax expenses	(1,168)	2,731	(1,168)	2,731
	<u>(270)</u>	<u>4,696</u>	<u>(270)</u>	<u>4,696</u>

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 March 2011 RM'000	As at 31 December 2010 RM'000
	Retained profits of the Company and its subsidiaries:	
- Realised	549,091	547,010
- Unrealised	(7,638)	(9,204)
	<u>541,453</u>	<u>537,806</u>
Share of retained profits from associated company:		
- Realised	6,594	6,270
	<u>548,047</u>	<u>544,076</u>
Less: Consolidation adjustments	(26,015)	(27,795)
Group retained profits as per consolidated accounts	<u>522,032</u>	<u>516,281</u>

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(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2011

7 *Unquoted Investment and/or Properties*

There was no disposal of unquoted investments and/or properties in the quarter ended 31 March 2011.

8 *Quoted Securities*

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

<u>Movement during</u>	3 months ended 31 March 2011 <u>RM Million</u>
Total Purchases of securities	0.0
Sale of securities	0.0
Profit/ (Loss)	0.0
 <u>Balances</u>	 As at 31 March 2011 <u>RM Million</u>
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 16 May 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 16 May 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
	<u>106,772</u>	<u>106,644</u>	<u>128</u>

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(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2011

10 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	In RM	As at 31 March 2011		Others	Total
		In Baht	In USD		
	RM'000	RM'000	RM'000	RM'000	RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	-	-	-	-
Term loans	-	40,533	-	-	40,533
Hire purchase and finance lease payables	314	412	-	52	778
<u>Unsecured</u>					
Trade facilities	20,000	-	-	-	20,000
Term Loans	40,625	-	17,299	-	57,924
	60,939	40,945	17,299	52	119,235
Long Term Borrowings:					
<u>Secured</u>					
Term loans	-	78,122	-	-	78,122
Hire purchase and finance lease payables	268	207	-	233	708
<u>Unsecured</u>					
Term Loans	115,043	-	34,648	-	149,691
	115,311	78,329	34,648	233	228,521
Total	176,250	119,274	51,947	285	347,756

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(Incorporated in Malaysia)

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10 *Financial Instruments*

As at the 31 March 2011, 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	56,782	329
2. Cross currency interest rate Swap	12,000	
• Interest Rate Swap		
- Less than 1 year	*6,000	(20)
- 1 to 3 years	*6,000	(20)
• Currency swap		
- Less than 1 year	*6,000	324
- 1 to 3 years	*6,000	324
3. Structured forward contract		
- Less than 1 year	6,960	8

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.

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EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31st MARCH 2011

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 16 May 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 2010 is as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
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 2011

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.

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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		3 months ended	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
Net profit for the period attributable to owners of the Parent (RM'000)	5,751	33,081	5,751	33,081
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings per share (sen)	1.12	6.45	1.12	6.45

b. **Diluted**

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