EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31ST DECEMBER 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 and revised Financial Reporting Standards (FRSs), IC Interpretation and Amendments:-

	Effective for annual period beginning on
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
Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions	1 January 2011
IC Interpretation 4: Determining whether on Arrangement contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	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.

Standards and Interpretations issued and not yet effective

The following revised FRSs, new IC Interpretations and Amendment to FRSs have been issued by the MASB and are effective for annual period commencing on or after 1 July 2011 and 1 January 2012. They have yet to be adopted as they are not yet effective for the current quarter ended 31 December 2011 and current financial year ending 31 December 2011.

	Effective for annual period beginning on
IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Amendments to IC Interpretation 14: Prepayment of a Minimum Funding Requirement	1 July 2011
IC Interpretation 15: Agreements for the Construction of Real Estate	1 January 2012
FRS 124 : Related Party Disclosures (Revised)	1 January 2012

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***

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) During the current year, the Company bought back a total of 2,000 of its issued and paid-up shares from the open market at an average price of RM1.06 per share. Total consideration paid for the buybacks including transaction costs was RM 2,128.62 and these buybacks were financed by internally generated funds.

All the bought back shares are being retained as treasury shares.

7. ***Dividends Paid***

No dividend was paid during the 4th quarter ended 31 December 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 2011		12 months ended 31 December 2010	
	Segment Revenue RM'000	Segment Results RM'000	Segment Revenue RM'000	Segment Results RM'000
Malaysia	654,208	81,883	593,459	99,773
Thailand	367,881	(5,437)	349,356	24,194
Others	39,616	(10,235)	8,400	(8,519)
	1,061,705	66,211	951,215	115,448

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 reporting 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.

EFB on 25 April 2011 incorporated a company known as Evergreen Agro Sdn Bhd (“EASB”) in Malaysia. 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.

On 15 July 2011, EFB has subscribed for 8 ordinary shares of RM1.00 each representing 80% of the paid-up capital of Evergreen Warehouse & Logistics Sdn. Bhd. (“EWL”) for cash consideration of RM8.00. Subsequently on 10 August 2011, EFB acquired 2 ordinary shares of RM1.00 each representing 20% of the paid-up capital of EWL for cash consideration of RM2.00.The principal activity of EWL is to provide warehouse and logistics services.

On 9 August 2011, EFB has subscribed for 98 ordinary shares of RM1.00 each representing 98% of the paid-up capital of Evergreen Plantation Resources Sdn. Bhd. (“EPR”) for cash consideration of RM98.00. Subsequently on 19 August 2011, EFB acquired 2 ordinary shares of RM1.00 each representing 2% of the paid-up capital of EPR for cash consideration of RM2.00. The principal activity of EPR is to manage plantation.

On 20 September 2011, EFB has entered into a Share Subscription Agreement with Craft Master Timber Products Sdn. Bhd. (“CMTP”) to subscribe for 7,012,500 new ordinary shares of RM1.00 each representing 51% of the paid-up capital of CMTP for cash consideration of RM 7,012,500. The principal activity of CMTP is to manufacture solid wooden furniture parts and finger jointing.

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

11. ***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.

12. ***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 2011 are as follows:

	RM'000
Approved and contracted for	1,034
Approved but not contracted for	4,897
	5,931

13. ***Significant Transactions With Associate***

	3 months ended 31 December 2011 RM'000	12 months ended 31 December 2011 RM'000
Associate:		
Sales of products	381	1,633
Purchase of products	-	21,469

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

1 *Performance Review*

The Group's revenue for the quarter ended 31 December 2011 increased by 22.3% to RM296.19 million from RM242.17 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher sales volume and average selling price for majority of the Group's products.

Profit before tax has increased by 60.7% or RM8.77 million to RM23.23 million for the current quarter from RM14.46 million recorded in the corresponding quarter of the preceding year. The increased in profits was mainly contributed by higher revenue, effective cost reduction measures undertaken by management and contribution by newly acquired subsidiaries, Dawa Timber Industries (M) Sdn Bhd. and Craft Master Timber Products Sdn. Bhd. However, the impact from the drastic hike in cost of log and glue has largely offset the benefits of the main contribution factors.

For the financial year ended 31 December 2011 (FY2011), the Group's revenue increased by 11.6% or RM110.49 million to RM1,061.71 million as compared to the revenue of RM951.22 million for the financial year ended 31 December 2010 (FY2010). The increase in revenue was mainly contributed by higher sales volume and average selling price for majority of the Group's products. Despite the higher revenue, the Group's profit before tax declined to RM66.21 million from RM115.45 million as recorded in FY2010. The decline in profit before tax, in particular for first and second quarter, is mainly due to the impact of weakening US dollar, drastic hike in glue and log cost which was triggered by high latex prices and prolonged rainy season.

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

	Current Quarter Ended 31 December 2011 RM'000	Immediate Preceding Quarter Ended 30 September 2011 RM'000
Revenue	296,194	279,675
Profit Before Tax	23,232	24,484
Net profit for the period	19,283	23,390

The current quarter revenue increase by 5.9% to RM296.19 million as compared to the preceding quarter, mainly attributed to higher average selling price for majority of the Group's products and benefit derived from appreciation of US dollar. Despite the higher revenue, the Group's profit before tax declined to RM23.23 million from RM24.48 million recorded in the preceding quarter which is mainly due to hike in glue and log cost.

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 world economic conditions are still facing uncertainty and are expected to remain challenging. Fluctuations in US Dollars and raw material costs also represent challenges to the Group.

The Group continues working on various measures to manage the rising raw materials cost through widening our network of suppliers, and also increasing our participation in the upstream sectors to better secure our supply lines and stabilise materials cost. Coupled with the current increasing average selling price trend, the Board expects to achieve a satisfactory result in the next quarter.

5 ***Taxation***

Major Components of tax expenses

	3 months ended		12 months ended	
	31 December 2011 RM'000	31 December 2010 RM'000	31 December 2011 RM'000	31 December 2010 RM'000
Current tax expenses	1,958	679	5,046	7,848
Deferred tax expenses	1,991	(2,214)	1,833	4,150
	3,949	(1,535)	6,879	11,998

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 companies in the Group.

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

	As at 31 December 2011 RM'000	As at 31 December 2010 RM'000
Retained profits of the Company and its subsidiaries:		
- Realised	606,187	547,010
- Unrealised	(10,228)	(9,204)
	595,959	537,806
Share of retained profits from associated company:		
- Realised	6,396	6,270
	602,355	544,076
Less: Consolidation adjustments	(22,295)	(27,795)
Group retained profits as per consolidated accounts	580,060	516,281

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

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

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 2011 RM Million
Total Purchases of securities	5.0
Sale of securities	5.0
Profit/ (Loss)	0.0

Balances	As at 31 December 2011 RM Million
At cost	0.4
At carry value	0.4
At market value	0.4

These investments are 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 from the public issue and the utilization of proceeds as at 13 February 2012 (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 13 February 2012 RM'000	Balance RM'000
Repayment of revolving credit and term loan	32,000	32,000	Nil
Purchase of property and equipment	9,000	9,000	Nil
Listing Expenses	5,208	5,208	Nil
Group working capital	60,564	60,564	Nil
	106,772	106,772	Nil

b. On 12 August 2011, EFB's subsidiary is pleased to announce that its subsidiary, Evergreen Plantation Resources Sdn. Bhd. ("EPR") entered into a Memorandum of Understanding ("MOU") with Teh Ho Ann, Muhd Faisal Bin Mohd Ariff, Amin Bin Maidu and Seman Bin Buang ("the Vendors"), shareholders in Jasa Wibawa Sdn. Bhd. ("JW") to purchase 3,500,000 ordinary shares of RM1.00 each representing 100% of the paid-up capital of JW free from all claims, charges, liens, encumbrances or adverse interests and with all rights attaching thereto together with all dividends and distributions declared in respect thereof as from the date hereof on the terms and conditions to be mutually agreed upon between EPR and the Vendors. The total consideration of purchasing the said shares shall be RM37,837,800.

   Subsequently, on 15 February, after completion of the due diligence review conducted on JW, EPR entered into a Share Sale Agreement with Vendors for the proposed acquisition of 3,500,000 ordinary shares of RM1.00 each representing 100% equity interest in JW for cash consideration of RM37,837,800.

10 *Borrowings and Debt Securities*

The Group's borrowings are as follows: -

	As at 31 December 2011				
Denominated	In RM	In Baht	In USD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	-	20,060	-	-	20,060
Term loans	-	20,633	-	-	20,633
Hire purchase and finance lease payables	339	275	-	206	820
<u>Unsecured</u>					
Trade facilities	20,000	-	-	-	20,000
Term Loans	38,750	-	18,306	-	57,056
	59,089	40,968	18,306	206	118,569

Long Term Borrowings:					
Secured					
Term loans	-	50,694	22,227	-	72,921
Hire purchase and finance lease payables	338	7	-	520	865
Unsecured					
Term Loans	77,293	-	47,719	-	125,012
	77,631	50,701	69,946	520	198,798
Total	136,720	91,669	88,252	726	317,367

10 ***Financial Instruments***

As at the 31 December 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	26,762	649
2. Cross currency interest rate Swap	7,500	
• Interest Rate Swap		
- Less than 1 year	*6,000	(29)
- 1 to 3 years	*1,500	(7)
• Currency swap		
- Less than 1 year	*6,000	83
- 1 to 3 years	*1,500	21
3. Structured forward contract		
- Less than 1 year	34,547	(1,268)

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. The fair value changes in forward contracts designated as fair value through profit and loss are 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 allow the Group to sell USD at a better than market par forward rate or at prevailing market spot rate by allowing some market participation. These products give 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 13 February 2012.

12 ***Dividend Payable***

The Board of Directors declared tax exempted interim dividend of 1.50sen per ordinary share amounting to RM7,695,000 for financial year ended 31 December 2011. The entitlement date and payment date to the interim dividend will be determined in due course.

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.

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 2011	31 December 2010	31 December 2011	31 December 2010
Net profit for the period attributable to owners of the Parent (RM'000)	21,425	18,074	63,779	107,168
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings per share (sen)	4.18	3.52	12.43	20.89

b. **Diluted**

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