

EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30TH JUNE 2012

A INFORMATION REQUIRED BY MFRS 134

1. *Basis of Preparation*

These condensed consolidated interim financial statements, for the period ended 30 June 2012, have been prepared in accordance with MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34: Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards (“FRS”).

These condensed consolidated interim financial statements are the Group’s first MFRS condensed consolidated interim financial statements for part of the period covered by the Group’s first MFRS annual financial statements for the year ending 31 December 2012. The Group has applied MFRS 1: First-Time Adoption of Malaysian Financial Reporting Standards with effect from 1 January 2012. The adoption of MFRS has no significant impact on the financial statements.

2. *Audit Report on Preceding Annual Financial Statements*

The auditors’ report on the audited financial statements for the financial year ended 31 December 2011 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.

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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 30 June 2012 was 2,000 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.

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 2011 amounting to RM7,694,970 was declared on 20 February 2012 and paid on 15 May 2012.

8. Profit before tax

Included in the profit before tax are the following items:

	3 months ended		6 months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest Income	(503)	(457)	(904)	(814)
Other income including investment income	(655)	(676)	(1,068)	(1,128)
Interest expense	4,098	3,107	7,660	6,540
Depreciation and amortization	17,093	15,718	34,018	31,256
Provision for and write off receivables	-	-	-	-
Provision for and write off inventories	-	-	-	-
(Gain)/ loss on disposal of properties	(116)	1	(139)	6
Impairment of assets	-	-	-	-
Foreign exchange (gain)/ loss	(44)	(2,157)	(217)	(3,462)
(Gain)/ loss on derivatives	900	13	1,246	65

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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 2012		3 months ended 30 June 2011	
	Segment Revenue	Segment Profit before tax	Segment Revenue	Segment Profit before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	172,135	12,102	154,115	18,094
Thailand	88,333	2,475	89,960	(2,948)
Others	15,914	(808)	8,204	(955)
	<u>276,382</u>	<u>13,769</u>	<u>252,279</u>	<u>14,191</u>

	6 months ended 30 June 2012		6 months ended 30 June 2011	
	Segment Revenue	Segment Profit before tax	Segment Revenue	Segment Profit before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	343,835	27,665	296,964	28,251
Thailand	174,222	10,285	173,706	(6,402)
Others	30,555	(3,905)	15,166	(3,354)
	<u>548,612</u>	<u>34,045</u>	<u>485,836</u>	<u>18,495</u>

10. 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 2011.

11. 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.

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12. Changes in Composition of the Group

On 15 February 2012, Evergreen Fibreboard Berhad (“EFB”)’s wholly-owned subsidiary, Evergreen Plantation Resources Sdn. Bhd. (“EPR”), has entered into a Share Sale Agreement 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”) 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. The principal activity of JW is dealing in sawn-logs and cultivation of rubber trees.

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.

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 2012 are as follows:

	RM’000
Approved and contracted for	4,529
Approved but not contracted for	4,736
	<u>9,265</u>

15. Significant Transactions With Associate

	3 months ended 30 June 2012 RM’000	6 months ended 30 June 2012 RM’000
Associate:		
Sales of products	-	237
Purchase of products	-	-

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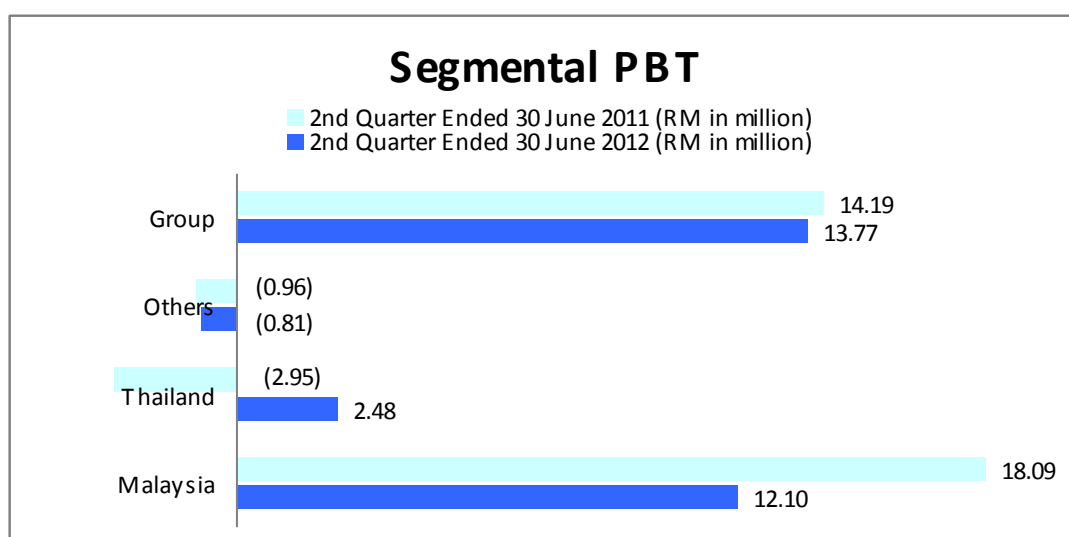
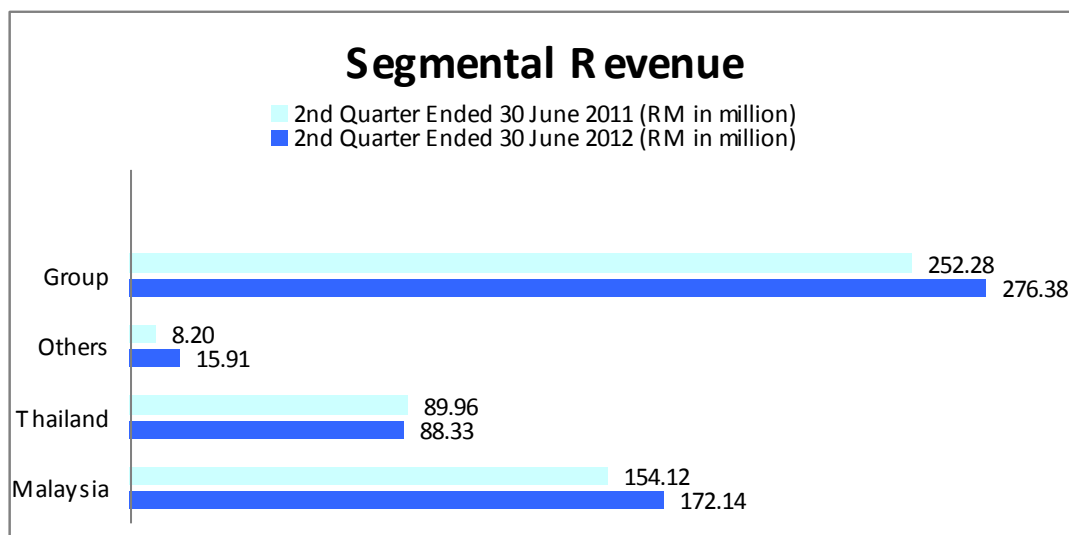
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B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1 *Performance Review*

Segmental Revenue and Results – for 2nd Quarter Ended 30/6/2011 vs 30/6/2012



Malaysia segment

The Malaysia segment's revenue for the quarter ended 30 June 2012 increased by 11.7% to RM172.14 million from RM154.12 million recorded in the preceding year corresponding quarter. The significant increase in revenue was mainly attributed by higher average selling price for most of the products and contribution from our newly acquired subsidiary, Craft Master Timber Products Sdn. Bhd. ("CMTP").

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Profit before tax was recorded at RM12.10 million for the current quarter, declined by RM5.99 million from RM18.09 million recorded in the preceding year corresponding quarter. The fall in profit, despite the increased in selling price, was mainly affected by the drastic hike in cost of log and glue.

Thailand segment

The Thailand segment's revenue for the quarter ended 30 June 2012 decreased marginally by 1.8% to RM88.33 million from RM89.96 million recorded in the preceding year corresponding quarter. The declined in revenue was due to lower sales volume while the impact was compensated by higher average selling price.

Profit before tax has increased by 184.1% to RM2.48 million for the current quarter from a loss of RM2.95 million recorded in the corresponding quarter of the preceding year. The increased in profits was mainly from higher average selling price and lower log cost, even with adverse impact from hike in glue cost.

Others Segment

Other segment's revenue for the quarter ended 30 June 2012 increased by 94.0% or RM7.71 million to RM15.91 million from RM8.20 million recorded in the preceding year corresponding quarter. The increased in revenue was mainly attributed by higher sales volume and average selling price.

Loss before tax has decreased from RM0.96 million to RM0.81 million recorded in the corresponding quarter of the preceding year. The slight decreased in losses was mainly caused by the unrealized foreign exchange loss incurred on the USD loan.

Consolidated profit before tax

The Group's revenue for the quarter ended 30 June 2012 increased by 9.6% to RM276.38 million from RM252.28 million recorded in the preceding year corresponding quarter. The increased in revenue was mainly contributed by higher average selling price for majority of the Group's products and contribution from newly acquired subsidiary, CMTP and Asian Oak Co., Ltd ("AOC").

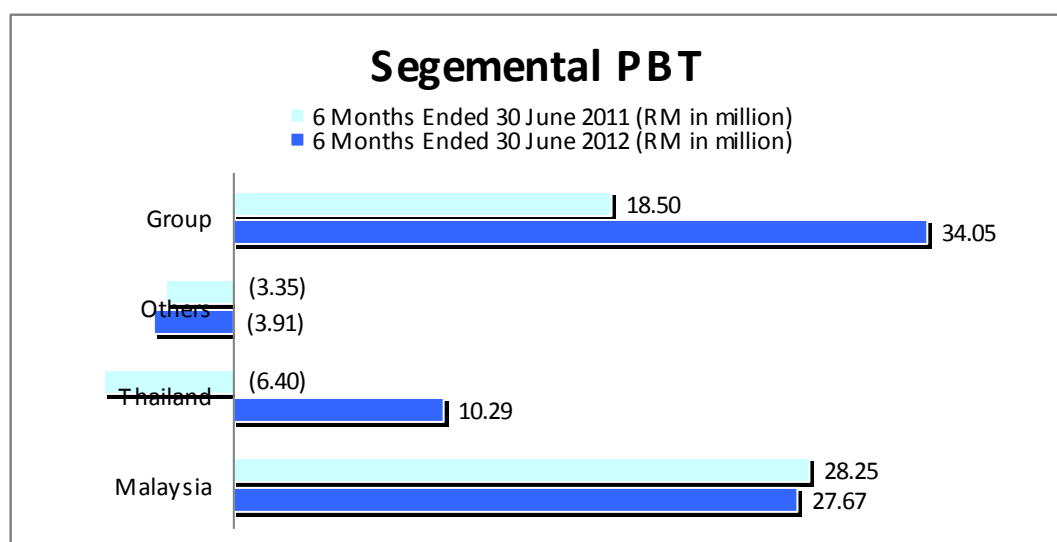
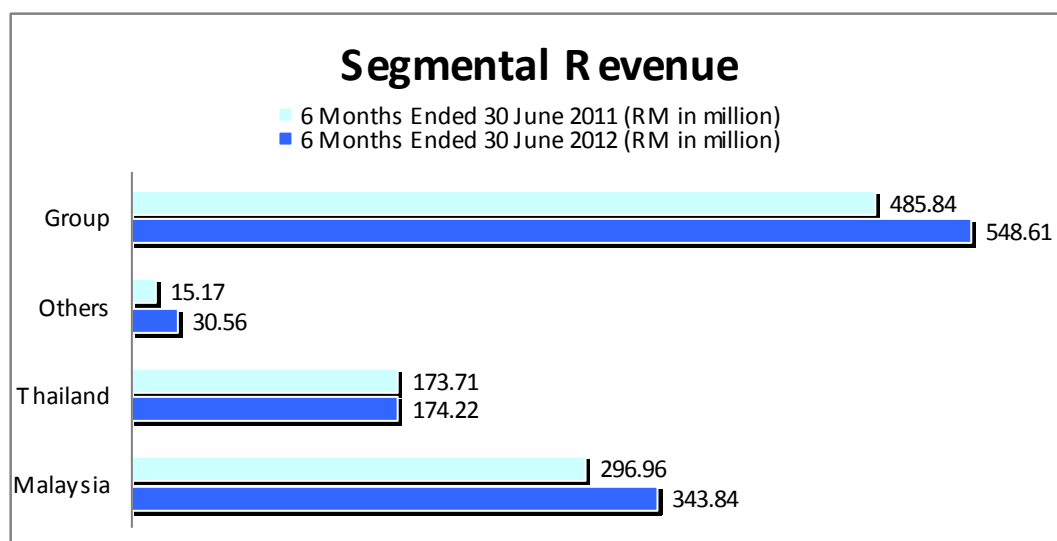
Profit before tax has marginally decreased by RM0.42 million to RM13.77 million as compared to RM14.19 million recorded in the preceding year corresponding quarter. This was mainly caused by the hike in glue cost even though log cost was able to be managed at a lower cost.

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Segmental Revenue and Results – for 6 Months Ended 30/6/2011 vs 30/6/2012



Malaysia segment

For the current year to date, the Malaysia segment's revenue has increased by 15.8% or RM46.88 million to RM343.84 million, as compared to the revenue of RM296.96 million for the corresponding period last year. The increased in revenue was mainly contributed by higher sales volume, average selling price for most of the products and contribution from our newly acquired subsidiary, CMTP.

Profit before tax has marginally dropped by RM0.58 million to RM27.67 million from RM28.25 million recorded in the corresponding period last year. The marginal declined in profit before tax is mainly due to drastic hike in glue, log cost and the higher rate on electricity cost of which most of these costs impact have been mitigated by higher selling price.

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Thailand segment

For the current year to date, the Thailand segment's revenue was RM174.22 million, with a marginal increased of RM0.51 million, as compared to the revenue of RM173.71 million for the corresponding period last year. The increased in revenue was mainly contributed by higher average selling price and contribution by our newly acquired subsidiary, AOC.

The Thailand segment's profit before tax has increased by 260.78% or RM16.69 million to RM10.29 million from a loss of RM6.40 million in the same period last year. The increased in profit before tax is mainly from higher average selling price and lower cost in log.

Others Segment

For the current year to date, on Other segment's revenue, has increased by 101.5% to RM30.56 million, as compared to the revenue of RM15.17 million for the corresponding period last year. The increased in revenue was mainly attributed by higher sales volume and average selling price.

On Other segment's loss before tax, has marginally increased by RM0.56 million to RM3.91 million from a loss of RM3.35 million in the same period last year. The increased in losses was mainly due to the impact from unrealized foreign exchange loss incurred on the USD loan.

Consolidated profit before tax

For the current year to date, the Group's revenue has increased by 12.9% to RM548.61 million, as compared to RM485.84 million for the corresponding period last year. The increased in revenue was mainly contributed by higher average selling price for majority of the Group's products and contribution from newly acquired subsidiaries, CMTP and AOC.

The Group's profit before tax increased by 84.1% or RM15.55 million to RM34.05 million from RM18.50 million in the same period last year. The increased in profit before tax was mainly resulted from higher revenues. The Group would have shown better performance if not for the impact from the hike in glue cost.

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

	Current Quarter Ended 30 June 2012 RM'000	Immediate Preceding Quarter Ended 31 March 2012 RM'000
Revenue	276,382	272,230
Profit Before Tax	13,769	20,276
Net profit for the period	11,958	18,083

The current quarter revenue increased marginally by 1.5% to RM276.38 million as compared to RM 272.23 million in the preceding quarter. The increased in revenue was mainly attributed by the contribution from newly acquired subsidiary, CMTP and AOC. The Group's profit before tax had declined by RM6.51 million to RM13.77 million from RM20.28 million recorded in the preceding quarter. The fall in profit before tax is mainly caused by hike in glue cost even though the log cost was able to be managed at lower level.

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 global economy continues to face uncertainty emanating from ongoing sovereign debt crisis in Eurozone and the challenging global growth prospects. The downside risks from above causing volatility on US Dollar as well as commodity prices movement, which represent challenges to the Group.

Couple with a stabilized average selling price and log cost, the Group will continue to step up efforts to enhance efficiency, increase productivity and continue cost reduction measures in order to achieve better result. Barring any unforeseen circumstances, the Group is confident of achieving satisfactory performance in the next quarter.

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5 ***Taxation***

Major Components of tax expenses

	3 months ended		6 months ended	
	30 June 2012 RM'000	30 June 2011 RM'000	30 June 2012 RM'000	30 June 2011 RM'000
Current tax expenses	2,389	1,693	3,611	2,591
Deferred tax expenses	(578)	413	393	(755)
	<u>1,811</u>	<u>2,106</u>	<u>4,004</u>	<u>1,836</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 companies in the Group.

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

	As at 30 June 2012 RM'000	As at 31 December 2011 RM'000
	Retained profits of the Company and its subsidiaries:	
- Realised	628,864	605,989
- Unrealised	(10,543)	(9,942)
	<u>618,321</u>	<u>596,047</u>
Share of retained profits from associated company:		
- Realised	6,235	6,120
	<u>624,556</u>	<u>602,167</u>
Less: Consolidation adjustments	(20,391)	(22,284)
Group retained profits as per consolidated accounts	<u>604,165</u>	<u>579,883</u>

7 ***Status of Corporate Proposal Announced***

There was no outstanding corporate proposal announced as at 30 June 2012.

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8 Borrowings and Debt Securities

The Group's borrowings are as follows: -

Denominated	As at 30 June 2012				
	In RM RM'000	In Baht RM'000	In USD RM'000	Others RM'000	Total RM'000
Short Term Borrowings:					
<u>Secured</u>					
Trade facilities	4,400	24,975	-	-	29,375
Term loans	-	28,783	1,993	-	30,776
Hire purchase and finance lease payables	371	48	-	166	585
<u>Unsecured</u>					
Trade facilities	81,300	-	12,575	-	93,875
Term Loans	40,532	-	17,808	-	58,340
	<u>126,603</u>	<u>53,806</u>	<u>32,376</u>	<u>166</u>	<u>212,951</u>
Long Term Borrowings:					
<u>Secured</u>					
Term loans	-	26,111	22,198	-	48,309
Hire purchase and finance lease payables	257	6	-	448	711
<u>Unsecured</u>					
Term Loans	89,452	-	41,297	-	130,749
	<u>89,709</u>	<u>26,117</u>	<u>63,495</u>	<u>448</u>	<u>179,769</u>
Total	<u>216,312</u>	<u>79,923</u>	<u>95,871</u>	<u>614</u>	<u>392,720</u>

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9 ***Financial Instruments***

As at the 30 June 2012, 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	38,715	(809)
2. Cross currency interest rate Swap	4,500	
• Interest Rate Swap		
- Less than 1 year	*4,500	(23)
• Currency swap		
- Less than 1 year	*4,500	50
3. Structured forward contract		
- Less than 1 year	8,067	(219)

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.

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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 MFRS 139.

There are no transaction costs for the above hedging instrument.

10 *Changes in Material Litigation*

As announced on 28 March 2012, a complaint/legal suit under the Court of Intellectual Property and International Trade in the Kingdom of Thailand has been filed against Evergreen Fibreboard Berhad (“EFB”) by Dynea Chemicals OY (“Dynea” or “Plaintiff 1”), Mr Sombat Ardisart (“Sombat” or “Plaintiff 2”), Ms. Somsri Chairudtidach (“Somsri” or “Plaintiff 3”) and MP Particleboard Co. Ltd. (“MP” or “Plaintiff 4”) [collectively known as the “Plaintiffs”]. The complaint/legal suit has been served on our Director, Kuo Jen Chang on 24 March 2012 in Thailand.

The Plaintiff claimed that EFB is:

- i) In breach of the Joint Venture Agreement for failing to require Siam Fibreboard Company Limited (“SFC”) to purchase all of its adhesive requirements from Dynea Krabi;
- ii) In breach of the Technology Transfer Agreement by utilizing certain know how and technologies belonging to Dynea Singapore for the Defendant’s own use; and
- iii) In violation of the Thai Civil and Commercial Code by virtue of being a partner in a joint venture and competing with the business of Dynea Krabi by having an affiliate of the Defendant to produce and sell adhesives to SFC.

The Plaintiffs requested the Court to award an injunction, specific performance and damages against EFB as follows:

- i) EFB to cease and desist in using or seeking benefits from the technology;
- ii) EFB to pay damages for breach of the Joint Venture Agreement in the amount of USD33,429,986 including interest at 7.5 percent per annum;
- iii) EFB to transfer its shares in Dynea Krabi in the amount of 412,500 shares to the Plaintiffs and the Plaintiffs shall pay the price of the shares back to EFB in the amount of 41,250,000 Baht (equivalent to approximately USD1,375,000);

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- iv) EFB to pay punitive damages to the Plaintiffs in the amount of USD 9,333,630; and
- v) EFB to pay for all costs and charges in lieu of the Plaintiffs for the civil action.

The amount involved is expected to have material impact on the financials of the Group assuming the Plaintiffs succeed in the claims and is awarded the amount claimed. EFB has obtained legal advice and the legal advisors are of the opinion that and has advised EFB is in a robust position to defend against the plaintiffs' allegations and claims in this legal action.

As announced on 3 July 2012, EFB has been advised by Thai Counsel that the court has fixed a pre-trial hearing date on 6 August 2012 to decide on the issue of Court Jurisdiction, determine the issue in dispute, assign the burden of proof and schedule the hearing date for the witness presentation if necessary.

As announced on 7 August 2012, EFB has been advised by Thai Counsel that the Thai Court has extended the pre-trial hearing date to 18 September 2012.

11 ***Dividend Payable***

The Board of Directors declared tax exempted interim dividend of 1.00sen per ordinary share amounting to RM5,130,000 for financial year ended 31 December 2012. 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 2011 is as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
2011	20 February 2012	Interim tax-exempt dividend	6% or 1.50 sen /share	RM7.695 million	15 May 2012

12 ***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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13 *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 2012	30 June 2011	30 June 2012	30 June 2011
Net profit for the period attributable to owners of the Parent (RM'000)	12,312	12,532	31,978	18,283
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings per share (sen)	2.40	2.44	6.23	3.56

b. **Diluted**

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