

# EVERGREEN FIBREBOARD BERHAD (217120W)

(Incorporated in Malaysia)

## ***EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31<sup>ST</sup> MARCH 2012***

### **A INFORMATION REQUIRED BY MFRS 134**

#### ***1. Basis of Preparation***

These condensed consolidated interim financial statements, for the period ended 31 March 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 except for the following:

#### **Property, plant and equipment**

The Group has previously adopted the transitional provisions available on the first application of the MASB Approved Accounting Standard IAS 16 (Revised), Property, Plant and Equipment which was effective for periods ending on or after 1 September 1998.

Upon transition to MFRS, the Group has elected to measure certain property, plant and equipment using the cost model under MFRS 116, Property, Plant and Equipment. At the date of transition to MFRS, the Group wish to revalue the property, plant and equipment and regard the new valuation amount as deemed cost. Due to the time constraint, the Group unable to obtain the valuation report for this current quarter under review. The Group will take into account the measurement in the financial statements once the valuation report is finalised.

#### ***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.

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### ***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) 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 31 March 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.

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### **8. Profit before tax**

Included in the profit before tax are the following items:

	3 months ended		3 months ended	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest Income	(401)	(357)	(401)	(357)
Other income including investment income	(413)	(452)	(413)	(452)
Interest expense	3,562	3,433	3,562	3,433
Depreciation and amortization	16,925	15,538	16,925	15,538
Provision for and write off receivables	-	-	-	-
Provision for and write off inventories	-	-	-	-
(Gain)/ loss on disposal of properties	(23)	5	(23)	5
Impairment of assets	-	-	-	-
Foreign exchange (gain)/ loss	(173)	(1,305)	(173)	(1,305)
(Gain)/ loss on derivatives	346	52	346	52

### **9. Segmental Information**

Segmental analysis is prepared based on the geographical location of the plant. The analysis is provided in Note B 1.

### **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.

### **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

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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 31 March 2012 are as follows:

	RM'000
Approved and contracted for	5,891
Approved but not contracted for	4,729
	<hr/>
	10,620
	<hr/>

### **15. *Significant Transactions With Associate***

	3 months ended 31 March 2012 RM'000	3 months ended 31 March 2012 RM'000
Associate:		
Sales of products	237	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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### **B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

#### **1 *Performance Review***

##### Segmental Revenue and Results

	3 months ended 31 March 2012		3 months ended 31 March 2011	
	Segment Revenue	Segment Profit before tax	Segment Revenue	Segment Profit before tax
	RM'000	RM'000	RM'000	RM'000
Malaysia	171,700	15,563	142,849	10,157
Thailand	85,889	7,810	83,746	(3,454)
Others	14,641	(3,097)	6,962	(2,399)
	<u>272,230</u>	<u>20,276</u>	<u>233,557</u>	<u>4,304</u>

##### **Malaysia segment**

The Malaysia segment's revenue for the quarter ended 31 March 2012 increased by 20.2% or RM28.85 million to RM171.70 million from RM142.85 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributable to higher sales volume and average selling price for most of the products.

Profit before tax has increased by 53.2% or RM5.40 million to RM15.56 million for the current quarter from RM10.16 million recorded in the corresponding quarter of the preceding year. The increased in profits was mainly contributed by higher revenue, higher capacity utilization rate and effective cost reduction measures undertaken by management. Profit before tax would have shown better performance if not for the impact from the hike in cost of log and glue.

##### **Thailand segment**

The Thailand segment's revenue for the quarter ended 31 March 2012 increased by 2.6% to RM85.89 million from RM83.75 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributable to higher average selling price even with lower sales volume.

Profit before tax has increased by 326.1% or RM11.26 million to RM7.81 million for the current quarter from a loss of RM3.45 million recorded in the corresponding quarter of the preceding year. The increased in profits was mainly contributed by higher revenue as a result from higher average selling price.

##### **Others Segment**

The Others segment's revenue for the quarter ended 31 March 2012 increased by 110.3% or RM7.68 million to RM14.64 million from RM6.96 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly attributable to higher sales volume and average selling price.

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Loss before tax has increased from RM2.40 million to RM3.10 million recorded in the corresponding quarter of the preceding 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**

The Group's revenue for the quarter ended 31 March 2012 increased by 16.6% to RM272.23 million from RM233.56 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly contributed by higher average selling price for majority of the Group's products.

Profit before tax has increased by 371.1% or RM15.98 million to RM20.28 million for the current quarter from RM4.30 million recorded in the corresponding quarter of the preceding year. The increased in profits was mainly contributed by higher revenue, higher capacity utilization rate and effective cost reduction measures undertaken by management. Profit before tax would have shown better performance if not for the impact from the hike in cost of log and glue.

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

	Current Quarter Ended 31 March 2012 RM'000	Immediate Preceding Quarter Ended 31 December 2011 RM'000
Revenue	272,230	296,177
Profit Before Tax	20,276	22,796
Net profit for the period	18,083	19,118

The current quarter revenue decreased by 8.1% to RM272.23 million as compared to the preceding quarter, mainly attributed to lower sales volume due to low production volume as a result of major maintenance being carried out on most of the plants in the Group during festive season. These factors has resulted the Group's profit before tax declined to RM20.28 million from RM22.80 million recorded in the preceding quarter despite of significant decrease in raw material cost.

### ***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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### 4 *Commentary of Prospects*

The global economic and financial environments are remain facing uncertainty emanating from increased risks on global growth and the sovereign debt crisis in the euro area. Based on above, volatility on US Dollar movement still represent challenge to the Group.

Ridge with the challenge and couple with the increasing average price trend, the Group continues working on various measures to manage the costs, efficiency and productivity. The Group is confident it will maintain its earnings momentum and deliver a satisfactory performance in the next quarter.

### 5 *Taxation*

Major Components of tax expenses

	3 months ended		3 months ended	
	31 March 2012 RM'000	31 March 2011 RM'000	31 March 2012 RM'000	31 March 2011 RM'000
Current tax expenses	1,222	898	1,222	898
Deferred tax expenses	971	(1,168)	971	(1,168)
	<u>2,193</u>	<u>(270)</u>	<u>2,193</u>	<u>(270)</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	As at
	31 March 2012 RM'000	31 December 2011 RM'000
Retained profits of the Company and its subsidiaries:		
- Realised	617,232	605,989
- Unrealised	(11,145)	(9,942)
	<u>606,087</u>	<u>596,047</u>
Share of retained profits from associated company:		
- Realised	6,093	6,120
	<u>612,180</u>	<u>602,167</u>
Less: Consolidation adjustments	(20,326)	(22,284)
Group retained profits as per consolidated accounts	<u>591,854</u>	<u>579,883</u>

### 7 *Status of Corporate Proposal Announced*

There was no outstanding corporate proposal announced as at 31 March 2012.

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### 8 *Borrowings and Debt Securities*

The Group's borrowings are as follows: -

Denominated	In RM	As at 31 March 2012		Others	Total
		In Baht	In USD		
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Short Term Borrowings:</b>					
<u>Secured</u>					
Trade facilities	3,000	24,775	-	-	27,775
Term loans	-	19,395	3,954	-	23,349
Hire purchase and finance lease payables	360	160	-	116	636
<u>Unsecured</u>					
Trade facilities	56,800	-	-	-	56,800
Term Loans	41,543	-	17,188	-	58,731
	<u>101,703</u>	<u>44,330</u>	<u>21,142</u>	<u>116</u>	<u>167,291</u>
<b>Long Term Borrowings:</b>					
<u>Secured</u>					
Term loans	-	47,905	17,567	-	65,472
Hire purchase and finance lease payables	453	6	-	315	774
<u>Unsecured</u>					
Term Loans	96,750	-	43,390	-	140,140
	<u>97,203</u>	<u>47,911</u>	<u>60,957</u>	<u>315</u>	<u>206,386</u>
Total	<u>198,906</u>	<u>92,241</u>	<u>82,099</u>	<u>431</u>	<u>373,677</u>

### 9 *Financial Instruments*

As at the 31 March 2012, the Group has the following outstanding derivative financial instruments: -

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	Notional Contract Amount (RM'000)	Fair value - Net Gains/ (Losses) (RM'000)
1. Forward contract - US Dollar		
- Less than 1 year	23,035	103
2. Cross currency interest rate Swap	6,000	
• Interest Rate Swap		
- Less than 1 year	*6,000	(35)
• Currency swap		
- Less than 1 year	*6,000	276
3. Structured forward contract		
- Less than 1 year	18,311	(196)

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.

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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);
- 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.

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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.

### 11 ***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 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		3 months ended	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
Net profit for the period attributable to owners of the Parent (RM'000)	19,666	5,751	19,666	5,751
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings per share (sen)	3.83	1.12	3.83	1.12

#### b. **Diluted**

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