

QUESTIONS RAISED BY MSWG IN 21ST AGM.

OPERATIONS & FINANCIAL PERFORMANCE

1. For the year under review, the Group revenue increased by 11.6% to RM1.06 billion. However, profit before tax declined by from 115.45million to RM65.78million attributed to losses arising from its Thailand operations caused by the hike in raw material prices and the decrease in selling price in the first half of 2011 due to the impact of weakening US dollar. Nevertheless, the Group experience a gradual increase in the global demand with stable prices and easing in raw material prices in second half.

a) How was the operation in Indonesia (51% owned) which recorded an increased segmental revenue of RM39.62 million from RM8.35 million, but a loss of RM10.16 million (2010 loss of RM7.62million). How soon does the Board expect to turn around the operations?

For year 2012, the management was able to resolve most of the technical and operational issues as well as improve machines efficiency. With recent months operation performance, and the Board expect a turnaround in its Indonesian in the 3Q 2012.

b) Is the Thailand operations back to normal and if not, what steps have been taken by the board?

Yes our Thailand Operations has been back to almost normal since January 2012.

2. As disclosed in Note 42 (b), a complaint / legal suit for damages of up to US50 million (RM152 million) had been files against EFB by Dynea Chemicals OY (Dynea), a Joint Venture (JV) partner of EFB for alleged b reach of their JV agreement and breach of a technology transfer agreement. Kindly brief shareholders on the nature of the JV agreement given that there was no information / disclosure on the JV in the annual report.

Dynea Krabi is a company incorporated in Thailand and was initiated by Plaintiff 1, a company incorporated in Finland with the other plaintiffs for the purpose of manufacturing and supply of Resins to, inter alia, Plaintiff 4 by way of a Joint Venture Agreement dated 8th May 2002 ("Joint Venture Agreement"). Dynea Krabi is licensed with technology and product process by Dynea Singapore Pte Ltd, a company duly registered under the law of Singapore and related to Plaintiff 1 (hereinafter called "DSP") through Technology Transfer Agreement made between DSP and the Dynea Krabi (hereinafter called the "Technology Transfer Agreement);

EFB became a shareholder of Dynea Krabi through the execution on 6 May 2005 of Addendum 2 to the Joint Venture Agreement ("JVA") with the Plaintiffs. The commercial basis of the joint Venture is that EFB shall subscribe up to 25% equity interest of Dynea Krabi and EFB is to procure its wholly owned subsidiary in Thailand, Siam Fibreboard Co., Ltd., (hereinafter called "SFC") to purchase 100% of SFB's resin requirements ("Resin") from Dynes Krabi. The price of the Resin in this agreement shall be reviewed after the period of five (5) years from the date of the commencement of the sales. Notwithstanding the above provisions, SFB shall be entitled to purchase the Resin from other third party, if:

- (i) the price of the Resin is not competitive when comparing to the price of the third party, provided that such low price of the third party shall not be a case of one-time discount ;or
- (ii) the Company cannot fulfill or give priority on the purchase order made by SFB; or

(iii) the Company cannot produce the Resin complying with SFB's specifications and quality.

This was formalized through the execution of a Supply Agreement entered into between Dynea Krabi and SFC on 1st June 2006 under which similar terms were adopted in relation to the supply and purchase of Resin. It is provided in the Supply Agreement that the term is for a period of 5 years and maybe extended with the agreement of both parties and parties are to negotiate and agree on the terms of extension and other conditions to be provided thereto. In event of any dispute between the parties, it shall be settled by arbitration pursuant to Arbitration Rules of the Ministry of Justice, Thailand.

EFB and SFC has prior to the expiry of the Supply Agreement negotiated with the Chairman of Dynea Krabi on the pricing and the negotiation failed due to the parties not agreeing on the price. An open Tender was called by SFC in order to secure the best price for SFC's resin supply. Amongst other Tenderers, Dynea Krabi was also invited to tender its best price but they refuse to participate in this tender citing not necessary and not appropriate. Upon closure of tender, it was made known to Dynea Krabi to send in their best price but they fail to do so again and SFC awarded EACG who participated in the open Tender, the supply contract for 2 (two) years.

In order to reduce cost and to secure reliability of the supply of Resin and as it was not restricted in the Joint Venture Agreement, EFB's wholly owned subsidiary Evergreen Adhesive & Chemical Sdn. Bhd was set up in Parit Raja, Johor to manufacture and supply Resin which commence production in 2008 and in 2010, another wholly owned subsidiary Evergreen Adhesive & Chemicals (Gurun) Sdn. Bhd. was set up in Gurun, Kedah to manufacture and supply Resins as well. Both plants used Metal Oxide technology and is licensed from Cal Polymers, Inc USA. which is different from that of Dynea Krabi using Silver technology. Since 2008, there was never any notification or complaint received by EFB or SFC or its employees from any of the Plaintiffs or Dynea Krabi, written or oral, of any breach of technology or of the setting up of the manufacturing and supply of Resins. It is also not specified or particularized in the Complaint as to what technology has been allegedly breached by EFB.

3. During the year, the company acquired 50% interest in Evergreen Agro Sdn. Bhd (EASB) to carry out planting works, and 100% interest in Evergreen Plantation Resources Sdn. Bhd. (EPR) which was to acquire 100% interest in Jasa Wibawa Sdn. Bhd. (JWSB) for the purpose of embarking on the business of replanting of rubber trees as a form of upstream venture. How was the financial performance of JWSB since the award of the rights to extract and replant timber latex clones on a piece of land / forest measuring 4410 acres in 2007.

Since the award of right in year 2007, Jasa Wibawa has cumulative loss of 730k which is caused by unsuccessful of replanting by the previous owners. However, cumulative losses is insignificant compared to the future benefits which is able to derive from the land.

4. What is the nature of the land use rights of RM17.46million (2010:RM16.05 million) (see Note 16) and other intangible assets amounting to RM237,628 (2010: Nil) (See Note 15).

In Accounting Standards, leasehold land that Group owns are to be categorized under "Land use right". Other intangible assets refer to license of software program obtained during the year.

5. As at 31 December 2011, has sufficient credit in the 108 balance and tax exempt profit to pay franked dividends amounting to RM116,970,000 (2010:RM115,072,000) out of its retained earnings (see Note 35). How does the Board propose to utilize the Section 108 tax credit before the end of the transitional period?

The Group will utilize majority of it for future franked dividend.

CORPORATE GOVERNANCE

MSWG is promoting standards of Corporate Governance best practices in PLCs. In this regard, we hope the Board would give consideration to address the following issues:-

1. What is the rationale for the Board to seek approval for the payment of Directors' fees for the Financial Year Ending 31 December 2012 in advance (see Resolution 1)? MSWG is of the view that with the Resolution tabled in advance, the basic rights of shareholders to deliberate on the Directors' fees once a year would be disenfranchised. For good practice, resolutions on the Directors' fee should be tabled at the AGM every year to seek shareholders' approval. It would provide shareholders a forum for discussion on the performance of the company vis – a vis the Directors' fees.

The Board takes note of the issue highlighted and will consider the changes needed.

2. Include in the Annual Report, the Group's 5-Year Financial Highlights as such information / data are very useful to shareholders and potential investors.

The Board takes note of the recommendation for its future annual reports.

3. We note that the Board had identified a Senior Independent Non-Executive Director (INED) to whom concerns may be conveyed. We would encourage the Board to provide the contact details of the Senior INED for shareholders to raise their concerns and queries, including whistle blowing.

Senior INED Contact :

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