EVERGREEN FIBREBOARD BERHAD (217120W)
(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30TH SEPTEMBER 2010

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 2009.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2009, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2010. On 1 January 2010, the Group adopted the following FRSs:-

a) FRS 101 : Presentation of Financial Statements

Prior to the adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and notes to the financial statements. With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes to the financial statements.

b) FRS 139 : Financial Instruments: Recognition and Measurement

The adoption of FRS 139 has resulted in changes to the accounting policies relating to recognition and measurement of financial instruments. A financial instrument is recognised in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is recognized initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

i) Forward foreign currency exchange contracts

Prior to the adoption of FRS 139, derivative contracts are off balance sheet items and gains and losses were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now required to be initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value at each balance sheet date. In accordance with the requirement of this standard, the Group has designated derivative contracts as cash flow hedges or being accounted for as fair value through profit and loss. Changes in the fair values of the derivative instruments designated as cash flow hedges is included in other comprehensive income, to the extent that the hedges are effective. As for the fair value changes in derivative contracts designated as fair value through profit and loss is included in the income statement. As allowed under the transitional provisions of FRS 139, the Group has not applied the standard retrospectively.

ii) Marketable securities

Prior to the adoption of FRS 139, investment in equity securities, other than investments in subsidiaries and associates were stated at cost less allowance for diminution in value which is other than temporary. With the adoption of FRS 139, quoted investments in noncurrent equity securities, other than investments in subsidiaries and associates are now categorised and measured as fair value through profit or loss.

iii)Borrowings

Prior to the adoption of FRS 139, transaction costs attributable to borrowings were expensed off as incurred. With the adoption of FRS 139, borrowings are now recognised initially at fair value, plus directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. As allowed under the transitional provisions of FRS 139, the Group has not applied the standard retrospectively.

c) FRS 117 Leases

Prior to the adoption of the Amendment to FRS 117, leasehold lands were treated as operating leases. The considerations paid were classified and presented as prepaid lease payments in the statement of financial position. With the adoption of the Amendment to FRS 117, the classification of a leasehold land as a finance lease or an operating lease is based on the extent to which risks and rewards incident to ownership lie. The Group has concluded to remain the existing leasehold land as operating lease.

d) FRS 8 Operating Segments

FRS 8 requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. As the Group’s chief operating decision maker, the Group’s Board of Directors, relies on internal reports that are similar to those currently disclosed externally, no further segmental information disclosures will be necessary.

The new FRSs and Interpretations above are expected to have no significant impact on the financial statements of the Group upon their initial application.

2. ***Audit Report on Preceding Annual Financial Statements***

The auditors’ report on the audited financial statements for the financial year ended 31 December 2009 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 30 September 2010, 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 final tax-exempt dividend of 16% or 4 sen per share in respect of the financial year ended 31 December 2009 amounting to RM20,520,000 was declared on 17 May 2010 and paid on 16 August 2010.

A tax-exempt interim dividend of 8% or 2 sen per share in respect of the financial year ending 31 December 2010 amounting to RM10,260,000 was declared on 17 May 2010 and paid on 29 June 2010.

A tax-exempt interim dividend of 8% or 2 sen per share in respect of the financial year ending 31 December 2010 amounting to RM10,260,000 was declared on 16 August 2010 and paid on 15 November 2010.

8. *Segmental Information*

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

Segmental Revenue and Results

	9 months ended 30 September 2010		9 months ended 30 September 2009	
	Segment Revenue RM'000	Segment Results RM'000	Segment Revenue RM'000	Segment Results RM'000
Malaysia	439,693	75,074	361,648	41,778
Thailand	267,687	32,294	175,956	10,911
Others	1,668	(6,377)	9,765	(6,455)
	709,048	100,991	547,369	46,234

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 2009.

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*

There were no material changes in the composition of the Group during the current financial quarter.

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 30 September 2010 is as follows:

	RM’000
Approved and contracted for	2,827
Approved but not contracted for	9,246
	12,073

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.

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

1 *Performance Review*

The Group's revenue for the quarter ended 30 September 2010 increased by 8.0% to RM228.89 million from RM212.00 million recorded in the preceding year corresponding quarter. The increase in revenue was mainly due to higher sales volume.

However, despite the higher revenue, profit before tax has declined by RM8.42 million to RM23.02 million for the current quarter from RM31.44 million recorded in the corresponding quarter of the preceding year. The decline in profit was mainly due to the higher log costs triggered by the prolonged rainy season in southern Thailand. The other factors which also contributed to the lower profit were due to the sharp spike in freight charges to the Middle East during the Ramadan festive period, the higher maintenance costs incurred during the scheduled annual servicing of the plants in Malaysia which coincide with the festive holidays and lastly, the higher initial cost incurred due to the resumption of commercial production in the Indonesian plant.

For the current year to date, the Group's revenue was RM709.05 million, as compared to the revenue of RM547.37 million for the corresponding period last year. As a result, the Group recorded a profit before tax of RM100.99 million, an increase of RM54.76 million over the same period last year. The strong recovery in the group's revenue and profit was mainly due to higher sales volume and selling price as demands recovered following the financial crisis last year.

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

	Current Quarter Ended 30 September 2010 RM'000	Immediate Preceding Quarter Ended 30 June 2010 RM'000
Revenue	228,894	241,465
Profit Before Tax	23,018	41,016
Net profit for the period	19,520	35,677

The current quarter revenue decreased by 5.2% as compared to the preceding quarter. This was due to the drop in production volume as a result of the scheduled plant maintenance in Malaysia and disruption in production in Thailand caused by the rainy season. Average selling price was marginally lower due to weaker demand caused by fear of a double dip recession. The sharp decline in profit was also impacted by the weaker US dollar, higher log costs, sharp hike in freight charges to the Middle East during the Ramadan festive period and higher initial cost incurred as the Indonesian plant began to resume commercial production.

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 third quarter was a challenging period for the Group but looking ahead, the operating environment appears to be improving as the freight charges to the Middle East has eased back to the pre Ramadan festive period level, while the technical problem which affected the operational efficiency of the Indonesian plant has been rectified. Hence, the Group expects the Indonesian operation to start contributing positively by end of this year. In addition, the risk of further US dollar weakness impacting the Group's profitability has been mitigated by the forward currency contracts executed by the Group.

While the prospect going forward is better, given the Group's continual efforts to improve operational efficiency and tight control over its costs, the Board is optimistic of achieving satisfactory results in the next quarter.

5 *Taxation*

Major Components of tax expenses

	3 months ended		9 months ended	
	30 September 2010	30 September 2009	30 September 2010	30 September 2009
	RM'000	RM'000	RM'000	RM'000
Current tax expenses	1,318	945	7,169	2,375
Deferred tax expenses	2,180	242	6,364	746
	3,498	1,187	13,533	3,121

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 *Unquoted Investment and/or Properties*

There was no disposal of unquoted investments and/or properties in the quarter ended 30 September 2010.

7 *Quoted Securities*

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

Movement during	9 months ended 30 September 2010 RM Million
Total Purchases of securities	7.5
Sale of securities	10.0
Profit/ (Loss)	0.1

Balances	As at 30 September 2010 RM Million
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.

8 ***Status of Corporate Proposal Announced***

a. On 27 September 2010, Evergreen Fibreboard Berhad ("EFB") has decided to accept the offer to acquire Evergreen Timber Products Pte Ltd's ("ETP") shareholding of 250,800 ordinary shares of RM1.00 each representing 41.80% in the capital of Dawa Timber Industries(M) Sdn Bhd ("DTI") at a total consideration of RM6,270,000. With this acquisition, EFB shall hold 86.47% in DTI and DTI will become a subsidiary of EFB. The acquisition is expected to be completed by fourth quarter of 2010.

b. 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 12 August 2010 (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 12 August 2010 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
	106,772	106,644	128

9 *Borrowings and Debt Securities*

The Group's borrowings are as follows: -

	As at 30 September 2010				
Denominated	In RM	In Baht	In USD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Short Term Borrowings:					
Secured					
Trade facilities	-	-	-	-	-
Term loans	-	28,032	-	-	28,032
Hire purchase and finance lease payables	210	338	-	50	598
Unsecured					
Trade facilities	25,000	-	-	-	25,000
Term Loans	46,125	-	17,190	-	63,315
	71,335	28,370	17,190	50	116,945
Long Term Borrowings:					
Secured					
Term loans	-	98,338	-	-	98,338
Hire purchase and finance lease payables	204	514	-	254	972
Unsecured					
Term Loans	129,793	-	21,873	-	151,666
	129,997	98,852	21,873	254	250,976
Total	201,332	127,222	39,063	304	367,921

10 *Financial Instruments*

As at the 30 September 2010, 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	71,607	477
- 1 to 3 years	6,539	233
2. Cross currency interest rate Swap	15,000	
• Interest Rate Swap		
- Less than 1 year	*6,000	(28)
- 1 to 3 years	*9,000	(43)
• Currency swap		
- Less than 1 year	*6,000	208
- 1 to 3 years	*9,000	312
3. Structured forward contract		
- Less than 1 year	24,704	26

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.

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 12 August 2010.

12 *Dividend Payable*

The Board of Directors declared tax-exempt interim dividend of 1.50 sen per ordinary share amounting to RM7,695,000 for financial year ending 31 December 2010. 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 2009 & 31 December 2010 are as follows:

Financial Year Ended	Date Declared/ Approved	Type of Dividend	Dividend Rate	Amount Paid (RM)	Payment Date
2009	17 May 2010	Final tax-exempt dividend	16% or 4 sen /share	RM20.52 million	16 August 2010
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

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 ***Status of application for extension of time for conditions imposed by Securities Commission ("SC") on the Company's properties***

With reference to the Prospectus dated 15 February 2005 and the extension of time until 4 November 2010 given by the SC for the Company to comply with conditions imposed by the SC in relation to certain of the Company's properties, EFB wishes to inform that the current status of conditions are as follows:

Status of conditions under item 7.1 iv (a) to (g) of the Prospectus dated 15 February 2005		
	Conditions	Status
i)	To obtain approved building plans and subsequently certificate of fitness ("CF") for the unapproved structure situated on PTD 11229, Mukim of Seri Gading, District of Batu Pahat as well as obtaining CF/ certificate of practical completion ("CPC") for structures which have been approved but yet to be issued with CF/CPC.	Certificate of Fitness has been issued on 9th June 2010.
ii)	To obtain approved building plans and subsequently CF for the unapproved structure situated on Lot No. 10321, Mukim of Seri Gading, District of Batu Pahat.	Building plans has been approved by Batu Pahat Municipal Council on 28 August 2009 and Certificate of Fitness was issued on 13 August 2010.

15 ***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		9 months ended	
	30 September 2010	30 September 2009	30 September 2010	30 September 2009
Net profit for the period attributable to owners of the Parent (RM'000)	19,520	30,917	89,094	45,820
Weighted average number of ordinary shares in issue ('000)	513,000	513,000	513,000	513,000
Basic earnings per share (sen)	3.81	6.03	17.37	8.93

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