

11. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



■ Chartered Accountants
21 & 23 Jalan Hussein
30250 Ipoh, Perak, Malaysia

■ Phone : (605) 255-6393
Fax : (605) 254-1572
www.ey.com/my

Mail Address:
P.O. Box 212
30720 Ipoh, Perak, Malaysia

ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus to be dated 30 September 2004)

17 September 2004

The Board of Directors
Ekowood International Berhad
(formerly known as TSH Ekowood Berhad)
Suite 702, Block E,
Pusat Dagangan Phileo Damansara 1,
No. 9, Jalan 16/11,
Off Jalan Damansara,
46350 Petaling Jaya,
Selangor Darul Ehsan

Dear Sirs

1. INTRODUCTION

This report has been prepared by Ernst & Young, approved company auditors, for inclusion in the Prospectus of Ekowood International Berhad (formerly known as TSH Ekowood Berhad) ("Ekowood") to be dated 30 September 2004 in connection with:

- a) Proposed offer for sale of 58,800,012 ordinary shares of RM0.50 each in Ekowood ("Ekowood Shares") by TSH Resources Berhad ("TSH") in the following manner:
 - (i) 24,106,412 Ekowood Shares to all the existing shareholders and/or warrant holders of TSH based on their respective shareholdings and/or warrant holdings in TSH at an indicative offer price of RM1.05 per Ekowood Share at a date to be determined later;
 - (ii) 4,200,000 Ekowood Shares to the Eligible Executives of Ekowood Group at an indicative offer price of RM1.05 per Ekowood Share via the Proposed Executive Share Scheme;
 - (iii) 4,200,000 Ekowood Shares to the eligible directors and eligible Malaysian employees of the Ekowood Group and TSH at an indicative offer price of RM1.05 per Ekowood Share payable by way of "pink form" allocation;
 - (iv) 24,259,200 Ekowood Shares to identified Bumiputera investors approved by the Ministry of International Trade and Industry at an indicative offer price of RM1.05 per Ekowood Share by way of placement; and
 - (v) 2,034,400 Ekowood Shares to identified public investors at an indicative offer price of RM1.15 per Ekowood Share by way of placement.
- b) Proposed grant of a share option by TSH to purchase 8,400,000 Ekowood Shares representing 5% of the issued and paid up share capital of Ekowood to the Chief Executive Officer ("CEO") of Ekowood.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

1. INTRODUCTION (Contd.)

- c) Proposed listing of and quotation for the entire paid-up share capital of Ekowood on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Listing and Quotation").

2. GENERAL INFORMATION**2.1 Ekowood****a) Incorporation and Principal Activities**

The Company was incorporated as a private limited liability company in Malaysia on 27 May 1994 under the name of Kesuma Cergas Sdn Bhd. It subsequently changed its name to TSH-Smallholders Sdn Bhd on 14 December 1994, and to TSH Ekowood Sdn Bhd on 22 February 2001. The Company converted its status from a private limited company to a public limited company on 25 March 2004, and adopted its present name on 19 April 2004.

Ekowood commenced business in its principal activity of the manufacture and sale of downstream wood products in 1998. The principal activities of its subsidiary companies are set out in item 2.3 to this Report. There were no significant changes in the nature of these activities during the period ended 30 June 2004.

b) Issued and Paid-up Share Capital

The movements of Ekowood's authorised share capital since 27 May 1994 (date of incorporation) are as follows:

	<u>Number of preference shares of</u>	<u>Number of ordinary shares of</u>
	RM0.01 each	RM1.00 each
As at date of incorporation, 27 May 1994	-	100,000
Created on:		
5 December 1994	-	4,900,000
21 October 1997	100,000,000	4,000,000
12 June 2003 via conversion	(100,000,000)	1,000,000
1 March 2004	-	190,000,000
	<u>-</u>	<u>200,000,000</u>
		RM0.50 each
Subdivision of shares	-	400,000,000
	<u>-</u>	<u>400,000,000</u>

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

2. GENERAL INFORMATION (Contd.)**2.1 Ekowood (Contd.)****b) Issued and Paid-up Share Capital (Contd.)**

The movements of Ekowood's issued and paid up share capital since 27 May 1994 (date of incorporation) are as follows:

Date of allotment	No of ordinary shares of:	Consideration	Cumulative
	RM1.00 each		RM
27 May 1994	2	Cash	2
23 November 1994	4,999,998	Cash	5,000,000
12 June 2003	535,000	Cash	5,535,000
12 June 2003	3,946,500	Bonus issue	9,481,500
	<u>9,481,500</u>		
	RM0.50 each		
1 March 2004	18,963,000	Subdivision of ordinary shares	9,481,500
	51,558,208	Capitalisation of amount owing by holding company	35,260,604
	97,478,792	Bonus issue	84,000,000
	<u>168,000,000</u>		
Date of allotment	No of preference shares of RM0.01 each	Consideration	Cumulative
			RM
1 August 1998	32,100,000	Cash	321,000
1 January 2001	21,400,000	Cash	535,000
12 June 2003	(53,500,000)	Fresh issue of ordinary shares	-

11. ACCOUNTANTS' REPORT (Cont'd)



2. GENERAL INFORMATION (Contd.)

2.2 The Scheme

In connection with and as part of the Proposed Listing and Quotation, Ekowood has undertaken a scheme, which was approved by the Securities Commission ("SC"), Foreign Investment Committee ("FIC") and Ministry of International Trade and Industry ("MITI") on the dates set out below:

SC and FIC - Approved on 9 August 2004
MITI - Approved on 23 July 2004

The scheme was/will be carried out as follows:

- a) The assignment of liabilities owing from Ekowood to TSH Plantations Sdn Bhd of RM10,907,293 to TSH
- b) Subdivision of Ekowood's issued and paid up share capital into two new ordinary shares of RM0.50 each for every one ordinary shares of RM1 each held
- c) Capitalisation by Ekowood of the amount owing to TSH of RM25,779,104 by issuance at par value of 51,558,208 new ordinary shares of RM0.50 each
- d) Bonus issue of 97,478,792 new ordinary shares of RM0.50 each to TSH through capitalisation of RM48,739,396 from the Share Premium Account on the basis of 2,916.573 new ordinary shares of RM0.50 each for every 2,110 existing ordinary shares of RM0.50 each held.

The above transactions (a) to (d) were completed on 1 March 2004.

- e) Offer for sale by TSH of Ekowood shares to the shareholders and/or warrant holders of TSH, eligible employees and Directors of the Ekowood Group and TSH, identified Bumiputera investors and identified public investors
- f) Grant of a share option by TSH to the CEO of Ekowood to purchase Ekowood shares
- g) Listing of and quotation for the entire paid-up share capital of Ekowood on the Main Board of Bursa Securities

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

2. GENERAL INFORMATION (Contd.)**2.3 Subsidiary Companies****a) Incorporation and Principal Activities**

Details of the subsidiary companies of Ekowood as at the date of this Report, are as follows:

Subsidiary	Principal activities	Effective equity interest (%)	Date of incorporation
TSH Products Sdn Bhd ("TPSB")	Investment holding and trading of engineered solid hardwood flooring	100	20-10-1997
Subsidiary companies of TPSB			
- TSH Products Inc ("TPI")	Sales of engineered solid hardwood flooring	100	03-05-2000
- TSH Parquet S.A. ("TPSA")	Importation and distribution of engineered solid hardwood flooring	70	21-06-2000
Ekoloc System Sdn Bhd ("Ekoloc")	Supply and installation of engineered solid hardwood flooring and sub-licencing of the strip lock system for manufacturing of engineered solid hardwood flooring that uses mechanical locking system	100	01-08-1996
TSH-Iberica Del Parquet SL ("TIDP")	Sales of engineered solid hardwood flooring	80	29-12-1998
Ekowood Malaysia Sdn Bhd ("EMSB")	Supply and installation of engineered solid hardwood flooring	60	20-03-1995

11. ACCOUNTANTS' REPORT (Cont'd)



2. GENERAL INFORMATION (Contd.)

2.3 Subsidiary Companies

b) TPSB

TPSB was incorporated as a private limited liability company in Malaysia on 20 October 1997 under the name of Exotic Plantations Sdn Bhd. This was subsequently changed to the Company's present name on 1 July 1998.

The present authorised share capital of TPSB is RM100,000 divided into 100,000 ordinary shares of RM1.00 each and the issued and fully paid-up share capital is RM2.00 comprising 2 ordinary shares of RM1.00 each.

c) Subsidiary Companies of TPSB

i) TPI

TPI was incorporated as a private limited liability company under the laws of the State of California in the United States of America, on 3 May 2000 under the name of TSH Products Inc..

The present authorised share capital of TPI is USD1,000,000 divided into 1,000,000 ordinary shares of USD1.00 each and the issued and fully paid-up share capital is USD1,000 comprising 1,000 ordinary shares of USD1.00 each.

ii) TPSA

TPSA was incorporated as a societe anonyme "private limited liability company" under the laws of Luxembourg, on 21 June 2000 under the name of TSH Parquet S.A..

The present authorised share capital of TPSA is EURO310 divided into 310 ordinary shares of EURO100 each and the issued and fully paid-up share capital is EURO31,000 comprising 310 ordinary shares of EURO100 each.

d) Ekoloc

Ekoloc was incorporated as a private limited liability company in Malaysia on 1 August 1996 under the name of TSH Flooring System Sdn Bhd. The Company adopted its present name on 16 January 2003.

The present authorised share capital of Ekoloc is RM100,000 divided into 100,000 ordinary shares of RM1.00 each.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

2. GENERAL INFORMATION (Contd.)**2.3 Subsidiary Companies (Contd.)****d) Ekoloc (Contd.)**

The movements of Ekoloc's issued and paid up share capital since 1 August 1996 (date of incorporation) are as follows:

Date of allotment	No of ordinary shares of RM1.00 each	Consideration	Cumulative RM
1 August 1996	2	Cash	2
26 May 1997	99,998	Cash	100,000

e) TIDP

Iberica was incorporated as a private limited liability company in Spain on 29 December 1998 under the name of TSH-Iberica Del Parquet, S.L..

The movements of Iberica's authorised share capital since 29 December 1998 (date of incorporation) are as follows:

	Number of social shares of:
	1,000 pesetas each
As at date of incorporation, 29 December 1998	500,000
	EURO6.01 each
Converted to Euro on 1 January 2002	3,005

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

2. GENERAL INFORMATION (Contd.)**2.3 Subsidiary Companies (Contd.)****e) TIDP (Contd.)**

The changes in the issued and fully paid-up share capital of Iberica since the date of its incorporation are as follows:

Date of allotment/ conversion	No of social shares of:	Consideration	Cumulative
29 December 1998	Pesetas 1,000 each	Cash	Pesetas
	500		500,000
1 January 2002	EURO6.01 each	N/A	EURO
	500		3,005

f) EMSB

EMSB was incorporated as a private limited liability company in Malaysia on 20 March 1995 under the name of Sejahtera Intelek Sdn Bhd. The Company changed its name to TSH Wood Industries Sdn Bhd on 19 May 1995, and subsequently adopted its present name on 4 September 2001.

The movements of EMSB's authorised share capital since 20 March 1995 (date of incorporation) are as follows:

	Number of ordinary shares of RM1.00 each
As at date of incorporation, 20 March 1995	100,000
Created on:	
14 June 2002	400,000
	500,000

The changes in the issued and fully paid-up share capital of EMSB since the date of its incorporation are as follows:

Date of allotment	No of ordinary shares of RM1.00 each	Consideration	Cumulative RM
20 March 1995	2	Cash	2
28 September 2001	4,998	Cash	5,000
14 June 2002	495,000	Cash	500,000

11. ACCOUNTANTS' REPORT (Cont'd)



2. GENERAL INFORMATION (Contd.)

2.4 Dividends

There were no dividends declared by Ekowood or its subsidiary companies in respect of the financial years/periods covered in this Report.

3. AUDITORS

The financial statements of the Ekowood Group for the relevant financial periods covered in this Report were audited by Ernst & Young with the exception of the following:

	<u>Company</u>	
a)	TPI	Financial period/years ended 31 December 2000 to 2002
b)	TPSA	Financial period/years ended 31 December 2000 to 2002
c)	TIDP	Financial period/years ended 31 December 1999 to 2002

The financial statements of these companies are not required to be audited in their respective countries of incorporation. Accordingly, all financial information of these companies presented in this Report for the period/years as stated above were derived from unaudited management accounts and other related data. For the financial year ended 31 December 2003 and financial period ended 30 June 2004, the financial statements of these companies were audited for inclusion in this Report.

The auditors' reports of the abovenamed companies for the periods stated and of the other companies within the Ekowood Group for the periods covered in this Report were not subject to any qualification.

4. ACCOUNTING POLICIES AND STANDARDS

This report is prepared on bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements of Ekowood and its subsidiary companies, and in accordance with applicable Approved Accounting Standards in Malaysia in those relevant financial years/periods under review.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

5. SUMMARISED INCOME STATEMENTS**5.1 Ekowood Group****5.1.1 Profit track record of the Group**

The following consolidated profit track record of the Group has been presented based on the audited consolidated financial statements of Ekowood, which consolidates the financial statements of the Company with its subsidiary companies using the acquisition method of accounting from the date on which control of the respective subsidiary company is transferred to the Group.

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	30 June 2004
	RM	RM	RM	RM	RM	RM
Revenue	61,956,852	73,140,639	81,129,164	91,112,096	110,675,358	61,887,500
Cost of sales	(46,547,243)	(52,357,975)	(58,567,887)	(59,971,413)	(67,076,975)	(33,819,254)
Gross profit	15,409,609	20,782,664	22,561,277	31,140,683	43,598,383	28,068,246
Other income	157,086	13,286	17,283	26,483	83,740	57,484
Operating expenses	(3,695,669)	(5,580,119)	(9,092,692)	(12,085,926)	(18,175,094)	(13,262,574)
Profit before interest, tax, depreciation and amortisation	11,871,026	15,215,831	13,485,868	19,081,240	25,507,029	14,863,156
Depreciation and amortisation	(3,549,989)	(3,787,894)	(3,811,000)	(3,942,782)	(4,313,502)	(2,335,723)
Interest expense	(4,720,901)	(4,261,947)	(2,095,338)	(2,213,909)	(2,498,921)	(654,264)
Profit before taxation	3,600,136	7,165,990	7,579,530	12,924,549	18,694,606	11,873,169
Taxation	(4,822)	(972,937)	(1,456,935)	(4,646,321)	(3,864,321)	(1,187,609)
Profit after taxation	3,595,314	6,193,053	6,122,595	8,278,228	14,830,285	10,685,560
Minority interests	(17,560)	14,846	(88,823)	238,258	(19,404)	(25,579)
Profit after taxation and minority interest	3,577,754	6,207,899	6,033,772	8,516,486	14,810,881	10,659,981
Effective tax rate (%)	0.1%	13.6%	19.2%	35.9%	20.7%	10.0%
Basic earnings per share:						
Weighted average number of ordinary shares in issue*	115,906,792	115,906,792	115,906,792	115,906,792	116,204,340	151,002,789
Gross earnings per share (RM)	0.03	0.06	0.07	0.11	0.16	0.08
Net earnings per share (RM)	0.03	0.05	0.05	0.07	0.13	0.07

* Calculated after retrospective adjustments for bonus issue and shares split on 1 March 2004.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.1 Ekowood Group (Contd.)

5.1.2 Analysis of revenue and profits of the Group

Analysis by company

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	RM
<u>Revenue by company</u>						
Ekowood	11,491,994	9,810,058	7,641,377	7,464,412	7,923,176	2,966,531
TPSB	46,473,951	56,387,876	56,314,839	48,470,282	38,252,000	24,817,293
TIDP	3,990,907	6,067,746	7,777,296	14,471,816	16,686,931	9,958,271
TPI	▲	726,184	4,770,254	6,422,933	18,623,627	5,462,112
TPSA	▲	148,775	3,158,026	10,181,696	21,250,878	14,844,439
EMSB	◇	◇	1,467,372	4,100,957	7,897,829	3,838,854
Ekoloc	◇	◇	◇	◇	40,917	-
	<u>61,956,852</u>	<u>73,140,639</u>	<u>81,129,164</u>	<u>91,112,096</u>	<u>110,675,358</u>	<u>61,887,500</u>
<u>Profit after taxation by company</u>						
Ekowood	3,537,809	6,820,691	7,511,942	10,820,512	18,494,957	12,000,880
TPSB	37,512	33,419	280,439	152,537	(206,699)	630,485
TIDP	19,993	152,290	62,482	178,557	97,019	127,899
TPI	▲	(557,907)	(823,084)	(872,453)	(1,067,582)	(296,446)
TPSA	▲	(255,440)	(1,100,499)	(1,200,722)	(1,793,118)	(1,071,011)
EMSB	◇	◇	191,315	(800,203)	(725,424)	(307,834)
Ekoloc	◇	◇	◇	◇	31,132	(398,413)
	<u>3,595,314</u>	<u>6,193,053</u>	<u>6,122,595</u>	<u>8,278,228</u>	<u>14,830,285</u>	<u>10,685,560</u>

▲ Not yet incorporated

◇ Not yet acquired by the Group

Commentary on past performance and analysis of revenue and profits of the Group

The activity of the Group is manufacture and sale of engineered solid hardwood flooring. Ekowood's subsidiaries, other than Ekoloc and EMSB, act as marketing agents for the Company's products in their respective countries. As such, the past performance of the Group is reflected through the past performance of the Company and the respective subsidiary companies.

Detailed analysis for Ekowood Group for the financial years/periods covered by this Report is set out in the following sections.

There were no extraordinary or exceptional items in the past five (5) financial years ended 31 December 1999 to 31 December 2003 and the six (6)-months period ended 30 June 2004 for the Company and its subsidiary companies.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.2 Ekowood

5.2.1 Profit track record of the Company

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	30 June 2004
	RM	RM	RM	RM	RM	RM
Revenue	61,536,853	74,442,915	79,186,975	84,578,653	104,794,623	56,134,073
Cost of sales	(47,057,132)	(55,602,080)	(60,206,207)	(58,844,210)	(69,744,252)	(35,151,212)
Gross profit	14,479,721	18,840,835	18,980,768	25,734,443	35,050,371	20,982,861
Other income	157,086	13,286	17,304	1,051,280	2,790,382	147,852
Operating expenses	(2,203,168)	(2,396,098)	(3,308,188)	(2,955,701)	(4,011,078)	(4,944,151)
Profit before interest, tax, depreciation and amortisation	12,433,639	16,458,023	15,689,884	23,830,022	33,829,675	16,186,562
Depreciation and amortisation	(3,549,989)	(3,784,539)	(3,802,228)	(3,829,677)	(4,117,498)	(2,227,606)
Interest expense	(4,720,901)	(4,258,364)	(2,058,355)	(2,172,217)	(2,454,789)	(631,279)
Profit before taxation	4,162,749	8,415,120	9,829,301	17,828,128	27,257,388	13,327,677
Taxation	-	(926,000)	(1,393,000)	(4,621,000)	(3,870,653)	(1,187,266)
Profit after taxation	4,162,749	7,489,120	8,436,301	13,207,128	23,386,735	12,140,411
Effective tax rate (%)	0.0%	11.0%	14.2%	25.9%	14.2%	8.9%
Basic earnings per share:						
Weighted average number of ordinary shares in issue	115,906,792	115,906,792	115,906,792	115,906,792	116,204,340	151,002,789
Gross earnings per share (RM)	0.04	0.07	0.08	0.15	0.23	0.09
Net earnings per share (RM)	0.04	0.06	0.07	0.11	0.20	0.08

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.2 Ekowood (Contd.)****5.2.2 Analysis of revenue and profits**

Revenue and profits were derived from the manufacture and sale of engineered solid hardwood flooring, hence analyses of revenue and profits by activity, product and division are not applicable.

Analysis of revenue and profits after tax from export and local sales is as follows:

	Year ended 31 December					Period ended
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	RM
REVENUE						
Export sales	52,892,676	67,322,020	74,326,171	78,501,123	94,903,457	52,366,782
Cost of sales	(39,927,143)	(49,439,403)	(55,146,691)	(53,382,359)	(61,934,120)	(31,490,276)
Profit from export sales	12,965,533	17,882,617	19,179,480	25,118,764	32,969,337	20,876,506
Local sales	8,644,177	7,120,895	4,860,804	6,077,530	9,891,166	3,767,291
Cost of sales	(7,129,989)	(6,162,677)	(5,059,516)	(5,461,851)	(7,810,132)	(3,660,936)
Profit/(loss) from local sales	1,514,188	958,218	(198,712)	615,679	2,081,034	106,355
Gross profit	14,479,721	18,840,835	18,980,768	25,734,443	35,050,371	20,982,861
Other income	157,086	13,286	17,304	1,051,280	2,790,382	147,852
EXPENDITURE						
Selling expenses	(25,272)	(8,008)	(45,251)	(120,607)	(144,134)	(452,487)
Administrative expenses	(5,399,619)	(6,079,743)	(6,967,817)	(6,460,954)	(7,789,406)	(4,817,221)
Finance costs	(4,720,901)	(4,258,364)	(2,058,355)	(2,172,217)	(2,454,789)	(631,279)
Other operating expenses	(328,266)	(92,886)	(97,348)	(203,817)	(195,036)	(1,902,049)
	(10,474,058)	(10,439,001)	(9,168,771)	(8,957,595)	(10,583,365)	(7,803,036)
Profit before tax	4,162,749	8,415,120	9,829,301	17,828,128	27,257,388	13,327,677
Taxation	-	(926,000)	(1,393,000)	(4,621,000)	(3,870,653)	(1,187,266)
Profit after taxation	4,162,749	7,489,120	8,436,301	13,207,128	23,386,735	12,140,411

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.2 Ekowood (Contd.)****5.2.2 Analysis of revenue and profits (Contd.)**

Analysis by percentage:

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	30 June 2004
REVENUE						
Export sales	86.0%	90.4%	93.9%	92.8%	90.6%	93.3%
Local sales	14.0%	9.6%	6.1%	7.2%	9.4%	6.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COST OF SALES						
Export sales	84.8%	88.9%	91.6%	90.7%	88.8%	89.6%
Local sales	15.2%	11.1%	8.4%	9.3%	11.2%	10.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GROSS PROFIT						
Export sales	89.5%	94.9%	101.0%	97.6%	94.1%	99.5%
Local sales	10.5%	5.1%	(1.0%)	2.4%	5.9%	0.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

5.2.3 Analysis of other income of the Company

Unrealised gain on foreign exchange	157,086	13,286	8,050	960,885	2,666,181	-
Interest on advances to subsidiary company	-	-	9,254	70,416	96,701	54,255
Management fees	-	-	-	-	-	72,000
Overdue interest	-	-	-	19,979	-	-
Rental income	-	-	-	-	27,500	15,000
Others	-	-	-	-	-	6,597
	157,086	13,286	17,304	1,051,280	2,790,382	147,852

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.2 Ekowood (Contd.)

5.2.4 Commentary on past performance of the Company

(i) Review of financial performance

FYE 1999

Revenue was derived from sales of laminated board and wood flooring (eg. 3 ply parquet, single -strip parquet). Revenue increased significantly during FYE 1999, with the increase mainly contributed by export sales of 3 ply parquet.

Gross margin has similarly improved from the increased production volume for FYE 1999. The higher production volume had improved both unit costs for labour and overhead, while selling prices have increased from increased overseas demand as well.

FYE 2000

Sales continued to improve in FYE 2000, both in terms of quantity and prices. Gross margin consequently showed a slight improvement from the improved prices.

The pre-tax profit margin increased by 5% in FYE 2000, mainly from the reduction in interest expenses as borrowings are progressively repaid.

FYE 2001

Total sales volume increased slightly during FYE 2001, while average selling prices of products showed a net increase despite a fall in prices of laminated board and 3 ply parquet. Both the selling prices and sales volume of laminated board decreased. Although the sales price of 3 ply parquet decreased, quantity sold had increased sufficiently to result in a net increase in total sales revenue.

Gross margin and pre-tax profit margins remained steady despite the individual price falls mentioned above. Operating expenses showed a fair increase mainly due to electricity charges under-billed in previous years being taken up, and an increase in staff costs.

FYE 2002

Prices and quantity of wood flooring continued to rise in FYE 2002. This is attributed to higher demand for engineered solid hardwood flooring ("ESHF") which continue to grow because of the "cross gain" technology applied making ESHF more stable as compared to solid wood flooring.

Gross margin showed a significant improvement, mainly due to the increase in selling prices. Pre-tax profit margin increased as well, partially due to an increase in realised foreign exchange gain arising from the strengthening Euro.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.2 Ekowood (Contd.)

5.2.4 Commentary on past performance of the Company (Contd.)

(i) Review of financial performance (Contd.)

FYE 2003

The Company continued to focus on producing ESHF in view of its higher demand and better selling prices. The high sales increase in FYE 2003 was contributed by price improvement while sales quantity had in fact shown a slight decrease. The increase in prices was mainly attributed to the Euro, which continued to strengthen relative to the Ringgit Malaysia during FYE 2003. The Company was able to enjoy the resultant exchange gain as a large portion of its sales comprised exports to Europe.

Gross and pre-tax margins similarly improved from the exchange gains from foreign currency.

FPE 30 June 2004

Demand for ESHF continue to grow. Improvement in performance was mainly attributed to the increase in sales volume of ESHF. Consequently, gross margin had improved on a similar note coupled with the cost savings achieved in production.

(ii) Effective tax rate

FYE 1999

There was no taxation liability as FYE 1999 was the basis period for the year of assessment 2000 (preceding year basis) wherein tax on income other than dividend income was waived.

FYE 2000

The effective tax rate was lower than the statutory tax rate mainly due to the exemption of pioneer profits and the utilisation of unabsorbed capital allowances and unabsorbed losses brought forward to offset the current year's profit.

The Company had been granted pioneer status for the 3-ply parquet and wooden furniture parts under the Promotion of Investments Act 1986 with effect from 1 August 1997.

FYE 2001

Similar to FYE 2000, the effective tax rate was lower than the statutory tax rate due to the exemption of pioneer profits and the availability of unabsorbed losses brought forward to offset against the current year's profit.

FYE 2002

The effective tax rate was lower than the statutory tax rate mainly due to the exemption of pioneer profits from tax. However, the effective tax rate had increased from 14% to 26% for FYE 2002 due to underprovision of deferred tax in prior years. During the financial year, the pioneer status granted in 1997 expired on 31 July 2002. The Company has applied for pioneer status for wooden engineered flooring board which the Company had commercialised as ESHF.

11. ACCOUNTANTS' REPORT *(Cont'd)*



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.2 Ekowood (Contd.)

5.2.4 Commentary on past performance of the Company (Contd.)

(ii) Effective tax rate (Contd.)

FYE 2003

The lower effective tax rate compared to the statutory tax rate was due to pioneer profits being exempted from tax pursuant to the pioneer status stated in the earlier paragraph.

FPE 30 June 2004

During the financial period, the Company was officially granted pioneer status for ESHF and the status will be for a period of five (5) years, ie. commencing 1 August 2002 and expiring on 31 July 2007. Thus, the effective tax rate was lower due to the pioneer profits being exempted from tax.

5.2.5 Earnings per share

The gross and net earnings per share is calculated based on profit before taxation and profit for the year/period respectively to Ekowood's weighted average number of ordinary shares in issue, after retrospective adjustments for bonus issue and shares split on 1 March 2004.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.3 TPSB

5.3.1 Profit track record

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	30 June 2004
	RM	RM	RM	RM	RM	RM
Revenue	50,953,807	66,165,249	73,362,493	76,779,512	92,818,163	53,568,836
Cost of sales	(49,935,515)	(64,632,857)	(71,162,481)	(74,926,107)	(90,674,420)	(51,186,068)
Gross profit	1,018,292	1,532,392	2,200,012	1,853,405	2,143,743	2,382,768
Other income	-	-	23,580	-	-	-
Operating expenses	(980,780)	(1,498,973)	(1,943,153)	(1,700,868)	(2,350,442)	(1,824,283)
Profit/(loss) before taxation	37,512	33,419	280,439	152,537	(206,699)	558,485
Taxation	-	-	-	-	-	-
Profit after taxation	37,512	33,419	280,439	152,537	(206,699)	558,485
Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Basic earnings per share:</u>						
Weighted average number of ordinary shares in issue	2	2	2	2	2	2
Gross earnings per share (RM)	18,756.00	16,709.50	140,219.50	76,268.50	(103,349.50)	279,242.50
Net earnings per share (RM)	18,756.00	16,709.50	140,219.50	76,268.50	(103,349.50)	279,242.50

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.3 TPSB (Contd.)

5.3.2 Analysis of revenue and profits

Revenue and profits were derived solely from the sale of ESHF, hence analysis of revenue and profits by activity, product and division are not applicable.

Analysis of revenue and profits after tax from export and local sales is as follows:

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM	RM
REVENUE						
Export sales	50,669,013	65,593,871	73,133,001	76,779,512	92,818,163	53,568,836
Cost of sales	(49,656,413)	(64,074,601)	(70,937,579)	(74,926,107)	(90,674,420)	(51,186,067)
Profit from export sales	1,012,600	1,519,270	2,195,422	1,853,405	2,143,743	2,382,769
Local sales	284,794	571,378	229,492	-	-	-
Cost of sales	(279,102)	(558,256)	(224,902)	-	-	-
Profit from local sales	5,692	13,122	4,590	-	-	-
Gross profit	1,018,292	1,532,392	2,200,012	1,853,405	2,143,743	2,382,769
Other income	-	-	23,580	-	-	-
EXPENDITURE						
Selling expenses	(870,209)	(1,237,921)	(1,562,236)	(1,460,074)	(2,101,233)	(1,597,189)
Administrative expenses	(110,571)	(261,052)	(380,917)	(240,794)	(249,209)	(227,095)
	(980,780)	(1,498,973)	(1,943,153)	(1,700,868)	(2,350,442)	(1,824,284)
Profit/(loss) before tax	37,512	33,419	280,439	152,537	(206,699)	558,485
Taxation	-	-	-	-	-	-
Profit/(loss) after taxation	37,512	33,419	280,439	152,537	(206,699)	558,485

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.3 TPSB (Contd.)

5.3.2 Analysis of revenue and profits (Contd.)

Analysis by percentage:

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	30 June 2004
REVENUE						
Export sales	99.4%	99.1%	99.7%	100.0%	100.0%	100.0%
Local sales	0.6%	0.9%	0.3%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COST OF SALES						
Export sales	99.4%	99.1%	99.7%	100.0%	100.0%	100.0%
Local sales	0.6%	0.9%	0.3%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GROSS PROFIT						
Export sales	99.4%	99.1%	99.8%	100.0%	100.0%	100.0%
Local sales	0.6%	0.9%	0.2%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

5.3.3 Analysis of other income

Interest received from
related companies

	-	-	23,580	-	-	-
--	---	---	--------	---	---	---

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5 SUMMARISED INCOME STATEMENTS (Contd.)

5.3 TPSB (Contd.)

5.3.4 Commentary on past performance

(i) Review of financial performance

FYE 1999

TPSB commenced business operations in July 1998 hence revenue for FYE 1999 had almost doubled since the previous financial year, mainly due to improved demand from overseas markets for wood flooring.

Gross margin had similarly increased as well, from the higher export prices enjoyed during FYE 1999.

FYE 2000

Demand continued to improve in FYE 2000, with improvements in both quantity and prices. The increase in demand was again mainly seen in overseas markets.

Gross margin remained fairly consistent, but pre-tax margin had fallen slightly. This was due to heavier selling and promotion expenses incurred on overseas markets, and an increase in bank charges as there are more receipts from foreign customers following the large improvement in export sales experienced in FYE 1999.

FYE 2001

Selling prices continued to rise in FYE 2001, together with an encouraging increase in quantity sold. The improved sales price contributed to the increase in gross margin, which cascaded to a considerable improvement in pre-tax profit margin. The improvement in pre-tax profit margin was in spite of a disproportionate increase in selling expenses, as management continued to increase their promotional and selling activities in overseas markets.

FYE 2002

There was a slight increase in gross sales from customers' orders for showcases, display stands and display frames. However, gross margin showed a drop after the increase in FYE 2001's selling prices, mainly due to some increase in purchase price from Ekowood during FYE 2002.

Meanwhile, pre-tax margin showed a proportionately smaller decrease, primarily due to lower sales commission and promotional expenses incurred. Less promotional expenses were incurred as management had concentrated their effort on promotional and selling activities in prior years.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5 SUMMARISED INCOME STATEMENTS (Contd.)

5.3 TPSB (Contd.)

5.3.4 Commentary on past performance

(i) Review of financial performance (Contd.)

FYE 2003

Despite the increase in total sales, gross margin showed a slight decrease again, mainly due to higher purchase prices from Ekowood. Quantity sold had increased as well, with the proportion of intra-group sales having increased relative to external sales.

Although the value of gross profits had increased, the Company incurred a loss for FYE 2003 - this was mainly due to a surge in advertising and promotional expenses again, following the lower level of promotional activities last year. The upsurge was mainly targeted at the Company's various export markets.

FPE 30 June 2004

The performance for the first six months of the financial year 2004 has seen the revenue, gross profit and net profit of the Company improve significantly, catapulting its position from a net loss position in the previous year to a net profit.

This significant turn around is mainly due to the increase in demand from the export markets.

(ii) Effective tax rate

FYE 1999

There was no taxation liability as FYE 1999 was the basis period for the year of assessment 2000 (preceding year basis) wherein tax on income other than dividend income was waived.

FYE 2000

No tax expenses were incurred for FYE 2000 due to the availability of unabsorbed tax losses brought forward for offset against chargeable income.

FYE 2001

There was no taxation liability for FYE 2001 due to the availability of double deductions for promotion of exports to offset against chargeable income.

FYE 2002

Similar to FYE 2001, there was no tax expenses due to the availability of double deductions for promotion of exports to offset against chargeable income.

FYE 2003

No taxation liability is anticipated for FYE 2003 as the Company incurred a loss during the financial year.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5 SUMMARISED INCOME STATEMENTS (Contd.)

5.3 TPSB (Contd.)

5.3.4 Commentary on past performance

(ii) Effective tax rate (Contd.)

FPE 30 June 2004

No taxation liability is anticipated as the Company is expected to benefit from double deductions for promotion of exports and unabsorbed business losses brought forward to offset against chargeable income.

5.3.5 Earnings per share

The gross and net earnings per share is calculated based on profit/(loss) before taxation and profit/(loss) for the year/period respectively to TPSB's weighted average number of ordinary shares in issue in the relevant year/period under review.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.4 TPI

5.4.1 Profit track record

	← Unaudited →			← Audited →	
	Period ended 31 December 2000	Year ended 31 December 2001 2002		2003	Period ended 30 June 2004
	RM	RM	RM	RM	RM
Revenue	726,184	4,770,254	6,381,313	18,623,627	5,462,112
Cost of sales	(670,122)	(4,276,421)	(5,612,563)	(17,385,559)	(4,704,252)
Gross profit	56,062	493,833	768,750	1,238,068	757,860
Other income	-	9,233	41,620	26,092	1,638
Operating expenses	(608,772)	(1,307,288)	(1,678,828)	(2,326,722)	(1,052,716)
Loss before interest, tax and depreciation	(552,710)	(804,222)	(868,458)	(1,062,562)	(293,218)
Depreciation	(1,614)	(3,281)	(3,995)	(5,020)	(3,228)
Interest expense	(3,583)	(15,581)	-	-	-
Loss before taxation	(557,907)	(823,084)	(872,453)	(1,067,582)	(296,446)
Taxation	-	-	-	-	-
Loss after taxation	(557,907)	(823,084)	(872,453)	(1,067,582)	(296,446)
Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Basic earnings per share:</u>					
Weighted average number of ordinary shares in issue	1,000	1,000	1,000	1,000	1,000
Gross earnings per share (RM)	(557.91)	(823.08)	(872.45)	(1,067.58)	(296.45)
Net earnings per share (RM)	(557.91)	(823.08)	(872.45)	(1,067.58)	(296.45)

TPI was incorporated in the United States of America on 3 May 2000, and its first financial reporting period was from 3 May 2000 to 31 December 2000 as above.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.4 TPI (Contd.)****5.4.2 Analysis of revenue and profits**

The Company derived its revenue and profits entirely from sales of wood flooring within the United States of America during the period covered by this Report. Accordingly, analyses of revenue and profits by activity, product, division and export/local is not applicable.

5.4.3 Analysis of other income

	← Unaudited →			← Audited →	
	Period ended 31 December 2000	Year ended 31 December		Period ended 30 June 2004	
	RM	RM	RM	RM	RM
Commission received	-	4,278	41,620	25,805	1,638
Sundry income	-	4,955	-	287	-
	-	9,233	41,620	26,092	1,638

5.4.4 Commentary on past performance**(i) Review of financial performance**FPE 2000

Despite having commenced initial operations in FPE 2000, the Company made a small profit from sales of wood flooring. There was a high pre-tax loss margin as FPE 2000 was the Company's first period of operations, wherein start-up and one-off costs incurred had been charged to income statement.

FYE 2001

Sales for FYE 2001 had shown a leap in improvement as the Company began to establish its customer base and reputation in FYE 2001. The Company had widened its sales product range as well, and sales volume was more than doubled as a result of Management's diligent marketing and promotion efforts.

Gross margin improved from 7% to 10% in FYE 2001 as a result of a visible price increase in all of the Company's products. Although still in a loss-making position, pre-tax loss margin had been reduced significantly with the absence of the heavy start-up costs incurred in the previous year.

FYE 2002

Trading results continued to improve in FYE 2002, with continuous increase in both sales volume and prices of its wood flooring products.

Gross margin continued its upward trend, with the sustained increases in selling price. Meanwhile, pre tax loss margin had been further reduced as the higher sales volume was able to improve cost utilisation.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.4 TPI (Contd.)

5.4.4 Commentary on past performance

(i) Review of financial performance (Contd.)

FYE 2003

Although trading volume had more than doubled, there was some decrease in average prices of the Company's wood flooring products.

Gross margin had consequently deteriorated from the price decrease. However, the increase in sales volume resulted in total revenue being tripled since FYE 2002, thus enabling further improvement in pre-tax loss margin from more efficient cost utilisation.

FPE 30 June 2004

Less sales were made during the period unlike in the previous year when more bulk sales were made. The Company has maintained a similar pre tax margin as compared to previous year.

(ii) Effective tax rate

There was no taxation expense throughout the period covered by this Report as the Company had incurred losses during the financial periods/years.

5.4.5 Earnings per share

The gross and net earnings per share is calculated based on loss before taxation and loss for the year/period respectively to TPI's weighted average number of ordinary shares in issue in the relevant year/period under review.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.5 TPSA

5.5.1 Profit track record

	← Unaudited →			← Audited →	
	Period ended	Year ended 31 December		Period ended	
	31 December	2001	2002	2003	30 June
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Revenue	148,775	3,112,572	10,121,458	21,051,768	14,844,439
Cost of sales	(104,306)	(2,909,980)	(8,713,297)	(17,687,154)	(12,244,547)
Gross profit	44,469	202,592	1,408,161	3,364,614	2,599,892
Other income	-	-	7,341	17,543	19,982
Operating expenses	(299,909)	(1,300,286)	(2,615,269)	(5,168,938)	(3,669,207)
Loss before interest and tax	(255,440)	(1,097,694)	(1,199,767)	(1,786,781)	(1,049,333)
Depreciation	-	-	-	(4,217)	(19,527)
Interest expense	-	(2,805)	(955)	(2,120)	(2,151)
Loss before taxation	(255,440)	(1,100,499)	(1,200,722)	(1,793,118)	(1,071,011)
Taxation	-	-	-	-	-
Loss after taxation	(255,440)	(1,100,499)	(1,200,722)	(1,793,118)	(1,071,011)
Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Basic earnings per share:</u>					
Weighted average number of ordinary shares in issue	310	310	310	310	310
Gross earnings per share (RM)	(824.00)	(3,550.00)	(3,873.30)	(5,784.25)	(3,454.87)
Net earnings per share (RM)	(824.00)	(3,550.00)	(3,873.30)	(5,784.25)	(3,454.87)

TPSA was incorporated in Luxembourg on 21 June 2000 as a joint venture company with an unrelated company, Clarkeson Management Company Ltd., in Luxembourg, and its first financial reporting period was from 21 June 2000 to 31 December 2000 as above.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.5 TPSA (Contd.)

5.5.2 Analysis of revenue and profits

The Company derived its revenue and profits entirely from sales of wood flooring within Europe during the period covered by this Report. Accordingly, analyses of revenue and profits by activity, product, division and export/local is not applicable.

5.5.3 Analysis of other income

Other income for FYE 2002, FYE 2003 and FPE 30 June 2004 comprises rental income.

5.5.4 Commentary on past performance

(i) Review of financial performance

FPE 2000

The Company registered a loss during its first period of operations, mainly due to initial start-up costs. Only a small quantity of wood flooring was sold during this inaugural period. A relatively high gross profit margin was recorded during the period due to the considerably high selling prices in FPE 2000.

FYE 2001

There was a slight increase in average selling price contributed by slight changes in product sales mix as the Company widened its offered range of wood flooring during the financial year.

Gross margin for FYE 2001 had decreased dramatically due to the changed sales mix as well. Operating expenses had increased mainly due to exhibition and marketing expenses, sales commission, staff costs and depreciation. However, pre-tax margin had improved since the previous year due to the increased sales volume.

FYE 2002

Sales volume had tripled in FYE 2002, together with increases in prices of all ESHF.

As a result of the price increases across the board, gross margin had improved significantly in FYE 2002. Meanwhile, pre-tax margin continued to improve from the high sales increase, and rising fixed cost efficiencies.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.5 TPSA (Contd.)

5.5.4 Commentary on past performance (Contd.)

(i) Review of financial performance (Contd.)

FYE 2003

Sales continued to escalate in FYE 2003 from higher sales quantity; this had almost doubled during the financial year. However, selling prices of ESHF had suffered a decline in real terms. On the other hand, the price decline was more than adequately compensated from the Ringgit Malaysia ("RM") viewpoint by foreign exchange gains from the strengthening Euro.

As mentioned above, the foreign exchange gain contributed to a price increase in terms of RM, thereby giving rise to further improvement in gross margin. Similar to the previous year, pre-tax margin continued to increase from better cost efficiencies as sales had increased dramatically.

FPE 30 June 2004

Performance of the Company has been slowly picking up during the period due to the Company's products being more in demand.

(ii) Effective tax rate

There was no taxation expense throughout the period covered by this Report as the Company had incurred losses during the financial periods/years.

5.5.5 Earnings per share

The gross and net earnings per share is calculated based on loss before taxation and loss for the year/period respectively to TPSA's weighted average number of ordinary shares in issue in the relevant year/period under review.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.6 Ekoloc

5.6.1 Profit track record

	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM	RM
Revenue	23,344	2,394	283,893	658,373	113,218	841,058
Cost of sales	(31,268)	(2,394)	(283,893)	(605,498)	(18,044)	(829,147)
Gross (loss)/profit	(7,924)	-	-	52,875	95,174	11,911
Operating expenses	(29,526)	(14,534)	(6,440)	(11,647)	(24,455)	(1,333)
(Loss)/Profit before tax and depreciation	(37,450)	(14,534)	(6,440)	41,228	70,719	10,578
Depreciation	(562)	(563)	(563)	(562)	(422)	-
(Loss)/Profit before taxation	(38,012)	(15,097)	(7,003)	40,666	70,297	10,578
Taxation	-	-	-	-	-	-
(Loss)/Profit after taxation	(38,012)	(15,097)	(7,003)	40,666	70,297	10,578
Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Basic earnings per share:</u>						
Weighted average number of ordinary shares in issue	100,000	100,000	100,000	100,000	100,000	100,000
Gross earnings per share (RM)	(0.38)	(0.15)	(0.07)	0.41	0.70	0.11
Net earnings per share (RM)	(0.38)	(0.15)	(0.07)	0.41	0.70	0.11

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.6 Ekoloc (Contd.)

5.6.2 Analysis of revenue and profits

Revenue and profits were derived from local flooring installation projects, contract management fees and sub-licence fees, hence analyses of revenue and profits by product, division and export/local are not applicable.

Analysis of revenue and profits after tax by activity is as follows:

	Year ended 31 December					Period ended
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	RM
REVENUE						
Proceeds from installation contracts	23,344	2,394	283,893	605,498	18,044	-
Cost of contracts	(31,268)	(2,394)	(283,893)	(605,498)	(18,044)	-
Loss from installation contracts	(7,924)	-	-	-	-	-
Contract management fee	-	-	-	52,875	95,174	-
Cost of sales	-	-	-	-	-	-
Profit from contract management	-	-	-	52,875	95,174	-
Sub-licence fee	-	-	-	-	-	841,058
Cost of sales	-	-	-	-	-	(829,147)
Profit from sub-licence fee	-	-	-	-	-	11,911
Gross (loss)/profit	(7,924)	-	-	52,875	95,174	11,911
EXPENDITURE						
Administrative expenses	(30,088)	(15,097)	(7,003)	(12,209)	(24,877)	(1,333)
(Loss)/Profit before taxation	(38,012)	(15,097)	(7,003)	40,666	70,297	10,578
Taxation	-	-	-	-	-	-
(Loss)/Profit after taxation	(38,012)	(15,097)	(7,003)	40,666	70,297	10,578

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.6 Ekoloc (Contd.)****5.6.2 Analysis of revenue and profits (Contd.)**

Analysis by percentage:

	Year ended 31 December				Period ended 30 June	
	1999	2000	2001	2002	2003	2004
REVENUE						
Installation contracts	100.0%	100.0%	100.0%	92.0%	15.9%	0.0%
Contract management	0.0%	0.0%	0.0%	8.0%	84.1%	0.0%
Sub-licence fee	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COST OF SALES						
Installation contracts	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%
Contract management	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Sub-licence fee	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GROSS PROFIT						
Installation contracts	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contract management	0.0%	0.0%	0.0%	100.0%	100.0%	0.0%
Sub-licence fee	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
	100.0%	0.0%	0.0%	100.0%	100.0%	100.0%

5.6.3 Commentary on past performance**(i) Review of financial performance****FYE 1999**

Revenue for the year was mainly from flooring installation projects of Clean and Handy Sdn Bhd (CHSB), a related party of the Company. CHSB has an arrangement with the Company whereby CHSB would undertake contract works while billings would be issued by the Company. Meanwhile, the Company would purchase materials for contract consumption from EMSB at the same amount as the amount billed, ie. without any profits or losses generated. Contract works for FYE 1999 represent finishing works for CHSB's contracts commenced in previous years.

Losses for the year were contributed by other contracts performed for initial customers on a trial basis.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.6 Ekoloc (Contd.)

5.6.3 Commentary on past performance (Contd.)

(i) Review of financial performance (Contd.)

FYE 2000

Similar to FYE 1999, the small revenue for the year was solely from finishing works on CHSB's projects brought forward from previous years. There were no profits or losses generated from the revenue due to the arrangement mentioned above.

FYE 2001

The increase in revenue was due to CHSB obtaining new flooring installation contracts. As with the arrangement mentioned above, no profits or losses were generated. Operating expenses decreased significantly as the Company had no other activity during the year aside from billings to CHSB's contract customers and purchases from EMSB.

FYE 2002

Revenue was mainly contributed by billings on CHSB's contracts, but no profits or losses were generated. Profit for the year was generated solely from contract management fees charged to EMSB. Accordingly, operating expense showed a slight increase from administrative and staff costs utilized for contract management.

FYE 2003

Revenue from contract works had decreased in FYE 2003 as less projects were obtained from CHSB. However, revenue and profits from contract management had increased as higher contract management fees was charged to EMSB.

Gross and pre-tax margins appear to have increased substantially due to better margins obtained from contract management.

FPE 30 June 2004

Revenue is seen at its highest as compared to previous years' performances as revenue in the current period comprises only of sub-licence fees charged to Ekowood for the strip lock system for manufacturing of engineered hardwood flooring that uses mechanical locking system.

(ii) Effective tax rate

FYE 1999

There was no taxation liability as FYE 1999 was the basis period for the year of assessment 2000 (preceding year basis) wherein tax on income other than dividend income was waived.

FYE 2000

No taxation expense was incurred as the Company incurred a loss for the financial year.

FYE 2001

Similarly, there was no taxation expense as the Company incurred a loss for the financial year.

11. ACCOUNTANTS' REPORT *(Cont'd)*



AF: 0039

5. SUMMARISED INCOME STATEMENTS *(Contd.)*

5.6.3 Commentary on past performance *(Contd.)*

(ii) Effective tax rate *(Contd.)*

FYE 2002

There was no taxation expense for FYE 2002 due to the availability of capital allowances and unabsorbed tax losses brought forward for set off against taxable income.

FYE 2003

Similar to FYE 2002, there was no taxation expense due to the utilisation of unabsorbed tax losses brought forward for set off against taxable income.

FPE 30 June 2004

There was no taxation expense due to the utilisation of unabsorbed tax losses brought forward for setoff against taxable income.

5.6.4 Earnings per share

The gross and net earnings per share is calculated based on profit/(loss) before taxation and profit/(loss) for the year/period respectively to Ekoloc's weighted average number of ordinary shares in issue in the relevant year/period under review.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.7 EMSB

5.7.1 Profit track record

	Year ended 28/29 February		Period ended	Year ended	Period ended	
	2000	2001	31 December	31 December	30 June	
	2000	2001	2002	2002	2003	
	RM	RM	RM	RM	RM	
Revenue	-	-	2,471,243	3,097,086	7,897,829	3,838,854
Cost of sales	-	-	(2,086,398)	(2,446,236)	(6,541,786)	(3,152,433)
Gross profit	-	-	384,845	650,850	1,356,043	686,421
Other income	-	-	-	-	-	4,481
Operating expenses	(701)	(847)	(312,387)	(1,136,482)	(1,835,953)	(922,134)
(Loss)/Profit before interest, tax, depreciation and amortisation	(701)	(847)	72,458	(485,632)	(479,910)	(231,232)
Depreciation and amortisation	-	-	(13,991)	(94,894)	(148,813)	(76,602)
Interest expense	-	-	(19,797)	(59,873)	(96,701)	(54,255)
(Loss)/Profit before taxation	(701)	(847)	38,670	(640,399)	(725,424)	(362,089)
Taxation	-	-	(14,188)	7,029	-	-
(Loss)/Profit after taxation	(701)	(847)	24,482	(633,370)	(725,424)	(362,089)
Effective tax rate (%)	0.0%	0.0%	36.7%	1.1%	0.0%	0.0%
<u>Basic earnings per share:</u>						
Weighted average number of ordinary shares in issue	2	2	2,103	329,590	500,000	500,000
Gross earnings per share (RM)	(350.50)	(423.50)	18.39	(1.94)	(1.45)	(0.72)
Net earnings per share (RM)	(350.50)	(423.50)	11.64	(1.92)	(1.45)	(0.72)

5.7.1.1 Change in financial year end

EMSB was acquired by Ekowood on 28 September 2001, and in accordance with Section 168(1) of the Companies Act 1965, EMSB changed its financial year end from 28/29 February to 31 December to coincide with the financial year end of Ekowood. Accordingly, financial period ended 31 December 2002 above represents the financial results for the 10-month period from 1 March 2002 to 31 December 2002.

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.7 EMSB (Contd.)

5.7.1 Profit track record (Contd.)

5.7.1.2 Prior year adjustments

The above financial results have been prepared based on the audited financial statements of EMSB after making such adjustments including prior year adjustments as we considered appropriate for the respective financial years/period.

The prior year adjustments have been reflected in the respective year's financial statements as follows:

	Year ended 28/29 February		Period ended	Year ended	Period ended	
	2000	2001	31 December	31 December	30 June	
	2000	2001	2002	2002	2003	
	RM	RM	RM	RM	RM	
(Loss)/Profit before taxation as stated in the financial statements	-	(6,392)	38,670	(640,399)	(725,424)	(362,089)
Prior year adjustment for preliminary and pre-operating expenses written off in compliance with MASB 1	(701)	5,545	-	-	-	-
(Loss)/Profit before taxation as stated in this Report	(701)	(847)	38,670	(640,399)	(725,424)	(362,089)
Taxation	-	-	(14,188)	7,029	-	-
(Loss)/Profit after taxation as stated in this Report	(701)	(847)	24,482	(633,370)	(725,424)	(362,089)
(Accumulated losses)/ Retained profits brought forward						
- as stated in the financial statements	-	-	(6,392)	18,090	(615,280)	(1,340,704)
- prior year adjustment (as above)	(4,844)	(5,545)	-	-	-	-
- as stated in this report	(4,844)	(5,545)	(6,392)	18,090	(615,280)	(1,340,704)
(Accumulated losses)/ Retained profits carried forward	(5,545)	(6,392)	18,090	(615,280)	(1,340,704)	(1,702,793)

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.7 EMSB (Contd.)

5.7.2 Analysis of revenue and profits

The Company derived its revenue and profits entirely from local flooring installation contract works during the period covered by this Report. Analyses of revenue and profits by product, division and export/local are hence not applicable.

Analysis of revenue and profits by activity are as follows:

	Year ended 28/29 February		Period ended	Year ended	Period ended	
	2000	2001	31 December	31 December	30 June	
	2000	2001	2002	2003	2004	
REVENUE	RM	RM	RM	RM	RM	
Revenue from bulk contracts	-	-	2,471,243	3,097,086	6,347,973	2,276,530
Cost of sales	-	-	(2,086,398)	(2,446,236)	(5,301,222)	(2,014,416)
Profit from bulk contracts	-	-	384,845	650,850	1,046,751	262,114
Revenue from retail contracts	-	-	-	-	1,549,856	1,562,324
Cost of sales	-	-	-	-	(1,240,564)	(1,138,017)
Profit from retail contracts	-	-	-	-	309,292	424,307
Gross profit	-	-	384,845	650,850	1,356,043	686,421
Other income	-	-	-	-	-	4,481
EXPENDITURE						
Selling expenses	-	-	(1,636)	(95,394)	(235,283)	(192,767)
Administrative expenses	(701)	(847)	(324,742)	(1,047,313)	(1,638,102)	(805,673)
Finance costs	-	-	(19,797)	(59,873)	(96,701)	(54,255)
Other operating expenses	-	-	-	(88,669)	(111,381)	(296)
	(701)	(847)	(346,175)	(1,291,249)	(2,081,467)	(1,052,991)
Profit before tax	(701)	(847)	38,670	(640,399)	(725,424)	(362,089)
Taxation	-	-	(14,188)	7,029	-	-
	(701)	(847)	24,482	(633,370)	(725,424)	(362,089)