

11. ACCOUNTANTS' REPORT (Cont'd)

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5. SUMMARISED INCOME STATEMENTS (Contd.)**5.7 EMSB (Contd.)****5.7.2 Analysis of revenue and profits (Contd.)**

Analysis by percentage:

	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					
Bulk contracts	0.0%	0.0%	100.0%	100.0%	59.3%
Retail contracts	0.0%	0.0%	0.0%	0.0%	40.7%
	0.0%	0.0%	100.0%	100.0%	100.0%
COST OF SALES					
Bulk contracts	0.0%	0.0%	100.0%	100.0%	63.9%
Retail contracts	0.0%	0.0%	0.0%	0.0%	36.1%
	0.0%	0.0%	100.0%	100.0%	100.0%
GROSS PROFIT					
Bulk contracts	0.0%	0.0%	100.0%	100.0%	38.2%
Retail contracts	0.0%	0.0%	0.0%	0.0%	61.8%
	0.0%	0.0%	100.0%	100.0%	100.0%

5.7.3 Commentary on past performance**(i) Review of financial performance****FYE 2000 and FYE 2001**

The Company had no revenue during these financial years as it had not yet commenced operations. Expenses comprised audit fee and other administrative expenses.

FYE 2002

The Company commenced operations during FYE 2002, and revenue for the year was generated from contracts for supply and installation of timber flooring. Revenue from work done on these contracts is recognised based on the 'stage of completion' method, determined based on contract costs incurred for work performed up to balance sheet date as a proportion of the estimated total contract costs.

11. ACCOUNTANTS' REPORT (Cont'd)



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5. SUMMARISED INCOME STATEMENTS (Contd.)

5.7 EMSB (Contd.)

5.7.3 Commentary on past performance (Contd.)

(i) Review of financial performance (Contd.)

FPE 2002

Revenue and profits increased substantially in the 10-month FPE 2002. These were substantially contributed by the Company's success in winning a major bulk-contract - the Keltrade-Bukit Jelutong contract - which yielded an exceptionally high return. The contract was obtained in FYE 2002 but commenced during FPE 2002. Gross margin consequently increased by an encouraging 5% during the current period.

Nonetheless a loss was sustained from the significant increase in operating costs during the period. The increase arose substantially from high promotion and material-warehousing expenses as the Company expanded the scale of its operations to cater for rising customer demand. Other fixed costs such as staff-related costs similarly increased with the increase in business activity.

FYE 2003

Revenues and gross profits had almost doubled with the continuation of the Keltrade-Bukit Jelutong contract commenced in FPE 2002. However, gross margin had declined to 17% again after completion of the high-return contract in FYE 2003. New contracts were also procured in FYE 2003 following the Company's active promotional and advertising activities in previous years.

Meanwhile, the Company had commenced to operate a commercial outlet to service retail flooring contracts in order to expand its customer base. The retail outlet enjoyed an encouraging response since its inception and partially contributed to the increased revenue for FYE 2003 as well.

Despite the substantial increase in gross profits, the Company registered an operating loss once again for FYE 2003. This was mainly due to a continued increase in operating expenses, especially with the initial set-up of the retail outlet and its related fixed costs, eg. space rental, maintenance, display and promotional expenses.

FPE 30 June 2004

Operating performances for the current six months of the Company has been consistent as there has been no significant changes in the operational factors.

11. ACCOUNTANTS' REPORT (Cont'd)



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5. SUMMARISED INCOME STATEMENTS (Contd.)

5.7 EMSB (Contd.)

5.7.3 Commentary on past performance (Contd.)

(ii) Effective tax rate

FYE 2000 and FYE 2001

There was no taxation liability as the Company incurred a loss for both financial years.

FYE 2002

Effective tax rate for FYE 2002 was above the statutory tax rate due to certain expenses being non-deductible for tax purposes.

FPE 2002

Taxation charge for the year comprised solely of deferred taxation. There was no income tax expense for FYE 2002 as the Company incurred a loss for the year.

FYE 2003

There was no taxation expense in view of the Company's loss for the year.

FPE 30 June 2004

Similar to the previous years, there was no taxation expense in view of the Company's loss.

5.7.4 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 EMSB's weighted average number of ordinary shares in issue in the relevant year/period under review.

11. ACCOUNTANTS' REPORT (Cont'd)



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5. SUMMARISED INCOME STATEMENTS (Contd.)

5.8 TIDP

5.8.1 Profit track record

	← Unaudited →				← Audited →	
	Year ended 31 December				Period ended	
	1999	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM	RM
Revenue	3,990,907	6,067,746	7,777,296	14,471,817	16,686,931	9,958,271
Cost of sales	(3,454,369)	(5,090,410)	(6,649,475)	(12,374,403)	(14,162,028)	(8,480,482)
Gross profit	536,538	977,336	1,127,821	2,097,414	2,524,903	1,477,789
Other income	-	-	-	6,504	25,109	9,785
Operating expenses	(491,069)	(758,964)	(999,607)	(1,825,745)	(2,393,392)	(1,329,740)
Profit before interest, tax and depreciation	45,469	218,372	128,214	278,173	156,620	157,834
Depreciation	-	(1,741)	-	(5,717)	(23,920)	(8,760)
Interest expense	(20,654)	(25,100)	(36,983)	(40,737)	(42,011)	(20,834)
Profit before taxation	24,815	191,531	91,231	231,719	90,689	128,240
Taxation	(4,822)	(46,937)	(7,580)	(36,059)	(9,403)	(23,067)
Profit after taxation	19,993	144,594	83,651	195,660	81,286	105,173
Effective tax rate (%)	19.4%	24.5%	8.3%	15.6%	10.4%	18.0%
<u>Basic earnings per share:</u>						
Weighted average number of ordinary shares in issue	500	500	500	500	500	500
Gross earnings per share (RM)	49.63	383.06	182.46	463.44	181.38	256.48
Net earnings per share (RM)	39.99	289.19	167.30	391.32	162.57	210.35

11. ACCOUNTANTS' REPORT (Cont'd)

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5. SUMMARISED INCOME STATEMENTS (Contd.)**5.8 TIDP (Contd.)****5.8.1 Profit track record (Contd.)****5.8.1.1 Prior year adjustments**

The above financial results have been prepared based on the unaudited financial statements of TIDP after translation to Ringgit Malaysia and making 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:

	← Unaudited →				← Audited →	
	Year ended 31 December				Period ended 30 June	
	1999	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM	RM
Profit before taxation as stated in the financial statements	92,624	132,413	90,424	231,719	90,689	128,240
Prior year adjustment for preliminary and pre-operating expenses written off in compliance with MASB 1	(67,809)	59,118	807	-	-	-
Profit before taxation as stated in this Report	24,815	191,531	91,231	231,719	90,689	128,240
Taxation						
- as stated in the financial statements	(4,822)	(46,937)	(28,936)	(53,162)	6,332	(343)
- retrospective adjustment for over/(under) provision	-	-	21,356	17,103	(15,735)	(22,724)
- as stated in this report	(4,822)	(46,937)	(7,580)	(36,059)	(9,403)	(23,067)
Profit after taxation as stated in this Report	19,993	144,594	83,651	195,660	81,286	105,173
Retained profits brought forward						
- as stated in the financial statements	-	87,802	173,278	234,766	413,323	510,344
- adjustments (as above)	-	(67,809)	(8,691)	13,472	30,575	14,840
- as stated in this report	-	19,993	164,587	248,238	443,898	525,184
Retained profits carried forward	19,993	164,587	248,238	443,898	525,184	630,357

11. ACCOUNTANTS' REPORT (Cont'd)



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5. SUMMARISED INCOME STATEMENTS (Contd.)

5.8 TIDP (Contd.)

5.8.2 Analysis of revenue and profits

Revenue and profits were derived solely from the overseas sale of wood flooring, hence analyses of revenue and profits by activity, product, division and export/local are not applicable.

5.8.3 Analysis of other income

Other income for FYE 2002, FYE 2003 and FPE 30 June 2004 comprises late payment interest from customers.

5.8.4 Commentary on past performance

(i) Review of financial performance

FYE 1999

Revenue for FYE 1999 were solely derived from sales of wood flooring. Gross margin and pre-tax margins were fairly stable during the year.

FYE 2000

The Company enjoyed a considerable increase in revenue this year, which was contributed by increases in both sale volume and average prices for wood flooring.

Gross and pre-tax margins had both increased from the higher average selling prices enjoyed during the year.

FYE 2001

Sales volume continued to increase by almost 30% during FYE 2001, while prices continued to appreciate as well.

Despite the price and volume increases, gross and pre-tax margins had decreased slightly, mainly due to higher purchase prices charged by TPSB.

FYE 2002

Sales volume had increased significantly again in FYE 2002, but sales prices had dipped slightly. Nevertheless, the increased volume had resulted in a significant net increase in revenue, which was further improved after translation from the strengthening Euro.

Meanwhile, gross margin had dipped slightly again from FYE 2002's stagnant sales prices and increased purchase prices of wood flooring from TPSB since the previous year. Although there was a high increase in operating expenses for the year due to higher staff costs, transport, publicity and exhibition expenses, pre-tax margin had increased again from the high sales volume and improved fixed cost utilisation.

11. ACCOUNTANTS' REPORT (Cont'd)



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5. SUMMARISED INCOME STATEMENTS (Contd.)

5.8 TIDP (Contd.)

5.8.4 Commentary on past performance (Contd.)

(i) Review of financial performance (Contd.)

FYE 2003

Revenue had continued to rise in FYE 2003, although by a smaller proportion since previous years. Contrary to FYE 2002, sales volume had shown a slight decline after the dramatic increase in the previous financial year. However, sales prices had improved instead, thereby contributing a net increase in overall revenue. The increase was to an extent contributed by the continued appreciation of the Euro as well.

With the increase in sales prices, gross margin was able to register a small improvement. However, pre-tax margin had deteriorated again as operating expenses had increased significantly from staff costs and publicity expenses as the Company continued to expand the scale of its operations in the region.

FPE 30 June 2004

The Company continue its growth in 2004 and sales volume has slightly increase which contributed from the higher demand of the ESHF.

(ii) Effective tax rate

FYE 1999

Effective tax rates for FYE 1999 are below the applicable statutory rate due to additional tax deductions available for prior exhibition expenses and salaries in respect of permanent staff.

FYE 2000

Similar to FYE 1999, the effective tax rate is below the applicable statutory rate due to additional deductions for prior exhibition expenses.

FYE 2001

Effective tax rate is below the applicable statutory rate for the same reason as FYE 2000.

FYE 2002

Effective tax rate is below the applicable statutory rate for the same reason as FYE 2000.

FYE 2003

Effective tax rate is below the applicable statutory rate for the same reason as FYE 2000.

FPE 30 June 2004

Effective tax rate is below the applicable statutory rate for the same reason as FYE 2000.

11. ACCOUNTANTS' REPORT (Cont'd)



5. SUMMARISED INCOME STATEMENTS (Contd.)

5.8 TIDP (Contd.)

5.8.5 Earnings per share

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

11. ACCOUNTANTS' REPORT (Cont'd)



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6. SUMMARISED BALANCE SHEETS

6.1 Ekowood

6.1.1 Summarised balance sheets of the Ekowood Group

The following balance sheets 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.

	As at 31 December					As at
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	RM
Property, plant and equipment	62,751,225	61,767,922	58,434,200	55,694,513	57,850,526	56,614,995
Other investment	-	-	-	25,000	25,000	25,000
Other intangible assets	92,983	80,722	68,461	246,199	476,005	426,667
Goodwill on consolidation	-	-	3,835	3,835	131,783	131,783
	62,844,208	61,848,644	58,506,496	55,969,547	58,483,314	57,198,445
Current assets	34,461,905	44,466,684	52,836,716	69,381,642	84,345,507	97,775,639
Current liabilities	33,299,681	32,512,019	30,588,579	35,800,682	36,332,330	28,392,793
Net current assets	1,162,224	11,954,665	22,248,137	33,580,960	48,013,177	69,382,846
	64,006,432	73,803,309	80,754,633	89,550,507	106,496,491	126,581,291
Financed by:						
Share capital	5,000,000	5,000,000	5,000,000	5,000,000	9,481,500	84,000,000
(Accumulated losses)/						
Retained profits	(20,307,072)	(14,099,173)	(8,065,401)	451,085	15,261,966	25,921,947
Other reserves	(1,171)	(6,839)	(7,554)	(189,306)	53,295,143	4,364,830
Shareholders' (deficit)/funds	(15,308,243)	(9,106,012)	(3,072,955)	5,261,779	78,038,609	114,286,777
Minority interest	20,025	37,121	125,387	85,130	104,534	130,113
Deferred liabilities	79,294,650	82,872,200	83,702,201	84,203,598	28,353,348	12,164,401
	64,006,432	73,803,309	80,754,633	89,550,507	106,496,491	126,581,291

11. ACCOUNTANTS' REPORT (Cont'd)



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6. SUMMARISED BALANCE SHEETS (Contd.)

6.1 Ekowood

6.1.2 Summarised balance sheets of the Company

	As at 31 December					As at
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	2004
Property, plant and equipment	62,751,225	61,741,025	58,084,655	55,059,872	56,983,282	55,744,665
Investment in subsidiary companies	9,862	9,862	12,862	309,862	309,863	309,863
Other intangible assets	92,983	80,722	68,461	56,199	43,937	426,667
	62,854,070	61,831,609	58,165,978	55,425,933	57,337,082	56,481,195
Current assets	34,743,972	45,769,308	55,991,870	76,900,800	100,538,289	113,038,468
Current liabilities	33,019,922	31,927,035	29,260,871	33,727,141	33,311,778	23,332,584
Net current assets	1,724,050	13,842,273	26,730,999	43,173,659	67,226,511	89,705,884
	64,578,120	75,673,882	84,896,977	98,599,592	124,563,593	146,187,079
Financed by:						
Share capital	5,000,000	5,000,000	5,000,000	5,000,000	9,481,500	84,000,000
Reserves	(19,716,530)	(12,227,410)	(3,791,109)	9,416,019	86,636,254	50,037,269
Shareholders' (deficit)/funds	(14,716,530)	(7,227,410)	1,208,891	14,416,019	96,117,754	134,037,269
Deferred liabilities	79,294,650	82,901,292	83,688,086	84,183,573	28,445,839	12,149,810
	64,578,120	75,673,882	84,896,977	98,599,592	124,563,593	146,187,079

11. ACCOUNTANTS' REPORT (Cont'd)



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6. SUMMARISED BALANCE SHEETS (Contd.)

6.2 TPSB

	As at 31 December					As at
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	RM
Investment in subsidiary companies	-	78,330	78,330	78,330	78,330	78,330
Current assets	8,759,117	14,041,088	22,762,391	35,253,470	55,222,008	62,941,564
Current liabilities	8,727,150	14,054,032	22,494,896	34,833,438	55,008,675	62,169,746
Net current assets/(liabilities)	31,967	(12,944)	267,495	420,032	213,333	771,818
	31,967	65,386	345,825	498,362	291,663	850,148
Financed by:						
Share capital	2	2	2	2	2	2
Retained profits	31,965	65,384	345,823	498,360	291,661	850,146
Shareholders' funds	31,967	65,386	345,825	498,362	291,663	850,148

11. ACCOUNTANTS' REPORT (Cont'd)



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6 SUMMARISED BALANCE SHEETS (Contd.)

6.3 TPI

	← Unaudited →			← Audited →	
	As at 31 December			As at 30 June	
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Property, plant and equipment	22,600	26,494	26,252	27,754	27,587
Current assets	3,320,459	5,576,827	6,813,133	12,335,635	11,719,337
Current liabilities	3,897,166	6,980,512	9,089,029	15,680,615	15,360,597
Net current liabilities	(576,707)	(1,403,685)	(2,275,896)	(3,344,980)	(3,641,260)
	(554,107)	(1,377,191)	(2,249,644)	(3,317,226)	(3,613,673)
Financed by:					
Share capital	3,801	3,801	3,801	3,801	3,801
Accumulated losses	(557,907)	(1,380,991)	(2,253,444)	(3,321,026)	(3,617,473)
Foreign exchange reserve	(1)	(1)	(1)	(1)	(1)
Shareholders' deficit	(554,107)	(1,377,191)	(2,249,644)	(3,317,226)	(3,613,673)

11. ACCOUNTANTS' REPORT (Cont'd)



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6 SUMMARISED BALANCE SHEETS (Contd.)

6.4 TPSA

	← Unaudited →			← Audited →	
	As at 31 December				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Property, plant and equipment	-	-	-	126,523	124,140
Current assets	914,780	4,086,467	9,523,750	17,118,282	20,765,475
Current liabilities	1,061,906	5,327,228	12,185,374	22,375,546	27,047,950
Net current liabilities	(147,126)	(1,240,761)	(2,661,624)	(5,257,264)	(6,282,475)
	(147,126)	(1,240,761)	(2,661,624)	(5,130,741)	(6,158,335)
Financed by:					
Share capital	106,470	106,470	106,470	106,470	106,470
Accumulated losses	(255,440)	(1,355,939)	(2,556,661)	(4,349,779)	(5,420,790)
Foreign exchange reserve	1,844	8,708	(211,433)	(887,432)	(844,015)
Shareholders' deficit	(147,126)	(1,240,761)	(2,661,624)	(5,130,741)	(6,158,335)

11. ACCOUNTANTS' REPORT (Cont'd)



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6. SUMMARISED BALANCE SHEETS (Contd.)

6.5 Ekoloc

	As at 31 December					As at
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	RM
Property, plant and equipment	4,078	3,515	2,952	2,390	-	-
Intangible asset	-	-	-	-	432,068	-
	4,078	3,515	2,952	2,390	432,068	-
Current assets	27,057	3,576	279,046	72,078	48,172	172,021
Current liabilities	216,813	207,866	489,776	241,580	577,055	258,258
Net current liabilities	(189,756)	(204,290)	(210,730)	(169,502)	(528,883)	(86,237)
	(185,678)	(200,775)	(207,778)	(167,112)	(96,815)	(86,237)
Financed by:						
Share capital	100,000	100,000	100,000	100,000	100,000	100,000
Accumulated losses	(285,678)	(300,775)	(307,778)	(267,112)	(196,815)	(186,237)
Shareholders' deficit	(185,678)	(200,775)	(207,778)	(167,112)	(96,815)	(86,237)

11. ACCOUNTANTS' REPORT (Cont'd)



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6 SUMMARISED BALANCE SHEETS (Contd.)

6.6 EMSB

	As at 28/29 February			As at 31 December		As at
	2000	2001	2002	2002	2003	30 June
	RM	RM	RM	RM	RM	RM
Plant and equipment	-	-	309,853	562,878	681,697	646,953
Other investment	-	-	-	25,000	25,000	25,000
Goodwill	-	-	-	190,000	-	-
	-	-	309,853	777,878	706,697	671,953
Current assets	2	2	1,877,216	2,931,392	6,685,865	7,880,536
Current liabilities	5,545	6,392	2,149,791	3,824,550	8,233,266	9,755,282
Net current liabilities	(5,543)	(6,390)	(272,575)	(893,158)	(1,547,401)	(1,874,746)
	(5,543)	(6,390)	37,278	(115,280)	(840,704)	(1,202,793)
Financed by:						
Share capital	2	2	5,000	500,000	500,000	500,000
(Accumulated losses)/ Retained profits	(5,545)	(6,392)	18,090	(615,280)	(1,340,704)	(1,702,793)
Shareholders' (deficit)/funds	(5,543)	(6,390)	23,090	(115,280)	(840,704)	(1,202,793)
Deferred taxation	-	-	14,188	-	-	-
	(5,543)	(6,390)	37,278	(115,280)	(840,704)	(1,202,793)

11. ACCOUNTANTS' REPORT (Cont'd)



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6 SUMMARISED BALANCE SHEETS (Contd.)

6.7 TIDP

	← Unaudited →				← Audited →	
	As at					
	As at 31 December					30 June
	1999	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM	RM
Property, plant and equipment	-	4,297	15,870	45,511	31,269	71,650
Current assets	2,643,406	3,865,434	4,811,571	8,150,081	11,576,172	14,388,091
Current liabilities	2,609,380	3,693,804	4,575,255	7,709,357	10,964,552	13,694,433
Net current assets	34,026	171,630	236,316	440,724	611,620	693,658
	34,026	175,927	252,186	486,235	642,889	765,308
Financed by:						
Share capital	12,325	12,325	12,325	12,325	12,325	12,325
Retained profits	19,993	164,587	248,238	443,898	502,458	630,357
Foreign exchange reserve	1,708	(985)	(8,377)	30,012	128,106	122,626
Shareholders' funds	34,026	175,927	252,186	486,235	642,889	765,308

11. ACCOUNTANTS' REPORT (Cont'd)

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7. CONSOLIDATED CASH FLOW STATEMENT

The following consolidated cashflow statement of the Ekowood Group has been presented based on the audited consolidated financial statements of the Ekowood Group, 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 Ekowood Group.

	Financial period ended 30 June 2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	11,873,169
Adjustments for:	
Allowance for doubtful debts	86,838
Amortisation of intangible assets	49,338
Bad debts written off	72,515
Depreciation	2,286,385
Interest expense	652,113
Loss on disposal of property, plant and equipment	271,266
Unrealised gain on foreign exchange	(94,150)
	<u>3,324,305</u>
Operating profit before working capital changes	15,197,474
Changes in working capital:	
Inventories	(7,739,585)
Receivables	(8,016,627)
Amount due from customers on contracts	(268,305)
Payables	4,449,046
Related company	(5,985)
Holding company	(754,373)
Short term borrowings	<u>(1,710,000)</u>
Cash generated from operations	1,151,645
Interest paid	(652,113)
Tax paid	<u>(1,527,105)</u>
Net cash used in operating activities	<u>(1,027,573)</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7. CONSOLIDATED CASH FLOW STATEMENT (Contd.)

	Note	Financial period ended 30 June 2004 RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	7.1	(1,696,588)
Proceeds from disposal of property, plant and equipment		372,802
Net cash used in investing activities		(1,323,786)
Effect of exchange rate changes in cash and cash equivalents		(34,160)
Net decrease in cash and cash equivalents		(2,385,519)
Cash and cash equivalents as at 1 January 2004		5,023,133
Cash and cash equivalents as at 30 June 2004	7.2	2,637,614

7.1 Property, plant and equipment purchased by the Group during the period were fully paid for in cash.

7.2 Cash and cash equivalents as at 30 June comprise the following balance sheet amounts:

	RM
Cash and bank balances	3,303,038
Bank overdraft	(603,995)
	<u>2,699,043</u>
Less: Deposit pledged with licensed bank	(61,429)
	<u>2,637,614</u>

11. ACCOUNTANTS' REPORT (Cont'd)



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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The following proforma statement of assets and liabilities of the Ekowood 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 Ekowood Group.

The proforma statement of assets and liabilities has been presented on the basis that the listing exercise had been in effect from 30 June 2004, and should be read in conjunction with the notes thereto.

	Note	Audited as at		
		30.6.2004	Proforma I	Proforma II
		RM	RM	RM
Property, plant and equipment	8.2	56,614,995	56,614,995	56,614,995
Other investment	8.3	25,000	25,000	25,000
Other intangible assets	8.4	426,667	426,667	426,667
Goodwill on consolidation		131,783	131,783	131,783
		57,198,445	57,198,445	57,198,445
<u>Current assets</u>				
Inventories	8.5	59,007,248	59,007,248	59,007,248
Trade receivables	8.6	27,760,172	27,760,172	27,760,172
Other receivables	8.7	6,633,174	6,099,970	6,099,970
Amount due from customers				
on contracts	8.8	946,420	946,420	946,420
Amount due from related companies	8.9	47	47	47
Tax recoverable		125,540	125,540	125,540
Cash and bank balances	8.10	3,303,038	3,303,038	3,303,038
		97,775,639	97,242,435	97,242,435
<u>Current liabilities</u>				
Bank borrowings	8.11	11,888,995	11,888,995	11,888,995
Trade payables	8.12	2,005,265	2,005,265	2,005,265
Other payables	8.13	14,101,696	15,368,492	15,368,492
Amount due to customers on contracts	8.8	296,997	296,997	296,997
Tax payable		99,840	99,840	99,840
		28,392,793	29,659,589	29,659,589
Net current assets		69,382,846	67,582,846	67,582,846
		126,581,291	124,781,291	124,781,291

11. ACCOUNTANTS' REPORT (Cont'd)

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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

	Note	Audited as at		
		30.6.2004	Proforma I	Proforma II
		RM	RM	RM
Financed by:				
Share capital	8.14	84,000,000	84,000,000	84,000,000
Share premium	8.15	5,094,104	3,294,104	3,294,104
Exchange fluctuation reserve	8.15	(729,274)	(729,274)	(729,274)
Retained profits	8.15	25,921,947	25,921,947	25,921,947
Shareholders' funds		114,286,777	112,486,777	112,486,777
Minority interest		130,113	130,113	130,113
Deferred tax liabilities	8.16	6,404,851	6,404,851	6,404,851
Amount due to holding company	8.17	5,759,550	5,759,550	5,759,550
		126,581,291	124,781,291	124,781,291
Net tangible assets per share		0.68	0.67	0.67

Proforma I - Proposed Offer for Sale (see item 8.15)

Proforma II - Proposed CEO scheme (this has no impact on the proforma statement of assets and liabilities)

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



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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.1 Significant accounting policies

(a) Basis of preparation

The financial statements are prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies and comply with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act 1965.

(b) Basis of consolidation

The Ekowood Group's financial statements consolidate the financial statements of the Company and all its subsidiaries, which have been prepared in accordance with the Ekowood Group's accounting policies and drawn up to the same reporting date.

Subsidiaries are those companies in which the Ekowood Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Ekowood Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

(c) Goodwill arising on consolidation

Goodwill represents the excess of the cost of acquisition over the Ekowood Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with item 8.1(o).

On disposal of a subsidiary, the attributable amount of goodwill on acquisition is included in the determination of the profit or loss on disposal.

(d) Investment in subsidiaries

Investment in subsidiaries is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with item 8.1(o).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is charged or credited to the income statement.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant accounting policies (Contd.)****(e) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for recognition and measurement of impairment losses is in accordance with item 8.1(o).

Leasehold land is amortised equally over the remaining lease period on issuance of the title deed. Capital work-in-progress is not depreciated until it is completed and ready for use.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Building and electrical installation	2%
Plant, machinery and equipment	7.5% - 10%
Motor vehicles	20%
Furniture, fittings and office equipment	10% - 50%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

(f) Inventories

Inventories are stated at the lower of cost (determined on a weighted average cost basis) and net realisable value, except for stores and supplies which are valued on a first-in first-out basis.

Cost includes the actual cost of materials and incidentals in bringing the inventories into store and for finished goods and work-in-progress, it also includes labour and appropriate production overheads. In arriving at net realisable value, due allowance is made for all obsolete and slow moving items.

Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(g) Construction contracts

Where the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the total of costs incurred on construction contracts plus recognised profits (less recognised losses), exceeds progress billings, the balance is classified as amount due from customers on contracts. When progress billings exceed costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant accounting policies (Contd.)****(h) Cash and cash equivalents**

Cash and cash equivalents include cash and bank balances and short term deposits, net of outstanding bank overdraft and deposit pledged for bank guarantee facility granted.

(i) Provisions for liabilities

Provisions for liabilities are recognised when the Ekowood Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(j) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(k) Employee benefits**(i) Short term employee benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Ekowood Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Some of the Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the income statement as incurred.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant accounting policies (Contd.)****(l) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Sale of Goods

Sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

(ii) Contract Revenue

Contract revenue is accounted for by the percentage of completion method as described in item 8.1(g).

(iii) Interest Income

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

(m) Foreign Currencies**(i) Foreign Currency Transactions**

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange ruling at the date of transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

(ii) Foreign Entities

Financial statements of foreign consolidated subsidiaries are translated at period end exchange rates with respect to the assets and liabilities, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences are recognised in the exchange fluctuation reserve in shareholders' equity.

The principal exchange rates used for each respective unit of foreign currency ruling at the balance sheet date are as follows:

	RM
Australian Dollar	2.6010
EURO	4.6306
Singapore Dollar	2.2052
Sterling Pound	6.8010
United States Dollar	3.7995

(n) Other Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. The policy for recognition and measurement of impairment losses is in accordance with item 8.1(o).

11. ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.1 Significant accounting policies (Contd.)

(n) Other Intangible Assets (Contd.)

The intangible assets of the Ekowood Group are as follows:

(i) Development Expenditure

Development expenditure is recognised as an intangible asset if it is probable that the future economic benefits that are attributable to such assets will flow to the enterprise and the cost of such assets can be measured reliably.

Development expenditure is stated at cost less accumulated amortisation. Development expenditure is amortised on a straight line basis over a period of ten (10) years from the date of commencement of commercial operations.

(ii) Sub-Licence Cost

The sub-licence cost represents the cost paid to acquire a licence to manufacture, use and sell a patented system for woodlock flooring.

Sub-licence is stated at cost less accumulated amortisation. Sub-licence cost is amortised on a straight line basis over a period of five (5) years.

(o) Impairment of Assets

At each balance sheet date, the Ekowood Group reviews the carrying amounts of its assets, other than inventories and financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is recognised as an expense in the income statement immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant accounting policies (Contd.)****(p) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Ekowood Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Ekowood Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Other Non-Current Investments

Non-current investments other than investment in subsidiaries are stated at cost less allowance for permanent diminution in value. On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is recognised in the income statement.

(ii) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified and specific allowance is made for any debts considered to be doubtful of collection.

(iii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future.

(iv) Interest-Bearing Borrowings

Interest-bearing bank borrowings are recorded at the amount of proceeds received, net of transaction costs. All borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

(v) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(vi) Derivative Financial Instruments

The underlying foreign currency assets and liabilities are translated at their respective hedged exchange rate and all exchange gains or losses are recognised as income or expense in the income statement in the same period as the exchange differences on the underlying hedged items. Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.2 Property, plant and equipment**

	At cost RM	Accumulated depreciation RM	Net book value RM
<u>As at 30 June 2004</u>			
Long term leasehold land	8,977,319	-	8,977,319
Building and electrical installation	24,725,327	3,175,202	21,550,125
Plant, machinery and equipment	41,203,828	18,500,710	22,703,118
Motor vehicles	3,133,140	1,207,494	1,925,646
Furniture, fittings and office equipment	2,743,023	1,407,755	1,335,268
Capital work-in-progress	123,519	-	123,519
	<u>80,906,156</u>	<u>24,291,161</u>	<u>56,614,995</u>

The land title to the long term leasehold land has yet to be transferred to the Company, as the Company has not fully settled the purchase consideration to the vendor, due to reasons as disclosed in item 8.18.

8.3 Other investment**Proforma Group
RM**

Club Membership	25,000
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8.4 Other intangible assets**Proforma Group
RM**Development expenditure

As at 1 January 2004	122,615
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Less: Accumulated amortisation	(84,809)
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As at 30 June 2004	37,806
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Sub-license cost

As at 1 January 2004	432,068
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Less: Accumulated amortisation	(43,207)
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As at 30 June 2004	388,861
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Total

As at 1 January 2004	554,683
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Less: Accumulated amortisation	(128,016)
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As at 30 June 2004	426,667
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11. ACCOUNTANTS' REPORT (Cont'd)



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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.5 Inventories

Proforma Group
RMAt cost

Stores and supplies	5,163,908
Raw materials	7,378,075
Work-in-progress	14,424,235
Goods-in-transit	5,072,197
Finished goods	26,742,618
Trading inventories	<u>226,215</u>
	<u>59,007,248</u>

8.6 Trade receivables

Proforma Group
RM

Trade receivables	27,973,692
Retention sums (item 8.8)	<u>517,432</u>
	28,491,124
Allowance for doubtful debts	<u>(730,952)</u>
	<u>27,760,172</u>

The Ekowood Group's normal trade credit term is 30 to 90 days. Other credit terms are assessed and approved on a case by-case basis.

The Ekowood Group has no significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors. Included in trade receivables of the Group are debts amounting to approximately RM2,955,000, which have exceeded the credit terms granted. Based on available information, the directors do not expect any material incidence of doubtful debts. Accordingly, no further allowance has been made for doubtful recovery.

8.7 Other receivables

Proforma Group
RM

Deposits	715,331
Prepayment	2,412,435
Sundry receivables	<u>3,505,408</u>
	6,633,174
Proforma adjustments:	
Proforma I ⁽¹⁾	(533,204)
Proforma II	<u>-</u>
	<u>6,099,970</u>

⁽¹⁾ Adjustment for listing expenses (see item 8.13 and 8.15)

The Ekowood Group has no significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.8 Amount due from/(to) customers on contracts****Proforma Group
RM**

Costs incurred to-date	8,504,569
Add: Attributable profit	<u>1,351,778</u>
	9,856,347
Less: Progress billings	<u>(9,206,924)</u>
	<u>649,423</u>
Due from customers on contract	946,420
Due to customers on contracts	<u>(296,997)</u>
	<u>649,423</u>
Contract costs recognised as expense during the period/year	<u>3,152,163</u>
Advances received, included within other payables (item 8.13)	<u>196,604</u>
Retention sums, included within trade receivables (item 8.6)	<u>517,432</u>

8.9 Amount due from related companies

The amount due from related companies are unsecured, non-interest bearing and without fixed terms of repayment.

8.10 Cash and bank balances**Proforma Group
RM**

Cash on hand and at banks	3,241,609
Deposit pledged with a licensed bank	<u>61,429</u>
	<u>3,303,038</u>

The deposit is pledged as securities to secure guarantee facilities granted to a subsidiary.

8.11 Bank borrowings**Proforma Group
RM**

Bank overdraft	603,995
Bankers' acceptance	<u>11,285,000</u>
	<u>11,888,995</u>

The Company has provided a negative pledge for the bank borrowings granted to the Company.

The range of effective interest rates at the balance sheet date for borrowings were as follows:

	%
Bank overdraft	7.10 - 7.25
Banker's acceptance	<u>3.11 - 3.17</u>

11. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.12 Trade payables

The normal trade credit term granted to the Ekowood Group ranges from 30 to 60 days.

8.13 Other payables

	Proforma Group RM
Advances from customers (item 8.8)	196,604
Amount due to a shareholder of a subsidiary	91,144
Accruals	7,491,779
Sundry payables	6,322,169
	<u>14,101,696</u>
Proforma adjustments:	
Proforma I ⁽¹⁾	1,266,796
Proforma II	-
	<u>15,368,492</u>

⁽¹⁾ Accruals of estimated listing expenses (see item 8.7 and 8.15)

The amount due to a shareholder of a subsidiary is unsecured, interest free and has no fixed terms of repayment.

The normal trade credit term granted to the Ekowood Group ranges from 30 to 60 days.

8.14 Share capital

	Proforma Group Number of shares	RM
<u>Authorised</u>		
Audited balance for financial period ended 30 June 2004:		
Ordinary shares of RM0.50 each		
As at 1 January 2004, at RM1 each	10,000,000	10,000,000
Subdivision of shares	10,000,000	-
Created during the period	380,000,000	190,000,000
	<u>400,000,000</u>	<u>200,000,000</u>
As at 30 June 2004		
<u>Issued and fully paid</u>		
Audited balance for financial period ended 30 June 2004:		
Ordinary shares of RM0.50 each		
As at 1 January 2004, at RM1 each	9,481,500	9,481,500
Subdivision of shares	9,481,500	-
Issued during the period	51,558,208	25,779,104
Bonus issue	97,478,792	48,739,396
	<u>168,000,000</u>	<u>84,000,000</u>
As at 30 June 2004		

11. ACCOUNTANTS' REPORT (Cont'd)



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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.14 Share capital (Contd.)

On 1 March 2004, the Company:

- (a) subdivided its total issued and paid up share capital into two new ordinary shares of RM0.50 each for every one ordinary share of RM1 each held;
- (b) capitalised RM25,779,104 of the amount owing by the Company to TSH Resources Berhad by issuance at par value of 51,558,208 new ordinary shares of RM0.50 each;
- (c) issued 97,478,792 new ordinary shares of RM0.50 each as bonus shares 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; and
- (d) increased its authorised ordinary share capital from RM10,000,000 comprising 10,000,000 ordinary shares of RM1 each to RM200,000,000 comprising 400,000,000 ordinary shares of RM0.50 each.

8.15 Reserves

	Non-distributable		Distributable	
	Share Premium	Exchange Fluctuation Reserve	Retained Profits	Proforma Group
	RM	RM	RM	RM
As at 30 June 2004	5,094,104	(729,274)	25,921,947	30,286,777
Proforma adjustments:				
Proforma I ⁽¹⁾	(1,800,000)	-	-	(1,800,000)
Proforma II	-	-	-	-
	<u>3,294,104</u>	<u>(729,274)</u>	<u>25,921,947</u>	<u>28,486,777</u>

⁽¹⁾ Listing expenses of approximately RM1,800,000 to be offset against the share premium account

The nature and purpose of each category of reserves are as follows:

(i) Share Premium

Share premium arose from the issue of ordinary shares and can be utilised for distribution to the members of the Company by way of bonus share issue.

(ii) Exchange Fluctuation Reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(iii) Retained Profits

As at 30 June 2004, the Company has tax exempt profits available for distribution of approximately RM14,800,000, subject to the agreement of the Inland Revenue Board.

As at 30 June 2004, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and the balance in the tax exempt income account to frank the payments of dividends amounting to approximately RM39,296,000 out of its retained profits. If the balance of the retained profits of RM5,647,000 were to be distributed prior to there being sufficient tax credit, the Company would have a Section 108 shortfall of approximately RM2,196,000.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.16 Deferred tax liabilities**

	Proforma Group RM
As at 1 January 2004	6,967,617
Recognised in income statement	<u>(562,766)</u>
Balance as at 30 June 2004	<u>6,404,851</u>
Presented as follows:	
Deferred tax liabilities	<u>6,404,851</u>

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

	Property, plant and equipment	Receivables	Others	Total
	RM	RM	RM	RM
As at 1 January 2004	6,208,784	746,531	12,302	6,967,617
Recognised in the income statement	<u>(47,284)</u>	<u>(513,766)</u>	<u>(1,716)</u>	<u>(562,766)</u>
As at 30 June 2004	<u>6,161,500</u>	<u>232,765</u>	<u>10,586</u>	<u>6,404,851</u>

Deferred tax assets have not been recognised in respect of the following items:

	Proforma Group RM
Unabsorbed capital allowances	2,089,230
Unutilised tax losses	<u>10,738,909</u>
	<u>12,828,139</u>

8.17 Amount due to holding company

The amount due to the holding company is non-trade in nature, unsecured and bears interest at 7.10% per annum being rates agreed upon. Interest expenses payable to the holding company for the period amounted to RM402,759.

11. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.18 Significant matters**

The Company has not fully settled the balance of the purchase consideration for the long leasehold land due to disputes with the vendor. However, the full liability of the amount outstanding of approximately RM3.43 million has been taken up in other payables.

During the year 2001, the vendor made a claim on the balance of the purchase consideration for the said land plus interest amounting to approximately RM4.98 million. The legal case has not been finalised as at todate. The potential additional liability of RM1.55 million has not been accrued for in the financial statements as the Directors are of the opinion that it is unlikely that the vendor will be successful in its claim. The Company had also counter-claimed for special damages in the sum of RM45.16 million and general damages.

8.19 Capital commitments

**Proforma Group
RM**

Contracted but not provided for	162,000
---------------------------------	---------

8.20 Contingent liabilities

**Proforma Group
RM**

Unsecured: Performance guarantee extended to third parties	59,799
---	--------

8.21 Significant related party transactions

**Proforma Group
RM**

Group**With holding company, TSH Resources Berhad:**

Interest on advances	(402,759)
Management fee	(300,000)
Office rental	15,000

Company

Name of Company	Nature	
-----------------	--------	--

With subsidiaries:

TSH Products Sdn Bhd	Sale of wood products	51,012,757
	Management fee	72,000
	Interest on advances	54,255
Ekowood Malaysia Sdn Bhd	Sale of wood products	2,154,785
Ekoloc System Sdn Bhd	Sub-licence fee billed	(841,058)

11. ACCOUNTANTS' REPORT (Cont'd)**8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)****8.21 Significant related party transactions (Contd.)**

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

8.22 Financial instruments**(a) Financial risk management objectives and policies**

The Ekowood Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Ekowood Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Ekowood Group operates within clearly defined guidelines that are approved by the Board and the Ekowood Group's policy is not to engage in speculative transactions.

(b) Interest rate risk

The Ekowood Group's primary interest rate risk relates to interest-bearing debt, as the Ekowood Group had no substantial long-term interest-bearing assets as at 30 June 2004.

The Ekowood Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Ekowood Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

(c) Liquidity risk

The Ekowood Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Ekowood Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

(d) Credit risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Ekowood Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Ekowood Group management reporting procedures.

The Ekowood Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments other than as disclosed under item 8.6.

11. ACCOUNTANTS' REPORT (Cont'd)

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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.22 Financial instruments (Contd.)****(e) Foreign exchange risk**

The Ekowood Group operates internationally and is exposed to various currencies, mainly United States Dollar, EURO, Australian Dollar, Sterling Pound and Singapore Dollar. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level. Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts.

The net unhedged financial assets and financial liabilities of the Ekowood Group that are not denominated in their functional currencies are as follows:

	Sterling Pound RM	Singapore Dollar RM	Australia Dollar RM	Euro RM	United States Dollar RM	Total RM
<u>As at 30 June 2004</u>						
Ringgit Malaysia:						
Cash and bank balances	8,241	1,296	8,129	666	30,419	48,751
Trade receivables	622,420	50,560	969,070	375,528	3,641,523	5,659,101
Trade payables	-	(4,869)	(227,188)	(1,136,143)	(45,144)	(1,413,344)
Other payables	-	-	-	(237,637)	-	(237,637)
	630,661	46,987	750,011	(997,586)	3,626,798	4,056,871

As at balance sheet date, the Ekowood Group has entered into forward foreign exchange contracts amounting to Euro 831,521 or RM3,860,915 to hedge against trade receivables. These contracts will mature within 1 year. The net fair value of these contracts not recognised on the balance sheet of the Ekowood Group at the end of the financial period amounted to RM7,377 receivables.

(f) Fair values

The carrying amount of the Ekowood Group's financial assets and financial liabilities approximate their fair values. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(i) Trade and Other Receivables/Payables

The historical cost carrying amounts of receivables and payables that are subject to normal credit terms approximate fair value. The carrying amounts of other receivables and payables are reasonable estimates of fair value because of their nature and short maturity.

(ii) Cash and Cash Equivalents

The carrying amounts of cash and bank balances and deposits are at fair values due to the relatively short term nature and maturity of the deposits.

(iii) Borrowings

The carrying amounts of short term borrowings approximate fair value because of the nature and short period to maturity of those instruments.

11. ACCOUNTANTS' REPORT (Cont'd)

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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.22 Financial instruments (Contd.)****(iv) Amounts Owing by/to Holding Company, Subsidiaries and Related Companies**

It is not practical to estimate the fair value of amount owing by/to holding company, subsidiaries and related companies principally due to a lack of fixed repayment term entered by the parties involved. However, the Ekowood Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

(v) Derivative Financial Instruments

The fair value of a forward foreign currency contract is the amount that would be payable or receivable on termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and forward exchange rate as at balance sheet date applied to a contract of similar quantum and maturity profile.

8.23 Segment information**(a) Geographical segments**

The Ekowood Group operates in three principal geographical areas of the world. In Malaysia, its home country, the Ekowood Group's areas of operations are principally wood product manufacturing and sale of downstream wood products.

The Ekowood Group also operates in Spain, Luxembourg and the United States of America, where it engages in wood product marketing and selling.

	Malaysia	Europe	Unites States of America	Eliminations	Consolidated
	RM	RM	RM	RM	RM
REVENUE					
External sales	31,622,678	24,802,710	5,462,112	-	61,887,500
Inter-segment sales	82,760,144	-	-	(82,760,144)	-
Total revenue	114,382,822	24,802,710	5,462,112	(82,760,144)	61,887,500
RESULT					
Segment result	14,220,188	(919,786)	(296,445)	(476,524)	12,527,433
Finance costs					(654,264)
Taxation					(1,187,609)
Profit after taxation					10,685,560
Minority interest					(25,579)
Profit for the year					10,659,981
ASSETS					
Segment assets	240,993,322	35,349,357	11,746,924	(133,241,058)	154,848,545
LIABILITIES					
Segment liabilities	107,455,708	40,707,309	15,360,596	(123,066,258)	40,457,355

11. ACCOUNTANTS' REPORT (Cont'd)

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8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.23 Segment information (Contd.)**

	Malaysia	Europe	Unites States of America	Eliminations	Consolidated
	RM	RM	RM	RM	RM
OTHER INFORMATION					
Capital expenditure	1,625,577	67,950	3,061	-	1,696,588
Depreciation and amortisation	2,736,276	28,287	3,228	(432,068)	2,335,723
Other non-cash expenses:					
Unrealised forex gain	1,800,239	-	-	(1,894,389)	(94,150)
Allowance for doubtful debts	75,383	-	11,455	-	86,838
Bad debts written off	4,442	-	68,073	-	72,515
Loss on disposal of property, plant and equipment	271,266	-	-	-	271,266
	<u>2,151,330</u>	<u>-</u>	<u>79,528</u>	<u>(1,894,389)</u>	<u>336,469</u>

REVENUE BY GEOGRAPHICAL LOCATION OF CUSTOMERS

	1.1.2004 to 30.6.2004 RM
Asia	2,210,079
Europe	39,846,605
Malaysia	5,581,919
United States of America	5,318,561
South-West Pacific	8,035,450
Others	894,886
	<u>61,887,500</u>

(b) Business segments

The Ekowood Group operates in a single industry and accordingly, the financial information by business segments are not presented.

11. ACCOUNTANTS' REPORT (Cont'd)**9. PROFORMA NET TANGIBLE ASSETS COVER**

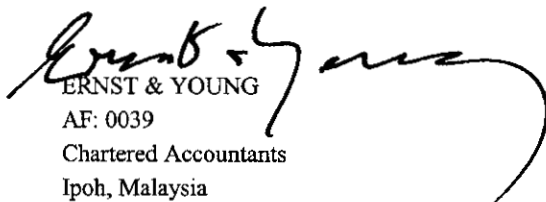
Based on the proforma statement of assets and liabilities of the Ekowood Group as at 30 June 2004 set out in item 8, the proforma net tangible assets after estimated listing expenses is calculated as follows:

	Proforma Group RM
Net assets as at 30 June 2004 (RM)	<u>111,928,327</u>
Number of ordinary shares of RM0.50 each issued	<u>168,000,000</u>
Net tangible assets for each ordinary shares of RM0.50 each (sen)	<u>0.67</u>

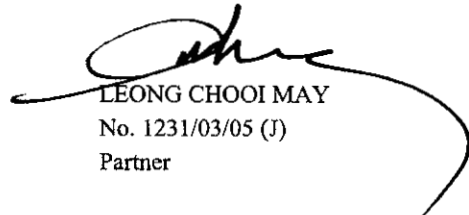
10. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 June 2004.

Yours faithfully,



ERNST & YOUNG
AF: 0039
Chartered Accountants
Ipoh, Malaysia



LEONG CHOOI MAY
No. 1231/03/05 (J)
Partner

12. DIRECTORS' REPORT



Unit 702, Block E,
Phileo Damansara 1,
No. 9, Jalan 16/11, Off Jalan
Damansara, 46350 Petaling Jaya,
Selangor, Malaysia.

EKOWOOD INTERNATIONAL BERHAD
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Company No. 301735-D

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46350 Petaling Jaya,
Selangor Darul Ehsan

17 September 2004

The Shareholders of Ekowood International Berhad (formerly known as TSH Ekowood Berhad)

Dear Sir/Madam,

On behalf of the Board of Directors of Ekowood International Berhad, I report after due inquiry that during the period from 30 June 2004, being a date to which the last audited accounts of the Company and its subsidiaries have been made up, to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus, that:

- (a) the business of the Company and its subsidiaries has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances has arisen since the last audited accounts of the Company and its subsidiaries which has adversely affected the trading or the value of the assets of the Company or its subsidiaries;
- (c) the current assets of the Company and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiaries;
- (e) since the last audited accounts of the Company and its subsidiaries, there has been no default or any known event that could give rise to a default situation in respect of payments of either interest and/or principal sums in relation to any borrowings of which they are aware; and
- (f) since the last audited accounts of the Company and its subsidiaries, save as disclosed in the Accountants' Report as set out in Section 11 of this Prospectus, there has been no change in published reserves nor any unusual factor affecting the profits of the Company and its subsidiaries.

Yours faithfully
For and on behalf of the Board of Directors
EKOWOOD INTERNATIONAL BERHAD
(formerly known as TSH Ekowood Berhad)

Dato' Kalimullah bin Masheerul Hassan
Chairman



A member of TSH Group