

**EXPLANATORY NOTES FOR QUARTERLY REPORT  
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2006**

**FRS 134 – Paragraph 16**

**1. BASIS OF PREPARATION**

The interim financial statements have been prepared under the historical cost convention unless otherwise indicated in the accounting policies.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005. These explanatory notes attached to the interim financial statements provide an explanation of the events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2005.

**2. CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies and methods of computation adopted are consistent with those of the most recent audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning 1 January 2006.

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation

## 2. CHANGES IN ACCOUNTING POLICIES (Contd.)

(Contd.)

FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRS 3, 5, 102, 108, 110, 116, 121, 127, 128, 131, 132, 133, 136, 138 and 140 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:

### a) FRS 2: Share-based Payment

This FRS requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

Eligible employees of the Group participate in an equity-settled, share-based compensation plan (“Employees Share Option Scheme (ESOS)”) operated by the holding company, TSH Resources Berhad (“TSHR”). Prior to 1 January 2006, no compensation expense was recognized in profit or loss for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognized in profit or loss over the vesting periods of the grants with a corresponding increase in equity.

The total amount to be recognized as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using a **binomial model**. At every reporting date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 December 2005 are restated and the opening balance of retained earnings as at 1 January 2006 has been adjusted. The financial impact to the Group arising from this change in accounting policy is as follows:

## 2. CHANGES IN ACCOUNTING POLICIES (Contd.)

### a) FRS 2: Share-based Payment (Contd.)

	<b>As at</b>			
	<b>1.1.2006</b>			
	<b>RM</b>			
Decrease in retained earnings				(50,860)
Increase in ESOS reserve				<u>50,860</u>
	<b>Quarter ended</b>		<b>Year-to-date ended</b>	
	<b>31.3.2006</b>	<b>31.3.2005</b>	<b>31.3.2006</b>	<b>31.3.2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Decrease in profit for the period	<u>18,674</u>	<u>3,344</u>	<u>18,674</u>	<u>3,344</u>

As disclosed in Note 3, certain comparatives have been restated due to this change in accounting policy.

### b) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit of loss of the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognized income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

### 3. COMPARATIVES

The following comparative amounts have been restated due to the adoption of FRS 2 (Note 2(a)):

	<b>Previously stated RM</b>	<b>Adjustment FRS 2 RM</b>	<b>Restated RM</b>
<b>At 31 December 2005</b>			
Retained earnings	46,178,191	(50,860)	46,127,331
ESOS reserve	-	50,860	50,860
<b>Quarter ended 31 March 2005</b>			
Profit before tax	5,858,653	(3,344)	5,855,309
Profit for the period	5,687,938	(3,344)	5,684,594

### 4. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report of the Group's financial statements for the year ended 31 December 2005 was not qualified.

### 5. SEASONAL OF CYCLICAL FACTORS

The effects of seasonal of cyclical fluctuations, if any, are explained under Paragraphs 1 & 2 of Appendix 9B Part A of the Bursa Malaysia Listing Requirements below.

### 6. UNUSUAL ITEMS

There were no unusual items during the quarter affective assets, liabilities equity, net income or cash flows for the financial period ended 31 March 2006, except as disclosed in Note 2 and Note 7.

## 7. CHANGES IN ESTIMATES

There were no changes in estimates that have had a material impact in the current reporting quarter.

## 8. DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter ended 31 March 2006.

## 9. DIVIDENDS PAID

There was no dividend paid in respect of the quarter ended 31 March 2006.

## 10. SEGMENTAL REPORTING

### a) Geographical segments

	Malaysia RM'000	Europe RM'000	United States of America RM'000	Elimination RM'000	Consolidated RM'000
<b>QUARTER AND YEAR-TO-DATE ENDED 31 MARCH 2006</b>					
<b>REVENUE</b>					
External sales	23,181	10,833	3,442	-	37,456
Inter-segment sales	9,119	-	-	(9,119)	-
Total revenue	<u>32,300</u>	<u>10,833</u>	<u>3,442</u>	<u>(9,119)</u>	<u>37,456</u>
<b>RESULT</b>					
Segment result	5,476	(350)	(31)	31	5,125
Finance costs					(187)
Taxation					(348)
Profit after taxation					<u>4,590</u>
Minority interest					(8)
Profit for the period					<u>4,582</u>

## 10. SEGMENTAL REPORTING (Contd.)

### a) Geographical segments (Contd.)

	Malaysia RM'000	Europe RM'000	United States of America RM'000	Elimination RM'000	Consolidated RM'000
<b>QUARTER AND YEAR-TO-DATE ENDED 31 MARCH 2005</b>					
<b>REVENUE</b>					
External sales	16,075	13,661	2,362	-	32,098
Inter-segment sales	15,116	-	-	(15,116)	-
Total revenue	31,191	13,661	2,362	(15,116)	32,098
<b>RESULT</b>					
Segment result	5,943	(840)	(114)	1,058	6,047
Finance costs					(189)
Taxation					(157)
Profit after taxation					5,701
Minority interest					(13)
Profit for the period					5,688

### Revenue by geographical location of customers

	Quarter ended		Year-to-date ended	
	31.03.2006	31.03.2005	31.03.2006	31.03.2005
	RM'000	RM'000	RM'000	RM'000
Asia	381	1,383	381	1,383
Europe	21,336	19,863	21,336	19,863
Malaysia	6,622	2,688	6,622	2,688
United States of America	6,660	3,822	6,660	3,822
South-West Pacific	1,683	3,792	1,683	3,792
Others	774	550	774	550
	37,456	32,098	37,456	32,098

### (ii) Business segments

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

## **11. VALUATIONS**

There were no valuations of property, plant and equipment brought forward from the previous annual financial statements. The property, plant and equipment are stated at their historical cost less accumulated depreciation and impairment losses as at 31 March 2006.

## **12. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD**

There were no material events subsequent to the end of the reporting period.

## **13. CHANGES IN COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the quarter ended 31 March 2006, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinuing operations.

## **14. CAPITAL COMMITMENTS**

There were no material capital commitments not provided for in the interim financial statements as at 31 March 2006.

## **15. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS**

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet as at 31 December 2005.

## **BURSA MALAYSIA LISTING REQUIREMENTS APPENDIX 9B PART A**

### **16. REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES**

The Group's turnover for the quarter and cumulative for three months ended 31 March 2006 was RM37.456 million which is broadly in line with the preceding year corresponding period of RM32.098 million. The Group's profit before tax for the quarter and cumulative for three months ended 31 March 2006 was RM4.938 million is 15% lower than the preceding year corresponding quarter of RM5.859 million.

The Group's turnover is mainly generated from its engineered hardwood flooring which has no significant fluctuation compare to the preceding year corresponding quarter. However, the Group recorded a lower profit before tax for the quarter compared to the preceding year corresponding quarter mainly due to fluctuation in foreign exchange rate coupled with higher raw material prices that adversely affected the profit margins.

### **17. MATERIAL CHANGES IN PROFIT BEFORE TAXATION FOR THE QUARTER REPORTED ON AS COMPARED WITH THE IMMEDIATE PRECEDING QUARTER**

The group's profit before taxation increased by 92% to RM4.938 million for the quarter ended 31 March 2006 from RM2.568 million in the preceding quarter ended 31 December 2005. The increase was mainly attributable to higher profit margin derived from higher EURO exchange rate and improvement in productivity.

### **18. COMMENTARY ON PROSPECTS**

It is envisaged that the global demand for hardwood timber flooring will continue to increase as timber flooring captures a bigger share of total flooring market. The Group will continue to pursue operational efficiency as part of its corporate strategies objective. In addition, the Group will continue to focus on brand building and product development to improve Ekowood's competitiveness and penetrate new markets.

Nonetheless, barring unforeseen circumstances, the Group's performance for the financial year ending 31 December 2006 is expected to be satisfactory.

### **19. PROFIT FORECAST OR PROFIT GUARANTEE**

The disclosure requirements for explanatory notes for the variance of actual profit after tax and minority interest and forecast after tax and minority interest and for the shortfall in profit guarantee are not applicable.



## 20. TAXATION

	Quarter ended		Year-to-date ended	
	31.03.2006	31.03.2005	31.03.2006	31.03.2005
	RM	RM	RM	RM
Current tax:				
Malaysian income tax	764,074	754,244	764,074	754,244
Foreign income tax	-	-	-	-
	<u>764,074</u>	<u>754,244</u>	<u>764,074</u>	<u>754,244</u>
Under/(over) provision in prior years:				
Malaysian income tax	5,600	-	5,600	-
Foreign income tax	-	(9,929)	-	(9,929)
	<u>5,600</u>	<u>(9,929)</u>	<u>5,600</u>	<u>(9,929)</u>
Deferred tax:				
Current year	(411,595)	(586,964)	(411,595)	(586,964)
Under/(Over) provision in prior year	(9,960)	-	(9,960)	-
	<u>(421,555)</u>	<u>(586,964)</u>	<u>(421,555)</u>	<u>(586,964)</u>
	<u>348,119</u>	<u>157,351</u>	<u>348,119</u>	<u>157,351</u>

## 21. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sales of unquoted investments or properties during the reporting period.

## 22. CORPORATE PROPOSALS

There was no corporate proposal announced at the date of this quarterly report.

### 23. GROUP BORROWINGS AND DEBT SECURITIES

	As at	
	31.03.2006	31.12.2005
	RM	RM
Short term borrowings		
Secured	-	-
Unsecured	15,538,089	13,493,662
	<u>15,538,089</u>	<u>13,493,662</u>
Long term borrowings		
Secured	-	-
Unsecured	-	-
	<u>-</u>	<u>-</u>

All borrowings are denominated in Ringgit Malaysia.

### 24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The Group had entered into the following foreign currency derivatives maturing within 1 year to hedge trade receivables.

	Notional amounts as at	
	31.03.2006	31.12.2005
	RM	RM
Forward foreign exchange contracts	13,673,035	14,213,168
Ratio forward agreements	4,813,550	-
	<u>18,486,585</u>	<u>14,213,168</u>

## 25. CHANGES IN MATERIAL LITIGATION

There is no change to the status of material litigations as reported below since the last quarter.

Save as disclosed below, neither the Company nor any of its subsidiaries is engaged in any material litigation either as plaintiff or defendant as at the date of this report and the Directors do not have any knowledge of any proceeding pending or threatened against the Company or its subsidiaries or of any facts likely to give rise to any proceedings which might materially affect the position of the Company and its subsidiaries.

- a) Ekowood International Berhad had on 19 September 1997 filed a suit via suit No. 22-118-1997 in Ipoh High Court against Gopeng Land & Properties sdn Bhd (“Gopeng”), Villa Technobuild Sdn. Bhd. (“Villa”) and Chuah Cheng Hoe (“CCH”) (practicing as CH Chuah Associates) for loss and damages arising from breach of contract and/or negligence on part of the defendants as follows:
- (i) breach of contract and/or negligence by Gopeng in carrying out the infilling works on a piece of land in the Gopeng Industrial Park in accordance with the Sale and Purchase Agreement dated 18 January 1995 between the Company and Gopeng resulting in severe damage to the factory buildings and associated external works (“Works”) located within and/or nearby the aforesaid land;
  - (ii) breach of contract by Villa of the construction contract dated 15 March 1995 in failing to construct the Works in a good or workmanlike manner or with good or proper materials and therefore the Works are not fit for its purpose and cannot be properly used as a wood product factory; and
  - (iii) breach by CCH of his contract of employment with the Company as consultant engineer and/or negligence in failing to exercise due professional skill and care in the performance of his services resulting in the Works containing serious and substantial defects which prevent the Works from being properly and efficiently used as wood product factory.

In the abovementioned suit, the Company claimed against Gopeng and Villa, inter alia, for damages of RM45,160,104 and general damages for loss of goodwill to be assessed by the Court and against CCH, inter alia, for the sum of RM16,284,873 being the amount paid to Villa under the construction contract, or alternatively, for damages to the sum of RM45,160,360 and general damages for loss of goodwill to be assessed by the Court.

The suit is now fixed for trial on 1 November 2006 to 3 November 2006.

The Board, in consultation with the lawyers, is of the opinion that the Company has a fair chance of succeeding in this suit.

## **25. CHANGES IN MATERIAL LITIGATION (Contd.)**

- b) Gopeng had on 8 November 2001 filed a suit against the Company via Suit No. 22-219-01 in Ipoh High Court in relation to the abovementioned Sale and Purchase Agreement dated 18 January 1995 made between Gopeng and the Company whereby Gopeng had agreed to sell and the Company had agreed to purchase the land in Gopeng Industrial Park.

In the abovementioned suit, Gopeng claimed against the Company, inter alia, for specific performance of the Sale and Purchase Agreement in that the Company be ordered to pay to Gopeng the sum of RM3,434,457, interests thereon from 1 July 1997 or such other date deemed appropriate, or alternatively for vacant possession of the aforesaid land and damages pursuant to the Sale and Purchase Agreement, and general damages for breach of contract, and costs.

Payment of the principal sum has been provided for in the accounts of the Company.

The Company has filed its defence and counter-claim to the above suit. The Company counter-claimed against Gopeng for general damages, for special damages of RM45,160,104 being the cost of, inter alia, rectification of works damaged by the subsidence of the land and loss of profits, and also claimed for interest from date of judgment and costs. Gopeng has thereafter filed its reply and defence to the counter-claim.

The suit is fixed for trial mentioned in paragraph (a) above as the 2 suits are inter-related.

The Board of Directors, in consultation with the lawyers, is of the opinion that the Company has a fair chance of defending the claim and succeeding in the counter-claim.

## 26. DIVIDENDS PAYABLE

- a) (i) As announced, the Board of Directors has recommended a final tax exempt dividend of 2.5 sen per share, amounting to net dividend payable of RM4.2 million for the financial year ended 31 December 2005, subject to the approval of shareholders at the forthcoming Annual General Meeting to be held at a date to be determined by the Board of Directors.
- (ii) The final tax exempt dividend shall be payable within 1 month from the date of entitlement/books closure date.
- (iii) In respect of deposited securities, entitlement to dividends will be determined on the basis of the record of depositors as at a date which will be within 3 months from the date on which approval is obtained in a general meeting.
- b) The Company has not declared any interim dividend for the current quarter ended 31 March 2006 (31 March 2005 : Nil)

## 27 EARNINGS PER SHARE

- a) Basic earnings per ordinary share

	Quarter ended		Year-to-date ended	
	31.03.2006	31.03.2005 (restated)	31.03.2006	31.03.2005 (restated)
Net profit for the period (RM)	4,582,106	5,684,594	4,582,106	5,684,594
Weighted average number of ordinary shares in issue	168,000,000	168,000,000	168,000,000	168,000,000
Basic earnings per ordinary share (sen)	2.73	3.38	2.73	3.38

- b) Diluted earnings per ordinary share

This is not applicable to the Group.