EKOWOOD INTERNATIONAL BERHAD (301735-D)
(Incorporated in Malaysia)

EXPLANATORY NOTES FOR QUARTERLY REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 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.)

	As at 1.1.2006 RM
Decrease in retained earnings	(50,860)
Increase in ESOS reserve	50,860

	Quarter ended		**Year-to-date ended**	
	30.6.2006 RM	**30.6.2005 RM**	**30.6.2006 RM**	**30.6.2005 RM**
Decrease in profit for the period	26,427	9,818	45,101	13,162

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)):

	Previously stated RM	Adjustment FRS 2 RM	Restated RM
At 31 December 2005			
Retained earnings	46,178,191	(50,860)	46,127,331
ESOS reserve	-	50,860	50,860
Quarter ended 30 June 2005			
Profit before tax	9,080,885	(13,162)	9,067,723
Profit for the period	9,061,099	(13,162)	9,047,937

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 30 June 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 30 June 2006.

9. DIVIDENDS PAID

There was no dividend paid in respect of the quarter ended 30 June 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
6 MONTHS PERIOD ENDED 30 JUNE 2006					
REVENUE					
External sales	42,860	23,122	9,179	-	75,161
Inter-segment sales	26,171	-	-	(26,171)	-
Total revenue	69,031	23,122	9,179	(26,171)	75,161
RESULT					
Segment result	14,319	(557)	(157)	(2,865)	10,739
Finance costs					(310)
Taxation					(1,930)
Profit after taxation					8,499
Minority interest					(40)
Profit for the period					8,459

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
6 MONTHS PERIOD ENDED 30 JUNE 2005					
REVENUE					
External sales	32,616	28,267	6,135	-	67,018
Inter-segment sales	29,040	-	-	(29,040)	-
Total revenue	61,656	28,267	6,135	(29,040)	67,018
RESULT					
Segment result	7,548	(1,411)	(207)	3,458	9,387
Finance costs					(320)
Taxation					(20)
Profit after taxation					9,048
Minority interest					(22)
Profit for the period					9,026

Revenue by geographical location of customers

	Quarter ended		Year-to-date ended	
	30.06.2006 RM'000	30.06.2005 RM'000	30.06.2006 RM'000	30.06.2005 RM'000
Asia	532	2,422	912	3,805
Europe	21,691	22,797	43,027	42,660
Malaysia	5,088	2,143	11,710	4,831
United States of America	8,122	5,062	14,782	8,884
South-West Pacific	1,083	1,479	2,766	5,271
Others	1,190	1,017	1,964	1,567
	37,706	34,920	75,161	67,018

(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 30 June 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 30 June 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 30 June 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 registered a 12% increase in turnover of RM75.161 million for the six months ended 30 June 2006 as compared to RM67.018 million for the preceding year corresponding period.. The Group recorded a 15% increase in profit before tax for six months ended 30 June 2006 of RM10.429 million as compared to RM9.068 million (as restated) for the preceding year corresponding period..

Turnover of the Group for the quarter under review was 8% higher at RM37.705 million compare to RM34.920 million for the preceding year corresponding quarter, while profit before taxation for the quarter improved by 70% to RM5.491 million relative to RM3.212 (as restated) posted in preceding year corresponding quarter.

The increase in turnover of the Group for the quarter under review is driven by higher sales volume of its engineered hardwood flooring. Meanwhile, strengthening of major revenue functional currencies and improvement in productivity contributed towards higher profit before tax for the quarter compared to the preceding year corresponding quarter.

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

Profit before taxation of the Group increased by 11% to RM5.491 million for the quarter ended 30 June 2006 from RM4.938 million in the preceding quarter ended 31 March 2006. The increase was mainly attributable to improved profit margin following appreciation of EURO and continuous improvement in productivity.

18. COMMENTARY ON PROSPECTS

Global demand for hardwood timber flooring is expected to increase with envisaged growth in market share of timber flooring segment in total flooring market. The Group will embark on continuous improvement of operational efficiency as part of its long term strategies on cost leadership.In addition, the Group will continue its focus on brand building and product development to enhance global competitiveness and penetrate into 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	
	30.06.2006 RM	30.06.2005 RM	30.06.2006 RM	30.06.2005 RM
Current tax:				
Malaysian income tax	1,354,255	962,876	2,118,329	1,717,120
Foreign income tax	-	-	-	-
	1,354,255	962,876	2,118,329	1,717,120
Under/(over) provision in prior years:				
Malaysian income tax	-	-	5,600	-
Foreign income tax	-	9,230	-	(699)
	-	9,230	5,600	(699)
Deferred tax:				
Current year	227,586	(1,109,671)	(184,009)	(1,696,635)
Under/(Over) provision in prior year	-	-	(9,960)	-
	227,586	(1,109,671)	(193,969)	(1,696,635)
	1,581,841	(137,565)	1,929,960	19,786

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	
	30.06.2006	**31.12.2005**
	RM	**RM**
Short term borrowings		
Secured	-	-
Unsecured	13,928,330	13,493,662
	13,928,330	13,493,662
Long term borrowings		
Secured	-	-
Unsecured	-	-
	-	-

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	
	30.06.2006	**31.12.2005**
	RM	**RM**
Forward foreign exchange contracts	12,106,600	14,213,168
Ratio forward agreements	5,408,250	-
	17,514,850	14,213,168

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 prinicipal 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) As announced, the Group has declared a first and 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 at the 12th Annual General Meeting held on 23 June 2006. The final tax exempt dividend shall be payable on 20 September 2006.

b) The Company has not declared any interim dividend for the current quarter ended 30 June 2006 (30 June 2005 : Nil)

27 EARNINGS PER SHARE

a) Basic earnings per ordinary share

	Quarter ended		**Year-to-date ended**	
	30.06.2006	**30.06.2005 (restated)**	**30.06.2006**	**30.06.2005 (restated)**
Net profit for the period (RM)	3,876,593	3,341,624	8,458,699	9,026,218
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)	2.31	1.99	5.03	5.37

b) Diluted earnings per ordinary share

This is not applicable to the Group.