

**EXPLANATORY NOTES FOR QUARTERLY REPORT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007**

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 2006. 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 2006.

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 2006 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning on or after 1 October 2006:

FRS 117	Leases
FRS 124	Related Party Disclosures

The adoption of FRS 124 does not result in significant changes in accounting policies of the Group. The principal change in accounting policy and its effects resulting from the adoption of the revised FRS 117 are discussed below:

FRS 117: Leases

Prior to 1 January 2007, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses.

The adoption of the revised FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating and finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and buildings elements of the lease at the inception of the lease. The up-front payments made for the leasehold land represents prepaid lease payments and are amortised on a straight line basis over the lease term.

2. CHANGES IN ACCOUNTING POLICIES (Contd.)

The Group has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. The reclassification of the leasehold land as prepaid lease payments has been accounted for retrospectively and certain comparatives have been restated as disclosed in Note 3. The financial impact to the Group arising from this change in accounting policy is as follow:

	As at 01.01.2007 RM'000
Decrease in retained earnings	1,627
Decrease in prepaid land lease payments	<u>1,627</u>

	Quarter ended		Year-to-date ended	
	30.06.2007 RM'000	30.06.2006 RM'000	30.06.2007 RM'000	30.06.2006 RM'000
Increase/(Decrease) in profit for the period	<u>(37)</u>	<u>(37)</u>	<u>(74)</u>	<u>(74)</u>

The effects on the consolidation balance sheet as at 30 June 2007 are disclosed below:

Effect on the consolidated balance sheets as at 30 June 2007

The following table provides estimates of the extent to which each of the line items in the balance sheets for the quarter ended 30 June 2007 is higher or lower than it would have been had the previous policy been applied in the current quarter.

	Increase/ (Decrease) RM'000
Property, plant and equipment	(8,977)
Prepaid land lease payments	7,275
Retained earnings	<u>(1,702)</u>

3. COMPARATIVES

The following comparative amounts have been restated due to the adoption of FRS 117:

	Previously stated RM'000	Adjustments FRS 117 (Note 2(i)) RM'000	Restated RM'000
AS AT 31 DECEMBER 2006			
Property, plant and equipment	55,919	(8,977)	46,942
Prepaid lease payments	-	7,350	7,350
Retained earnings	59,514	(1,627)	57,887

4. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report of the Group's financial statements for the year ended 31 December 2006 was not qualified.

5. SEASONAL OR CYCLICAL FACTORS

The effects of seasonal or 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 affecting assets, liabilities equity, net income or cash flows for the financial period ended 30 June 2007, 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 2007.

9. DIVIDENDS PAID

There was no dividend paid in respect of the quarter ended 30 June 2007.

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 2007					
REVENUE					
External sales	45,298	24,061	7,526	-	76,885
Inter-segment sales	28,512	-	-	(28,512)	-
Total revenue	<u>73,810</u>	<u>24,061</u>	<u>7,526</u>	<u>(28,512)</u>	<u>76,885</u>
RESULT					
Segment result	12,437	(761)	(379)	(565)	10,732
Finance costs					(382)
Taxation					155
Profit after taxation					<u>10,505</u>
Minority interest					21
Profit for the period					<u>10,526</u>

	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	<u>69,031</u>	<u>23,122</u>	<u>9,179</u>	<u>(26,171)</u>	<u>75,161</u>
RESULT					
Segment result	14,244	(557)	(157)	(2,866)	10,664
Finance costs					(310)
Taxation					(1,930)
Profit after taxation					<u>8,424</u>
Minority interest					(40)
Profit for the period					<u>8,384</u>

10. SEGMENTAL REPORTING (Contd.)

a) Geographical segments (Contd.)

Revenue by geographical location of customers

	Quarter ended		Year-to-date ended	
	30.06.2007	30.06.2006	30.06.2007	30.06.2006
	RM'000	RM'000	RM'000	RM'000
Asia	574	532	916	912
Europe	20,809	21,691	44,019	43,027
Malaysia	6,222	5,088	11,166	11,710
United States of America	5,392	8,122	8,751	14,782
South-West Pacific	8,161	1,083	10,281	2,766
Others	1,180	1,190	1,752	1,964
	<u>42,338</u>	<u>37,706</u>	<u>76,885</u>	<u>75,161</u>

b) 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 2007.

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 2007, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinuing operations.

14. CAPITAL COMMITMENTS

	As at	
	30.06.2007	31.12.2006
	RM'000	RM'000
Commitments in respect of capital expenditure:		
Approved and contracted for	5,809	1,621
Approved but not contracted for	2,997	13,735
	<u>8,806</u>	<u>15,356</u>

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 2006.

**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 six months ended 30 June 2007 was RM76.885 million compared to RM75.161 million for the preceding year corresponding period. The Group's profit before tax for the six months ended 30 June 2007 was RM10.351 million which is broadly in line with the preceding year corresponding period of RM10.354 million (restated).

Turnover of the Group for the quarter under review was 12% higher at RM42.338 million compare to RM37.706 million for the preceding year corresponding quarter, while profit before taxation for the quarter of RM5.216 is also in line with the preceding year corresponding quarter of RM5.453million (restated).

The increase in turnover of the group for the quarter under review against preceding year corresponding quarter is attributable primarily to higher sales volume and average selling price of its engineered hardwood flooring. Meanwhile, profit before tax for the quarter under review decreased in comparison to the preceding year corresponding quarter due to fluctuation in raw material cost resulting from the changes in the sales mix.

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 2% to RM5.216 million for the quarter ended 30 June 2007 from RM5.135 million in the preceding quarter ended 31 March 2007. The increase was mainly due to higher average selling price for the quarter.

18. COMMENTARY ON PROSPECTS

It is envisaged that the global demand for hardwood timber flooring will continue to be strong fueled by increase in market share of timber flooring in 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 enhance global competitiveness and penetrate into new markets. The group is also undertaking an expansion plans to boost production and sales and to capture a bigger slice of the global wood flooring market.

Nonetheless, barring unforeseen circumstances, the Group's performance for the financial year ending 31 December 2007 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	
	30.06.2007	30.06.2006	30.06.2007	30.06.2006
	RM	RM	RM	RM
Current tax:				
Malaysian income tax	518,877	1,354,255	951,113	2,118,329
Foreign income tax	-	-	-	-
	<u>518,877</u>	<u>1,354,255</u>	<u>951,113</u>	<u>2,118,329</u>
Under/(over) provision in prior years:				
Malaysian income tax	-	-	-	5,600
Foreign income tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,600</u>
Deferred tax:				
Current year	(113,570)	227,586	(271,777)	(184,009)
Under/(Over) provision in prior year	(208,464)	-	(833,859)	(9,960)
	<u>(322,034)</u>	<u>227,586</u>	<u>(1,105,636)</u>	<u>(193,969)</u>
	<u>196,843</u>	<u>1,581,841</u>	<u>(154,523)</u>	<u>1,929,960</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	
	30.06.2007	31.12.2006
	RM	RM
Short term borrowings		
Secured	-	-
Unsecured	15,112,009	19,168,726
	<u>15,112,009</u>	<u>19,168,726</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	
	30.06.2007	31.12.2006
	RM	RM
Forward foreign exchange contracts	8,838,185	14,075,010
Ratio forward agreements	4,680,850	1,098,300
	<u>13,519,035</u>	<u>15,173,310</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 5 September 2007.

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 defense 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 defense 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 2006 at the 13th Annual General Meeting held on 20 June 2007. The final tax exempt dividend shall be payable on 28 August 2007.
- b) The Company did not declare any interim dividend for the current quarter ended 30 June 2007 (30 June 2006 : Nil)

27 EARNINGS PER SHARE

a) Basic earnings per ordinary share

	Quarter ended		Year-to-date ended	
	30.06.2007	30.06.2006 (restated)	30.06.2007	30.06.2006 (restated)
Net profit for the period (RM)	5,022,294	3,839,043	10,526,748	8,383,599
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)	2.99	2.29	6.27	4.99

b) Diluted earnings per ordinary share

This is not applicable to the Group.