

EKOWOOD INTERNATIONAL BERHAD (301735-D)

(Incorporated in Malaysia)

EXPLANATORY NOTES FOR INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2007

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

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 (“Bursa Malaysia”).

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				1,627

	Quarter Ended		Year Ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Decrease in profit for the period	(38)	(38)	(150)	(150)

The effects on the consolidation balance sheet as at 31 December 2007 are disclosed below:

Effect on the consolidated balance sheets as at 31 December 2007

The following table provides estimates of the extent to which each of the line items in the balance sheets for the quarter ended 31 December 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	7,200
Retained earnings	<u>(1,777)</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) 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 and 2 of Part B, i.e. Explanatory Notes Pursuant To Appendix 9B of the Listing Requirements of Bursa Malaysia below.

6. UNUSUAL ITEMS

There were no unusual items during the quarter affecting assets, liabilities, equity, net income or cash flows for the financial year ended 31 December 2007, except as disclosed in Note 2.

7. CHANGES IN ESTIMATES

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

8. DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter ended 31 December 2007.

9. DIVIDENDS PAID

There were no dividends paid in respect of the quarter ended 31 December 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
12 months ended 31 December 2007					
REVENUE					
External sales	94,445	42,816	12,817	-	150,078
Inter-segment sales	49,794	-	-	(49,794)	-
Total Revenue	144,239	42,816	12,817	(49,794)	150,078
RESULTS					
Segment results	24,722	(1,719)	(559)	(1,743)	20,701
Finance costs					(780)
Taxation					(616)
Profit after taxation					19,305
Minority Interest					(31)
Profit for the year					19,274

	Malaysia RM'000	Europe RM'000	United States of America RM'000	Elimination RM'000	Consolidated RM'000
12 months ended 31 December 2006 (Restated)					
REVENUE					
External sales	87,009	49,932	16,785	-	153,726
Inter-segment sales	52,603	-	-	(52,603)	-
Total Revenue	139,612	49,932	16,785	(52,603)	153,726
RESULTS					
Segment results	25,409	(1,675)	12	(3,401)	20,345
Finance costs					(777)
Taxation					(2,061)
Profit after taxation					17,507
Minority Interest					(70)
Profit for the year					17,437

10. SEGMENTAL REPORTING (Contd.)

a) Geographical segments (Contd.)

Revenue by geographical location of customers

	Quarter ended		Year-to-date ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Asia	956	601	2,568	2,922
Europe	20,503	25,457	85,828	91,823
Malaysia	9,815	6,789	26,009	26,203
United States of America	1,917	5,998	13,941	24,479
South-West Pacific	2,992	2,130	18,403	5,608
Others	1,047	667	3,329	2,691
	<u>37,230</u>	<u>41,642</u>	<u>150,078</u>	<u>153,726</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 31 December 2007.

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

There were no material events subsequent to the end of the current quarter.

13. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the quarter ended 31 December 2007, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinuing operations.

14. CAPITAL COMMITMENTS

	As at	
	31.12.2007	31.12.2006
	RM'000	RM'000
Commitments in respect of capital expenditure:		
Approved and contracted for	-	1,621
Approved but not contracted for	-	13,735
	<u>-</u>	<u>15,356</u>

15. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets since the last annual balance sheet as at 31 December 2006.

PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA

1. REVIEW OF PERFORMANCE

The Group's revenue for the year was RM150.1 million compared to RM153.7 million recorded in the preceding year, a decrease of 2.4%. For the quarter under review, revenue for the Group was RM37.2 million compared with RM41.6 million for the previous year corresponding quarter. The decrease in revenue was mainly due to lower sales volume.

The Group's profit before tax for the year was RM19.9 million which was broadly in line with the preceding year of RM19.6 million. The profit before taxation for the quarter of RM4.9 million was 10.0% higher compared with the preceding year's corresponding quarter of RM4.4 million (restated). The increase was mainly attributable to lower provision for doubtful debts.

2. 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 3.2% to RM4.9 million for the quarter ended 31 December 2007 from RM4.7 million in the preceding quarter ended 30 September 2007. There was no significant fluctuation in the profit before tax for the quarter under review against preceding quarter.

3. COMMENTARY ON PROSPECTS

The Board of Directors is optimistic that with the coming on stream of capacity expansion, the Group will reap economy of scale of production. This will allow the Group to capture a bigger share of a growing global market for engineered solid hardwood flooring.

Barring unforeseen circumstances, the Group's performance for the coming financial year is expected to be satisfactory.

4. 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.

5. TAXATION

	Quarter ended		Year Ended	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	RM'000	RM'000	RM'000	RM'000
Current taxation:				
- Malaysian income tax	361	1,153	1,677	4,103
- Foreign income tax	-	115	-	115
	<u>361</u>	<u>1,268</u>	<u>1,677</u>	<u>4,218</u>
Under / (over) provision in prior years:				
- Malaysian income tax	-	-	-	63
- Foreign income tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>63</u>
Deferred taxation :				
- Relating to origination and reversal of temporary differences	(317)	(1,456)	(275)	(1,492)
- Over provision in prior year	(30)	(718)	(786)	(728)
	<u>(347)</u>	<u>(2,174)</u>	<u>(1,061)</u>	<u>(2,220)</u>
Total	<u>14</u>	<u>(906)</u>	<u>616</u>	<u>2,061</u>

6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sales of unquoted investments and/or other properties during the financial quarter under review.

7. CORPORATE PROPOSALS

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

8. GROUP BORROWINGS AND DEBT SECURITIES

	As at	As at
	31.12.2007	31.12.2006
	RM'000	RM'000
Short term borrowings - Unsecured	<u>21,833</u>	<u>19,169</u>
Long term borrowings - Unsecured	<u>4,524</u>	<u>-</u>

All borrowings are denominated in Ringgit Malaysia.

9. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

	Notional amount as at	
	31.12.2007	31.12.2006
	RM'000	RM'000
Forward foreign exchange contracts	4,943	14,075
Ratio forward agreements	1,627	1,098
	<u>6,570</u>	<u>15,173</u>

10. CHANGES IN MATERIAL LITIGATION

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 the 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 a 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 has settled out-of-court mentioned in paragraph (b) below as the 2 suits are inter-related.

10. 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 Company has accepted the settlement terms proposed by Gopeng and Villa. Under the proposed settlement, the Company shall pay RM2,575,842.78 and RM84,865.80 to Gopeng, being 75% of the balance of the purchase price and refund of quit rent respectively. The Company shall also pay RM680,000 to Villa as full and final settlement for their counter claim of RM1.7million for the construction works.

The Company has made an announcement to Bursa Malaysia on 08 January 2008 that an approval from the state authority has been given on 7 December 2007 for the transfer of 19 pieces of land located at Mukim Sungai Raya & Mukim Teja, Daerah Kinta, Negeri Perak ("Land") to the Company. A total sum of RM2,660,690.58 has been paid to Messrs Wan & Wan, being the solicitors and stakeholder for Gopeng Land & Properties Sdn Bhd pending completion of registration of transfer of the Land to Ekowood whilst RM680,000 will be paid to Villa Technobuild Sdn Bhd in accordance with the terms of the consent judgment. Villa Technobuild Sdn Bhd shall withdraw its counter-claim against Ekowood.

The Suit was withdrawn on 7 January 2008 in conjunction with the filing of consent judgment by the Company's solicitors at the Ipoh High Court on even date.

The Board of Directors is of the opinion that the aforesaid out of court settlement reflects a fair, reasonable and final conclusion to the matter as the suits have been on-going for a period of 10 years.

11. PROPOSED DIVIDEND

A final dividend of 3.4 sen per share less 26% taxation will be proposed for shareholders' approval at the forthcoming Annual General Meeting to be convened at a date to be determined by the Board of Directors.

12. EARNINGS PER SHARE

a) Basic earnings per ordinary share

	Quarter ended		Year Ended	
	31.12.2007	31.12.2006 (restated)	31.12.2007	31.12.2006 (restated)
Net profit for the period (RM)	4,793,842	5,287,925	19,274,215	17,436,947
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)	2.85	3.15	11.47	10.38

b) Diluted earnings per ordinary share

This is not applicable to the Group.

13. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 15 February 2008.