

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

**EXPLANATORY NOTES FOR INTERIM FINANCIAL STATEMENTS FOR THE QUARTER
AND FINANCIAL YEAR ENDED 31 DECEMBER 2010**

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and should be read in conjunction with the Group’s audited financial statement for the financial year ended 31 December 2009.

These explanatory notes attached to the condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2009 except for the following Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2010.

FRSs, Amendments to FRSs and Interpretations

FRS 7	Financial Instruments Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statement (Revised 2009)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments : Disclosures
Amendment to FRS 1	First Time Adoption of Financial Reporting Standards
Amendment to FRS 2	Share-based Payment – Vesting Conditions and Cancellations
Amendment to FRS 7	Financial Instruments: Disclosures
Amendment to FRS 8	Operating Segments
Amendment to FRS 107	Statement of Cash Flows
Amendment to FRS 108	Accounting policies, Changes in Accounting estimates and Errors

Amendment to FRS 110	Events after the Reporting Period
Amendment to FRS 116	Property, Plant and Equipment
Amendment to FRS 117	Leases
Amendment to FRS 118	Revenues
Amendment to FRS 119	Employee Benefits
Amendment to FRS 120	Accounting for Government grants and Disclosures of Government Assistance
Amendment to FRS 123	Borrowing Costs
Amendment to FRS 128	Investments in Associates
Amendment to FRS 132	Financial Instruments: Presentation
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 136	Impairment of Assets
Amendment to FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 140	Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 - Group and Treasury Share Transactions

Other than for the application of FRS 101, FRS 117 and FRS 139, the application of the above FRSs, Amendments to FRSs and Interpretation did not result in any significant changes in the accounting policies and presentation of the financial results of the Group.

i. FRS 101: Presentation of Financial Statements

The Consolidated Statement of Changes in Equity will reflect details of transactions with owners and non-owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. Comparative information have been re-presented so that it is also in conformity with the revised standard. This Standard only affects the presentation and disclosures aspects and has no impact on the financial position and results of the Group.

ii. Amendments to FRS 117: Leases

The amendment clarifies the classification of lease of land and requires entities with existing leases of land and buildings to reassess the classification of land as finance or operating lease. Leasehold land which in substance is a finance lease will be reclassified to Property, Plant and Equipment. The adoption of this amendment will result in a change in accounting policy which will be applied retrospectively in accordance with the transitional provisions. The reclassification of leasehold land from prepaid land lease payments to Property, Plant and equipment has been accounted for retrospectively and certain comparatives as at 31 December 2009 have been restated as follows:

	Previously stated RM	Effect of FRS 117 RM	As restated RM
Property, plant and equipment	54,396,926	6,329,700	60,726,626
Prepaid land lease payments	6,329,700	(6,329,700)	-

iii. FRS 139: Financial Instruments, Recognition and Measurement

The Standard sets out the new requirements for the recognition and measurement of financial instrument.

A financial instrument is recognized in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument. A financial instrument is recognized initially, at its fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instruments. Except for those financial instruments measured at fair value through profit and loss, the Group determines the classification at initial recognition and re-evaluates this designation at each year end.

Financial Assets/Liabilities

a. Financial assets/Liabilities at fair value through profit and loss.

Fair value through profit and loss category comprises financial assets/liabilities that are held for trading including derivatives or specifically designated into these categories upon initial recognition.

b. Loans and receivables

Prior to 1 January 2010, loans and receivables were stated at gross receivables less provision for doubtful debts. Under FRS 139, loans and receivables are initially measured at fair value and subsequently at amortised cost using effective interest rate method. Gains and losses arising from the derecognition of the loans and receivables, amortization and impairment losses are recognized in the income statement.

c. Available for sale (AFS)

Prior to 1 January 2010, AFS financial assets such as investments were accounted for at cost less impairment losses or at the lower of cost and market value. Under FRS 139, AFS financial asset is measured at fair value initially and subsequently with unrealized gains or losses recognized as other comprehensive income in the AFS reserve until the investment is derecognized or impaired. Other AFS financial asset is measured at cost if the unquoted equity instrument is not carried at fair value because its fair value cannot be reliably measured.

d. Derivatives Financial Instruments

Prior to adoption of FRS 139, derivative contracts are recognized in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now required to be initially recognized at fair value on the date the contract is entered into and subsequently at fair value at each period ending. Any gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in income statement, however, where derivatives are designated as hedge instrument which are accounted for in accordance with hedge accounting requirements as described in the hedge accounting policy as detailed below.

e. Hedge accounting

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such as asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit and loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value is recognized in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognized in profit or loss.

Impact on opening balances

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 are not restated. Instead, the changes have been accounted for by restating the following opening balance sheet as at 1 January 2010.

	Previously stated RM	Effect of FRS 139 RM	As restated RM
Assets:			
Derivative asset	-	10,620	10,620
Liabilities:			
Deferred tax liabilities	4,830,070	2,549	4,832,619
Equity:			
Retained earnings	60,721,189	8,071	60,729,260

3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report of the Group's financial statements for the financial year ended 31 December 2009 was not qualified.

4. 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.

5. UNUSUAL ITEMS

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial year ended 31 December 2010.

6. CHANGES IN ESTIMATES

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

7. DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter ended 31 December 2010.

8. DIVIDENDS PAID

There were no dividends paid in respect of the quarter ended 31 December 2010.

9. SEGMENTAL REPORTING

a) Geographical segments

	Malaysia RM'000	Europe RM'000	United States of America RM'000	Elimination RM'000	Consolidated RM'000
YEAR ENDED 31 DECEMBER 2010					
REVENUE					
External sales	50,896	12,767	2,057	-	65,720
Inter-segment sales	10,419	-	-	(10,419)	-
Total revenue	<u>61,315</u>	<u>12,767</u>	<u>2,057</u>	<u>(10,419)</u>	<u>65,720</u>
RESULT					
Segment result	(9,308)	(1,105)	(187)	1,553	(9,047)
Finance costs					(717)
Taxation					256
Loss after taxation					<u>(9,508)</u>
Minority interest					58
Loss for the period					<u>(9,450)</u>

	Malaysia RM'000	Europe RM'000	United States of America RM'000	Elimination RM'000	Consolidated RM'000
YEAR ENDED 31 DECEMBER 2009					
REVENUE					
External sales	43,301	18,874	3,197	-	65,372
Inter-segment sales	15,133	-	-	(15,133)	-
Total revenue	<u>58,434</u>	<u>18,874</u>	<u>3,197</u>	<u>(15,133)</u>	<u>65,372</u>
RESULT					
Segment result	(4,993)	(2,737)	(650)	1,325	(7,055)
Finance costs					(713)
Taxation					(964)
Loss after taxation					<u>(8,732)</u>
Minority interest					51
Loss for the period					<u>(8,681)</u>

9. SEGMENTAL REPORTING

a) Geographical segments (Contd.)

Revenue by geographical location of customers

	Quarter ended		Year-to-date ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RM'000	RM'000	RM'000	RM'000
Asia	2,155	2,187	8,892	7,493
Europe	7,432	9,224	40,615	35,277
Malaysia	2,315	642	6,411	10,450
United States of America	565	539	2,322	3,299
South-West Pacific	1,027	1,026	4,949	5,486
Others	312	959	2,531	3,367
	<u>13,806</u>	<u>14,577</u>	<u>65,720</u>	<u>65,372</u>

b) Business segments

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

10. 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 2010.

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

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

12. CHANGES IN COMPOSITION OF THE GROUP

- a. Ekowood Malaysia Sdn Bhd (EMSB), previously 60% owned, became a wholly owned subsidiary of the Company on 1 November, 2010 by way of additional acquisition of 200,000 ordinary shares at a cash consideration of RM270,000.

On 1 December, 2010 EMSB issued 20,000,000 redeemable convertible preference shares of RM0.01 at a premium of RM0.99 each through capitalization of the amount owing to its holding company, Ekowood International Berhad (EIB).

- b. On 1 December, 2010 Ekowood Iberica S.L., issued 250,000 ordinary shares of Euro6.01012 each through capitalization of the amount owing to its holding company, Ekowood International Berhad. The capitalization will result in the increase of the effective interest from 80% to 99.96%.

- c. On 1 December, 2010 Ekowood USA Inc. issued 3,000,000 ordinary shares of USD1.00 each through capitalization of the amount owing to its holding company, Ekowood International Berhad.
- d. On 1 December, 2010 Alden SASU. issued 50,000 ordinary shares of Euro10.00 each through capitalization of the amount owing to its holding company, Ekowood International Berhad.

There were no other changes in the composition of the Group during the quarter ended 31 December 2010, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinuing operations.

13. CAPITAL COMMITMENTS

There is no material capital commitments not provided for in the interim financial statements as at 31 December 2010.

14. 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 2009.

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 three months ended 31 December 2010 was RM13.8 million compared to the preceding year's corresponding quarter of RM14.6 million.

The slightly higher loss before taxation for the quarter at RM3.6 million compared to the preceding year's corresponding quarter of RM3.2 million was mainly affected by lower sales margin due to adverse currency movement notably the strength of Ringgit Malaysia against EURO and USD.

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

Loss before taxation of the Group was RM3.6 million for the quarter ended 31 December 2010 compared to RM1.0 million for the preceding quarter ended 30 September 2010. The increase in losses was due to lower sales volume affected by low business activities during the year end holiday break in Europe.

3. COMMENTARY ON PROSPECTS

The Group's export sales to European countries make up over 61% of the total revenue. Operating environment over in Europe remains difficult. Overall consumer sentiment and spending trends in those regions remain relatively subdued.

Given the foregoing, the Group performances for the coming months will continue to be challenging in view of the present market conditions.

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-to-date ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RM	RM	RM	RM
Current tax:				
Malaysian tax	3,031	(81,027)	5,780	197,417
Foreign tax	-	-	-	-
	<u>3,031</u>	<u>(81,027)</u>	<u>5,780</u>	<u>197,417</u>
Under/(Over) provision in prior years:				
Malaysian tax	(31,278)	694	(30,605)	(8,985)
Foreign tax	-	(32)	-	(4,341)
	<u>(31,278)</u>	<u>662</u>	<u>(30,605)</u>	<u>(13,326)</u>
Deferred tax:				
Current year	(96,048)	82,938	(231,637)	780,203
Under provision in prior year	-	-	-	-
	<u>(96,048)</u>	<u>82,938</u>	<u>(231,637)</u>	<u>780,203</u>
	<u>(124,295)</u>	<u>2,573</u>	<u>(256,462)</u>	<u>964,294</u>

6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

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

7. CORPORATE PROPOSALS

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

8. GROUP BORROWINGS AND DEBT SECURITIES

	As at	
	31.12.2010	31.12.2009
	RM	RM
Short term borrowings		
Unsecured	<u>14,012,401</u>	<u>14,274,576</u>

All borrowings are denominated in Ringgit Malaysia.

9. FINANCIAL INSTRUMENTS

As a result of adoption of FRS 139: Financial Instruments, Recognition and Measurement, forward foreign currency contracts which were previously classified as off balance sheet financial instruments have now been recognized in the balance sheet as derivative instruments as follows:

	31.12.2010	31.12.2009
	RM	RM
Foreign currency forward contracts-less than 1 year:		
Contract / Notional Amount	4,057,956	2,421,349
Fair value	73,722	10,620

The management objective and policies in respect of the above derivatives and its various risk management are consistent with those adopted during the last financial year ended 31 December 2009.

10. CHANGES IN MATERIAL LITIGATION

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.

11. PROPOSED DIVIDEND

The Company did not declare any interim dividend for the current quarter ended 31 December 2010.

12. EARNINGS PER SHARE

a) Basic earnings per ordinary share

	Quarter ended		Year-to-date ended	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Net loss for the period (RM)	(3,463,432)	(3,131,754)	(9,449,449)	(8,681,358)
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)	<u>(2.06)</u>	<u>(1.86)</u>	<u>(5.62)</u>	<u>(5.17)</u>

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 23 February 2011.

PART C. DISCLOSURE OF REALISED AND UNREALISED PROFITS OR LOSSES

Total unappropriated profit as at 31 December 2010 and 30 September 2010 is analysed as follows:

	Quarter ended	
	31.12.2010	30.09.2010
	RM	RM
Total unappropriated profit of the Company and its subsidiaries		
- Realised	55,450,754	58,777,338
- Unrealised	(3,609,593)	(3,410,083)
	<hr/> 51,841,161	<hr/> 55,367,254
Less : Consolidation adjustment	(561,350)	(624,012)
Total Group unappropriated profit as per consolidated accounts	<hr/> <hr/> 51,279,811	<hr/> <hr/> 54,743,243