

EKOWOOD INTERNATIONAL BERHAD (301735-D)

(Incorporated in Malaysia)

EXPLANATORY NOTES FOR INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

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 2010.

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 2010.

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 2010 except for the following Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2011.

FRSs, Amendments to FRSs and Interpretations

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations (revised)
Amendments to FRS 127	Consolidated and Separate Financial Statements
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Share-based Payment
Amendments to FRS 2	Group Cash-Settled Share-based Payment Transactions
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Amendments to FRS 132	Financial Instruments: Presentation (paragraphs 11, 16 97E relating to classification of Rights Issues)
Amendments to FRS 138	Intangible Assets

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

FRSs, Amendments to FRSs and Interpretations (cont'd)

Amendments to FRSs and IC Interpretation 13	Improvements to FRSs (2010)
IC Interpretation 4	Determining whether an Arrangement Contain a Lease
IC Interpretation 12	Service Concession Arrangements
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners
IC Interpretation 18	Transfer of Assets from Customers
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives
Amendments to IC Interpretation 15	Agreements for the Construction of Real Estate
Technical Release 3	Guidance on Disclosure of Transition to IFRSs
Technical Release i4	Shariah Compliant Sale Contracts

Except for changes in accounting policies arising from the adoption of the amendments to FRS127, the adoption of the other standards and interpretations will have no material effect on the financial performance statement in the period of initial application. The amendment to FRS127 requires for attributing total comprehensive income to the owners of the parent and to the non-controlling interest even if this result in the non-controlling interests having a deficit balance.

At the date of authorisation of these interim financial statements, the following new FRSs, Amendments to FRSs and Interpretations were issued but not yet effective and have not been applied by the Group:

	Effective date
FRSs, Amendments to FRSs and Interpretations	
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
FRS 124 Related Party Disclosures (revised)	1 January 2012
FRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	1 January 2013
FRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	1 January 2013
FRS 10 Consolidated Financial Statements	1 January 2013
FRS 11 Joint Arrangements	1 January 2013
FRS 12 Disclosure of Interests in Other Entities	1 January 2013
FRS 13 Fair Value Measurement	1 January 2013
FRS 101 Presentation of Items of Other Comprehensive Income (Amendments to FRS 101)	1 July 2012
FRS 127 Separate Financial Statements	1 January 2013
FRS 128 Investment in Associates and Joint Ventures	1 January 2013

3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report of the Group's financial statements for the financial year ended 31 December 2010 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 quarter ended 31 December 2011.

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 2011.

8. DIVIDENDS PAID

There were no dividends paid in respect of the quarter ended 31 December 2011.

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 2011					
Revenue					
External sales	40,522	6,267	1,965	-	48,754
Inter-segment sales	686	-	-	(686)	-
Total revenue	<u>41,208</u>	<u>6,267</u>	<u>1,965</u>	<u>(686)</u>	<u>48,754</u>
Result					
Segment result	(7,697)	(3,195)	(1,218)	3,396	(8,714)
Finance costs					(636)
Taxation					(149)
Loss after taxation					<u>(9,499)</u>
Non-controlling interests					903
Loss for the period					<u>(8,596)</u>
Assets					
Segment assets	197,806	11,253	4,418	(62,737)	150,740
Unallocated assets					1,364
Total assets					<u>152,104</u>
Liabilities					
Segment liabilities	21,705	21,885	1,435	(23,298)	21,727
Unallocated liabilities					4,304
Total liabilities					<u>26,031</u>
Other segment information					
Capital expenditure	634	3	10	-	647
Depreciation	3,852	21	2	-	3,875
Other material non-cash expenses:					
Unrealised foreign exchange gain	(58)	-	-	-	(58)
Property, plant and equipment written off	361	-	-	-	361
Impairment loss on trade receivables	824	761	-	-	1,585

Revenue by geographical location of customers

	Quarter	Year-to-date
	31.12.2011	31.12.2011
	RM'000	RM'000
Asia	632	1,760
Europe	4,680	34,850
Malaysia	287	5,025
United States of America	108	1,951
South-West Pacific	1,088	3,318
Others	393	1,850
	<u>7,188</u>	<u>48,754</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 2011.

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

There were no changes in the composition of the Group during the quarter ended 31 December 2011, 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 2011.

14. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets since the last reporting period as at 31 December 2010.

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

1. REVIEW OF PERFORMANCE

For the current quarter, the Group's revenue was RM7.2 million compared to the preceding year's corresponding quarter of RM13.8 million. The loss before tax for the quarter was RM4.6 million compared to the preceding year's corresponding quarter loss of RM3.6 million

For the year ended 31 December, 2011, the Group revenue dropped by 26% compared to previous year. The Group also suffered a loss before tax of RM9.4 million as compared to loss before tax of RM9.8 million in year 2010.

Malaysia

For Q4, 2011, it registered a higher loss and lower sale revenue mainly due to lower export sale volume (refer chart below) to Europe market as demand weakening due to deepening Eurozone sovereign debt crisis. The revenue generated from local market also fell as certain projects were delayed. Overall, the higher loss also due to provision for doubtful debts of RM0.8 million. For the year ended 31 December, 2011, it posted a lower loss mainly due to lower administrative expenses as the Group continue to rationalize the local operation.

Europe

For the Q4, 2011 and year ended 31 December, 2011, it registered higher loss and lower sale revenue as a result of the declining sale volume (refer chart below) and down sizing of European operations since last quarter. It made a provision for doubtful debts of RM0.7 million in the current quarter.

United State of America

For the Q4, 2011 and year ended 31 December, 2011 its sale revenue declined further. It registered a higher loss as the company continued to record low sales volume (refer chart below) while plan is in progress to revive the sale resulting in higher selling and marketing expenses. The higher loss was also due to the provision for doubtful debt of RM0.7 million in the current quarter.

Segment	Sale Volumes (M ²)	
	Q4,2011	Q4,2010
Malaysia		
- Export	69,857	98,075
- Local market	1,553	6,176
Europe	6,798	27,153
USA	2,669	4,408

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

Loss before tax of the Group was RM4.7 million for the quarter ended 31 December 2011 compared to loss of RM2.2 million for the preceding quarter ended 30 September 2011. The higher loss is mainly due to provision for doubtful debts of RM2.3 million. The higher loss is also due to the seasonal low sales volume period during the long year end holiday break in Europe.

3. COMMENTARY ON PROSPECTS

The Group's export sales to European countries make up about 70% of the total revenue. The slow growth environment in Europe will restrain the recovery of export market. The company is now exploring opportunity and executing plans to secure orders in emerging new market in South Asia Region and aims to win more local installation projects to turnaround the Group.

In view of the difficult operating environment in Europe, the Group performances for the coming months will continue to be challenging whilst new initiatives to drive the sale revenue are underway.

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. LOSS BEFORE TAX

The following amounts have been included in arriving at loss before tax:

	As at	
	Quarter	Year-to-date
	31.12.2011	31.12.2011
	RM	RM
Interest income	(15)	(236)
Depreciation and amortization	939,741	3,874,795
Impairment loss on trade receivables	2,310,718	2,329,689
Inventories written off	1,035	2,140
Foreign exchange (gain) / loss		
- realised	105,560	53,281
- unrealised	22,184	(58,716)
Net fair value (gain)/loss on derivative	(132,121)	38,215

6. TAXATION

	Quarter ended		Year-to-date ended	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RM	RM	RM	RM
Current tax:				
Malaysian tax	9,721	3,031	17,788	5,780
Foreign tax	-	-	-	-
	<u>9,721</u>	<u>3,031</u>	<u>17,788</u>	<u>5,780</u>
Under/(Over) provision in prior years:				
Malaysian tax	339	(31,278)	(5,441)	(30,605)
Foreign tax	-	-	-	-
	<u>339</u>	<u>(31,278)</u>	<u>(5,441)</u>	<u>(30,605)</u>
Deferred tax:				
Current year	56,232	(96,048)	136,761	(231,637)
Under provision in prior year	-	-	-	-
	<u>56,232</u>	<u>(96,048)</u>	<u>136,761</u>	<u>(231,637)</u>
	<u>66,292</u>	<u>(124,295)</u>	<u>149,108</u>	<u>(256,462)</u>

The tax charge represents mainly tax on rental income, interest and deferred tax liabilities.

7. CORPORATE PROPOSALS

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

8. GROUP BORROWINGS AND DEBT SECURITIES

	31.12.2011	31.12.2010
	RM	RM
Short term borrowings		
Unsecured	14,159,049	14,012,401

All borrowings are denominated in Ringgit Malaysia except as follows:

	As at 31.12.2011	
	Amount in foreign currencies	Amount in RM equivalent
EURO	528,122	2,162,396
USD	1,427,025	4,521,528
		<u>6,683,924</u>

9. 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.

10. PROPOSED DIVIDEND

The Company did not declare any interim dividend for the current quarter ended 31 December 2011.

11. EARNINGS PER SHARE

a) Basic earnings per ordinary share

	Quarter ended		Year-to-date ended	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Net loss for the period (RM)	(4,393,479)	(3,485,670)	(8,596,122)	(9,471,688)
Weighted average number of ordinary shares in issue	168,000,000	168,000,000	168,000,000	168,000,000
Basic loss per ordinary share (sen)	(2.62)	(2.07)	(5.12)	(5.64)

b) Diluted earnings per ordinary share

This is not applicable to the Group.

12. 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 22 February 2012.

PART C. DISCLOSURE OF REALISED AND UNREALISED PROFITS OR LOSSES

Total unappropriated profit is analysed as follows:

	As at 31.12.2011 RM	As at 31.12.2010 RM
Total unappropriated profit of the Company and its subsidiaries		
- Realised	38,339,238	52,900,149
- Unrealised	(3,509,774)	(3,609,593)
	<hr/> 34,829,464	<hr/> 49,290,556
Add/(less) : Consolidation adjustment	7,831,986	1,967,016
Total Group unappropriated profit as per consolidated accounts	<hr/> <hr/> 42,661,450	<hr/> <hr/> 51,257,572