

## **PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134**

### **1. Corporate information**

Ekowood International Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by the Board of Directors on 22 August, 2012.

### **2. First-Time Adoption of Malaysian Financial Reporting Standards (“MFRS”)**

These condensed consolidated interim financial statements, for the period ended 30 June 2012, have been prepared in accordance with MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34: Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards (“FRS”).

These condensed consolidated interim financial statements are the Group’s first MFRS condensed consolidated interim financial statements for part of the period covered by the Group’s first MFRS annual financial statements for the year ending 31 December 2012. MFRS 1: First Time Adoption of Malaysian Financial Reporting Standards (“MFRS 1”) has been applied.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of 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 2011.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group’s financial position, financial performance and cash flows is set out in Note 3 below. These notes include reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the statement of cash flows.

### **3. Significant accounting policies and application of MFRS 1**

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011 except as discussed below:

#### **(a) Business combination**

MFRS 1 provides the option to apply MFRS 3: Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combination prior to the date of transition.

##### **Acquisition before date of transition**

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition:

- (i) The classification of former business combinations under FRS is maintained;
- (ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
- (iii) The carrying amount of goodwill recognized under FRS is not adjusted.

#### **(b) Foreign currency translation reserve**

Under FRS, the Group recognized translation differences on foreign operations in a separate component of equity. Cumulative foreign currency translation differences for all foreign operations are deemed to be zero as at the date of transition to MFRS. Accordingly, at date of transition to MFRS, the cumulative foreign currency translation differences of RM4,703,750 (30 June 2011: RM4,703,750 ; 31 December 2011: RM4,703,750) were adjusted to retained earnings.

#### **(c) Estimates**

The estimates at 1 January 2011 and at 31 December 2011 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 January 2011, the date of transition to MFRS and as of 31 December 2011.

The reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:



**3. Significant accounting policies and application of MFRS 1 (continued)**

**(ii) Reconciliations of total comprehensive income for the period ended 30 June 2011 and for the year ended 31 December 2011**

There is no impact on the total comprehensive income for the period ended 30 June 2011 and for the year ended 31 December 2011, and thus no reconciliation is required.

**4. Auditors' report on preceding annual financial statements**

The auditors' report of the Group's financial statements for the financial year ended 31 December 2011 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 affecting assets, liabilities, equity, net income or cash flows for the financial quarter ended 30 June 2012.

**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 2012.

**9. Dividends paid**

There were no dividends paid in respect of the quarter ended 30 June 2012.

## 10. Segment information

### a) Geographical segments

	Malaysia RM	Europe RM	United States of America RM	Elimination RM	Consolidated RM
<b>6 months</b>					
<b>Period ended</b>					
<b>30 Jun 2012</b>					
<b>Revenue</b>					
External sales	18,619,175	1,557,661	1,142,443	-	21,319,279
Inter-segment sales	2,175,954	-	-	(2,175,954)	-
Total revenue	<u>20,795,129</u>	<u>1,557,661</u>	<u>1,142,443</u>	<u>(2,175,954)</u>	<u>21,319,279</u>
<b>Result</b>					
Segment result	(6,423,899)	(615,388)	(192,960)	5,277,086	(1,955,161)
Finance costs					(355,719)
Taxation					(67,902)
Loss after taxation					<u>(2,378,782)</u>
Non-controlling interests					155,205
Loss for the period					<u>(2,223,577)</u>
<b>Assets</b>					
Segment assets	202,822,146	15,275,446	4,644,440	(71,977,009)	150,765,023
Unallocated assets					1,406,004
Total assets					<u>152,171,027</u>
<b>Liabilities</b>					
Segment liabilities	28,656,754	25,648,634	1,852,788	(31,708,130)	24,450,046
Unallocated liabilities					4,347,560
Total liabilities					<u>28,797,606</u>
<b>Other segment information</b>					
Capital expenditure	101,168	-	-	-	101,168
Depreciation	1,815,795	8,632	1,211	-	1,825,638
Other material non-cash expenses:					
Fair value					
changes on derivatives	63,023	-	-	-	63,023

## 10. Segment information (Continued.)

### a) Geographical segments

Revenue by geographical location of customers

	<b>Quarter</b>	<b>Year-to-date</b>
	<b>30.06.2012</b>	<b>30.06.2012</b>
	<b>RM</b>	<b>RM</b>
Asia	757,261	1,392,343
Europe	4,447,600	9,635,535
Malaysia	2,288,976	3,160,648
United States of America	866,144	1,460,100
South-West Pacific	2,987,560	5,152,200
Others	46,324	518,453
	<u>11,393,865</u>	<u>21,319,279</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 2012.

## 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 2012, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinuing operations.

## 14. Capital commitments

There is no material capital commitments not provided for in the interim financial statements as at 30 June 2012.

## 15. 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 2011.

**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 RM11.4 million compared to the preceding year's corresponding quarter of RM15.3 million. The loss before tax for the quarter was RM1.4 million compared to the preceding year's corresponding quarter loss of RM0.9 million

**Malaysia**

For Q2, 2012, it registered an increase in loss before tax despite a reduction in total operating expenses compared to preceding year's corresponding quarter. This was mainly attributed to lower export sale revenue due to the economic and financial crisis in Europe.

**Europe**

For Q2, 2012, it registered a lower sale revenue as a result of the declining sale volume (refer chart below) and down sizing of European operations since Q3, 2011.

**United State of America**

For the Q2, 2012, its sale revenue was slightly lower compared to Q2, 2011. Besides, the selling and marketing expenses was also higher and had resulted in a higher loss before tax compared to Q2,2011.

Segment	Sale Volumes ( M <sup>2</sup> )	
	Q2,2012	Q2,2011
Malaysia		
- Export	80,334	112,811
- Local market	11,669	9,824
Europe	9,088	17,240
USA	4,528	4,773

**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 RM1.4 million for the quarter ended 30 June 2012 compared to a loss of RM0.9 million for the preceding quarter ended 31 March 2012. Despite a slight improvement on the sales volume, Q2, 2012 registered higher loss mainly due to foreign exchange losses on translation of foreign currency loan as a result of the strengthening of USD against RM.

**3. Commentary on prospects**

The Group's export sales to European countries make up about 40% of the total revenue. Nonetheless, the composition of export sales to Europe has gradually declined in line with the growth in the business in Australia, Asia, and local market.

During the past few months, the global economic outlook has shown signs of further weaknesses and growth in emerging and developing economies are expected to moderate. Given the foregoing, the Group performances for the coming months will continue to be challenging whilst initiatives are underway to increase the sale revenues.

**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
	30.06.2012	30.06.2012
	RM	RM
Interest expense	215,740	355,719
Depreciation and amortization	918,702	1,825,638
Foreign exchange (gain) / loss		
- realised	(55,882)	(175,547)
- unrealised	105,509	(33,212)
Rental Income	28,340	66,367
Net fair value (gain)/loss on derivative	473	63,023



**6. Taxation**

	Quarter ended		Year-to-date ended	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
	RM	RM	RM	RM
Current tax:				
Malaysian tax	830	2,021	5,145	2,854
Foreign tax	-	-	-	-
	<u>830</u>	<u>2,021</u>	<u>5,145</u>	<u>2,854</u>
Under/(Over) provision in prior years:				
Malaysian tax	-	-	-	-
Foreign tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax:				
Current year	28,802	8,840	62,757	86,377
Under provision in prior year	-	-	-	-
	<u>28,802</u>	<u>8,840</u>	<u>62,757</u>	<u>86,377</u>
	<u>29,632</u>	<u>10,861</u>	<u>67,902</u>	<u>89,231</u>

The tax 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**

	As at	
	30.06.2012	31.12.2011
	RM	RM
Short term borrowings		
Unsecured	14,774,285	14,159,049

All borrowings are denominated in Ringgit Malaysia except as follows:

	As at 30.06.2012	
	Amount in foreign currencies	Amount in RM equivalent
EURO	242,319	968,599
USD	980,801	3,116,790
		<u>4,085,389</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 30 June 2012.

## 11. Earnings per share

a) Basic earnings per ordinary share

	Quarter ended		Year-to-date ended	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
Net loss for the period (RM)	(1,315,758)	(737,890)	(2,223,577)	(2,295,280)
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)	<u>(0.78)</u>	<u>(0.44)</u>	<u>(1.32)</u>	<u>(1.37)</u>

b) Diluted earnings per ordinary share

This is not applicable to the Group.

## 12. Authorised 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 August, 2012

### **PART C. BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES**

The breakdown of the retained profits of the Group as at 30 June 2012 and 31 December 2011 into realised and unrealised profits is presented in accordance with the directives issued by Bursa Malaysia Securities Berhad dated 25 March 2010 prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	<b>As at 30.06.2012 RM</b>	<b>As at 31.12.2011 RM</b>
Total retained profits of the Company and its subsidiaries		
- Realised	40,622,636	43,160,836
- Unrealised	(8,807,265)	(3,509,774)
	<u>31,815,371</u>	<u>39,651,062</u>
Add : Consolidation adjustment	3,919,351	(1,692,763)
Total Group retained profits as per financial statements	<u><u>35,734,722</u></u>	<u><u>37,958,299</u></u>