

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 20 November 2012.

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

These condensed consolidated interim financial statements, for the period ended 30 September 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 September 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)

(i) Reconciliations of equity

	FRS as at 1 January 2011 RM	Adjustment Note 3(b) RM	MFRS as at 1 January 2011 RM	FRS as at 30 September 2011 RM	Adjustment Note 3(b) RM	MFRS as at 30 September 2011 RM	FRS as at December 2011 RM	Adjustment Note 3(b) RM	MFRS as at December 2011 RM
ASSETS									
Non-current assets	56,821,505		56,821,505	53,752,576		53,752,576	52,608,705		52,608,705
Current assets	107,993,843		107,993,843	101,716,940		101,716,940	100,021,243		100,021,243
Total assets	164,815,348		164,815,348	155,469,516		155,469,516	152,629,948		152,629,948
Equity and liabilities									
Share capital	84,000,000		84,000,000	84,000,000		84,000,000	84,000,000		84,000,000
Share premium	3,854,541		3,854,541	3,854,541		3,854,541	3,854,541		3,854,541
Employee share option reserve	922,871		922,871	934,054		934,054	934,054		934,054
Foreign currency translation reserve	(4,703,750)	4,703,750	-	(3,352,962)	4,703,750	1,350,788	(4,477,331)	4,703,750	226,419
Retained earnings	51,257,572	(4,703,750)	46,553,822	47,054,929	(4,703,750)	42,351,179	42,662,049	(4,703,750)	37,958,299
Equity attributable to owners of the parents	135,331,234		135,331,234	132,490,562		132,490,562	126,973,313		126,973,313
Non-controlling interest	-		-	(836,284)		(836,284)	(899,838)		(899,838)
	135,331,234		135,331,234	131,654,278		131,654,278	126,073,475		126,073,475
Non-current liability	4,205,028		4,205,028	4,291,090		4,291,090	4,308,461		4,308,461
Current liabilities	25,279,086		25,279,086	19,524,147		19,524,147	22,248,012		22,248,012
Total liabilities	29,484,114		29,484,114	23,815,238		23,815,238	26,556,473		26,556,473
Total equity and liabilities	164,815,348		164,815,348	155,469,516		155,469,516	152,629,948		152,629,948

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

(ii) Reconciliations of total comprehensive income for the period ended 30 September 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 September 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 September 2012.

9. Dividends paid

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

10. Segment information

a) Geographical segments

	Malaysia RM	Europe RM	United States of America RM	Elimination RM	Consolidated RM
9 months					
Period ended					
30 September 2012					
Revenue					
External sales	27,753,325	2,175,089	1,616,379	-	31,544,793
Inter-segment sales	2,667,838	-	-	(2,667,838)	-
Total revenue	<u>30,421,164</u>	<u>2,175,089</u>	<u>1,616,379</u>	<u>(2,667,838)</u>	<u>31,544,793</u>
Result					
Segment result	(7,335,375)	(812,491)	(300,607)	5,484,553	(2,963,920)
Finance costs					(536,300)
Taxation					(95,228)
Loss after taxation					<u>(3,595,448)</u>
Non-controlling interests					202,946
Loss for the period					<u>(3,392,502)</u>
Assets					
Segment assets	198,962,823	14,379,046	4,453,431	(71,172,211)	146,623,089
Unallocated assets					1,383,196
Total assets					<u>148,006,285</u>
Liabilities					
Segment liabilities	25,836,025	24,955,934	1,872,897	(30,931,478)	21,733,378
Unallocated liabilities					4,348,327
Total liabilities					<u>26,081,705</u>
Other segment information					
Capital expenditure	134,950	-	-	-	134,950
Depreciation	2,734,029	12,823	1,820	-	2,748,671
Other material non-cash expenses:					
Unrealised foreign exchange (gain)/loss	13,630	-	-	-	13,630

10. Segment information (Continued.)

a) Geographical segments

Revenue by geographical location of customers

	Quarter 30.09.2012	Year-to-date 30.09.2012
	RM	RM
Asia	969,357	1,993,560
Europe	4,195,500	13,831,035
Malaysia	2,171,020	5,699,809
United States of America	997,707	2,457,806
South-West Pacific	1,800,852	6,953,052
Others	91,079	609,532
	<u>10,225,515</u>	<u>31,544,793</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 September 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 September 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 September 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 RM10.2 million compared to the preceding year's corresponding quarter of RM9.7 million. For the cumulative quarters, the Group's revenue was RM31.5 million compared to the corresponding cumulative quarters 2011 of RM41.6 million.

The loss before tax for the quarter and cumulative quarters was RM1.2 million and RM3.5 million respectively compared to the preceding year's corresponding quarter and cumulative quarters loss of RM2.2 million and RM4.7 million..

Malaysia

For Q3, 2012, a lower loss before tax was registered compared to preceding year's corresponding quarter due to higher average selling price. Higher average selling price was due to the favourable sales mix with higher sale of 1 strip product which fetches higher selling price.

For the cumulative quarters 2012, the decrease in loss before tax compared to preceding cumulative was mainly due to higher gross margin and lower selling and administrative expenses as the Group continues to rationalize the local operation.

Europe

For Q3 and cumulative quarters of 2012, lower sale revenues were registered 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 Q3 and cumulative quarters of 2012, sale revenues were lower compared to corresponding Q3 and cumulative quarter of 2011 due to lower demand.

Segment	Sale Volumes (M ²)			
	Q3,2012	Q3,2011	Cumulative 2012	Cumulative 2011
Malaysia				
- Export	75,599	84,451	242,829	352,507
- Local market	16,591	2,676	31,851	19,619
Europe	5,259	17,273	18,488	53,284
USA	3,602	4,674	12,710	13,778

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 RM1.2 million for the quarter ended 30 September 2012 compared to loss of RM1.4 million for the preceding quarter ended 30 June 2012. This is due mainly to a drop in selling and marketing expenses in line with lower export.

3. Commentary on prospects

The Group has been actively growing the businesses in Australia, Asia and local markets to make up the reduced export sales to European countries.

Nonetheless, in view of the continuing weaknesses in the global economy, the Group performances for the coming months will continue to be challenging whilst initiatives are underway to turnaround the Group.

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 ended	Year-to-date ended
	30.09.2012	30.09.2012
	RM	RM
Interest expense	180,581	536,300
Depreciation and amortization	923,033	2,748,671
Impairment loss on trade receivables	-	-
Inventories written off	-	-
Foreign exchange (gain) / loss		
realised	17,275	158,272
unrealised	46,842	13,630
Rental Income	53,165	119,532
Net fair value (gain)/loss on derivative	(30,382)	32,641

6. Taxation

	Quarter ended		Year-to-date ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
	RM	RM	RM	RM
Current tax:				
Malaysian tax	6,397	3,191	11,542	8,067
Foreign tax	-	-	-	-
	<u>6,397</u>	<u>3,191</u>	<u>11,542</u>	<u>8,067</u>
Under/(Over) provision in prior years:				
Malaysian tax	-	(5,780)	-	(5,780)
Foreign tax	-	-	-	-
	<u>-</u>	<u>(5,780)</u>	<u>-</u>	<u>(5,780)</u>
Deferred tax:				
Current year	20,929	(14,687)	83,686	80,529
Under provision in prior year	-	-	-	-
	<u>20,929</u>	<u>(14,687)</u>	<u>83,686</u>	<u>80,529</u>
	<u>27,326</u>	<u>(17,276)</u>	<u>95,228</u>	<u>82,816</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	
	30.09.2012	31.12.2011
	RM	RM
Short term borrowings		
Unsecured	13,064,995	14,159,049

All borrowings are denominated in Ringgit Malaysia except as follows:

	As at 30.09.2012	
	Amount in foreign currencies	Amount in RM equivalent
EURO	233,519	924,479
USD	495,317	1,514,928
		<u>2,439,406</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 September 2012.

11. Earnings per share

a) Basic earnings per ordinary share

	Quarter ended		Year-to-date ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Net loss for the period (RM)	(1,168,925)	(1,907,362)	(3,392,502)	(4,202,642)
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>(0.70)</u>	<u>(1.14)</u>	<u>(2.02)</u>	<u>(2.50)</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 20 November 2012.

PART C. BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained profits of the Group as at 30 September 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.

	As at 30.09.2012 RM	As at 31.12.2011 RM
Total retained profits of the Company and its subsidiaries		
- Realised	39,089,463	43,160,836
- Unrealised	<u>(8,776,883)</u>	<u>(3,509,774)</u>
	30,312,580	39,651,062
Add : Consolidation adjustment	<u>4,253,217</u>	<u>(1,692,763)</u>
Total Group retained profits as per financial statements	<u><u>34,565,797</u></u>	<u><u>37,958,299</u></u>