

## **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 26 February, 2013.

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

These condensed consolidated interim financial statements, for the period ended 31 December 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 ended 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 (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 31 December 2011 RM	Adjustment Note 3(b) RM	MFRS as at 31 December 2011 RM
<b>Assets</b>						
<b>Non-current assets</b>	56,821,505		56,821,505	52,608,705		52,608,705
<b>Current assets</b>	107,993,843		107,993,843	100,021,243		100,021,243
<b>Total assets</b>	<u>164,815,348</u>		<u>164,815,348</u>	<u>152,629,948</u>		<u>152,629,948</u>
<b>Equity and liabilities</b>						
Share capital	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
Employee share option reserve	922,871		922,871	934,054		934,054
Foreign currency translation reserve	(4,703,750)	4,703,750	-	(4,477,331)	4,703,750	1,350,788
Retained earnings	<u>51,257,572</u>	<u>(4,703,750)</u>	<u>46,553,822</u>	<u>42,662,049</u>	<u>(4,703,750)</u>	<u>42,351,179</u>
Equity attributable to owners of the parents	135,331,234		135,331,234	126,973,313		126,973,313
Non-controlling interest	<u>-</u>		<u>-</u>	<u>(899,838)</u>		<u>(899,838)</u>
	<u>135,331,234</u>		<u>135,331,234</u>	<u>126,073,475</u>		<u>126,073,475</u>
<b>Non-current liability</b>	4,205,028		4,205,028	4,308,461		4,308,461
<b>Current liabilities</b>	<u>25,279,086</u>		<u>25,279,086</u>	<u>22,248,012</u>		<u>22,248,012</u>
<b>Total liabilities</b>	<u>29,484,114</u>		<u>29,484,114</u>	<u>26,556,473</u>		<u>26,556,474</u>
<b>Total equity and liabilities</b>	<u>164,815,348</u>		<u>164,815,348</u>	<u>152,629,948</u>		<u>152,629,949</u>

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

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

There is no impact on the total comprehensive income 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 31 December 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 31 December 2012.

**9. Dividends paid**

There were no dividends paid in respect of the quarter ended 31 December 2012.

## 10. Segment information

### a) Geographical segments

	Malaysia RM	Europe RM	United States of America RM	Elimination RM	Consolidated RM
<b>12 months</b>					
<b>Period ended</b>					
<b>31 December 2012</b>					
<b>Revenue</b>					
External sales	36,849,378	2,638,366	2,403,021	-	41,890,765
Inter-segment sales	2,860,074	-	-	(2,860,074)	-
Total revenue	<u>39,709,451</u>	<u>2,638,366</u>	<u>2,403,021</u>	<u>(2,860,074)</u>	<u>41,890,765</u>
<b>Result</b>					
Segment result	(8,854,028)	(2,093,279)	(276,674)	4,970,598	(6,253,383)
Finance costs					(693,683)
Taxation					(249,154)
Loss after taxation					<u>(7,196,219)</u>
Non-controlling interests					526,351
Loss for the period					<u>(6,669,868)</u>
<b>Assets</b>					
Segment assets	198,376,354	12,736,862	4,104,241	(70,398,472)	144,818,985
Unallocated assets					1,208,876
Total assets					<u>146,027,861</u>
<b>Liabilities</b>					
Segment liabilities	26,759,289	24,919,295	1,501,302	(30,189,275)	22,990,611
Unallocated liabilities					4,489,220
Total liabilities					<u>27,479,831</u>
<b>Other segment information</b>					
Capital expenditure	190,447	-	-	-	190,447
Depreciation	3,636,166	17,098	1,944	-	3,655,208
Other material non-cash expenses:					
Unrealised foreign exchange (gain)/loss	4,982,098	-	-	(5,077,395)	(95,296)

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**10. Segment information (Continued.)**

a) Geographical segments

Revenue by geographical location of customers

	<b>Quarter</b>	<b>Year-to-date</b>
	<b>31.12.2012</b>	<b>31.12.2012</b>
	<b>RM</b>	<b>RM</b>
Asia	1,229,609	3,223,169
Europe	3,574,964	17,405,999
Malaysia	1,816,660	7,516,469
United States of America	1,431,159	3,888,965
South-West Pacific	1,908,546	8,861,598
Others	385,033	994,566
	<u>10,345,972</u>	<u>41,890,765</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 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 31 December 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 31 December 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 RM10.3 million compared to the preceding year's corresponding quarter of RM7.2 million. For the cumulative quarters, the Group's revenue was RM41.9 million compared to the corresponding cumulative quarters 2011 of RM48.8 million.

The loss before tax for the quarter and cumulative quarters was RM3.4 million and RM6.9 million respectively compared to the preceding year's corresponding quarter and cumulative quarters loss of RM4.7 million and RM9.3 million..

#### **Malaysia**

For Q4, 2012, a lower loss before tax was registered compared to preceding year's corresponding quarter mainly due to higher average selling price and increase in sale volume. Higher average selling price was due to the favourable sales mix with higher sale of 1 strip product which fetch a higher selling price.

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

#### **Europe**

For Q4 and cumulative quarters of 2012, lower sale revenues were registered as a result of the declining sale volume (refer chart below) particularly following the down sizing of European operations since Q4, 2011.

#### **United State of America**

For Q4 and cumulative quarters of 2012, sale revenue was higher compared to corresponding Q4 and year to date due to higher demand which is due to improving economic situation..

Segment	Sale Volumes ( M <sup>2</sup> )			
	Q4,2012	Q4,2011	Cumulative 2012	Cumulative 2011
Malaysia				
- Export	80,693	69,857	323,522	422,364
- Local market	9,311	1,553	41,162	21,172
Europe	3,997	6,798	22,485	60,082
USA	6,079	2,669	18,789	16,447

**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 RM3.4 million for the quarter ended 31 December 2012 compared to loss of RM1.2 million for the preceding quarter ended 30 September 2012. This is due mainly to an increase in selling and marketing expenses coupled with allowance for impairment made on trade receivable and inventories.

**3. Commentary on prospects**

Underlying global economic conditions remain on the track of recovery especially in United States of America and the Group's earlier efforts to grow the businesses in Australia, Asia and local markets continued and have seen modest improvement in sale in recent months. The Group performances in the coming months will continue to be challenging whilst supportive measures are undertaken 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:

	<b>As at</b>	
	<b>Quarter</b>	<b>Year-to-</b>
	<b>ended</b>	<b>date ended</b>
	<b>31.12.2012</b>	<b>31.12.2012</b>
	<b>RM</b>	<b>RM</b>
Interest expense	157,383	693,683
Depreciation and amortization	906,537	3,655,208
Impairment loss on trade receivables	1,013,239	1,013,239
Inventories written down	1,036,072	1,036,072
Foreign exchange (gain) / loss		
realised	40,936	67,407
unrealised	(108,926)	(95,296)
Rental Income	43,474	163,006
Net fair value (gain)/loss on derivative	19,401	52,042

## 6. Taxation

	Quarter ended		Year-to-date ended	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	RM	RM	RM	RM
Current tax:				
Malaysian tax	393	9,721	11,935	17,788
Foreign tax	-	-	-	-
	<u>393</u>	<u>9,721</u>	<u>11,935</u>	<u>17,788</u>
Under/(Over) provision in prior years:				
Malaysian tax	(324)	339	(324)	(5,441)
Foreign tax	-	-	-	-
	<u>(324)</u>	<u>339</u>	<u>(324)</u>	<u>(5,441)</u>
Deferred tax:				
Current year	153,857	56,232	237,543	136,761
Under provision in prior year	-	-	-	-
	<u>153,857</u>	<u>56,232</u>	<u>237,543</u>	<u>136,761</u>
	<u>153,926</u>	<u>66,292</u>	<u>249,154</u>	<u>149,108</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	
	31.12.2012	31.12.2011
	RM	RM
Short term borrowings		
Unsecured	14,289,283	14,159,049

All borrowings are denominated in Ringgit Malaysia except as follows:

	As at 31.12.2012	
	Amount in foreign currencies	Amount in RM equivalent
EURO	379,676	1,531,956
USD	1,031,277	3,153,646
		<u>4,685,602</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 2012.

## 11. Earnings per share

a) Basic earnings per ordinary share

	Quarter ended		Year-to-date ended	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Net loss for the period (RM)	(3,277,366)	(4,392,881)	(6,669,868)	(8,595,523)
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>(1.95)</u>	<u>(2.61)</u>	<u>(3.97)</u>	<u>(5.12)</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 26 February, 2013.**

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

The breakdown of the retained profits of the Group as at 31 December 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 31.12.2012 RM</b>	<b>As at 31.12.2011 RM</b>
Total retained profits of the Company and its subsidiaries		
- Realised	36,073,237	43,160,836
- Unrealised	(8,940,853)	(8,213,524)
	27,132,384	34,947,312
Add : Consolidation adjustment	4,156,047	3,010,987
Total Group retained profits as per financial statements	<u>31,288,431</u>	<u>37,958,299</u>