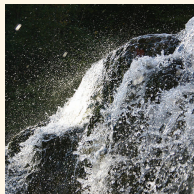




EUROSPAN HOLDINGS BERHAD (351927-M)



annual report 2005



Our Vision

To become one of the leading furniture manufacturer and exporter in the region by working towards :

***E**xcellent customer service*

***U**niversal designs*

***R**esearch & Development*

***O**n time delivery*

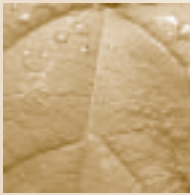
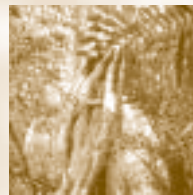
***S**uperior team work*

***P**rice competitiveness*

***A**dvancement in technology*

***N**o compromise on quality*

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Tenth Annual General Meeting of Eurospan Holdings Berhad will be held at Murai Room, Lower Ground, Hotel Equatorial, No. 1, Jalan Bukit Jambul, 11900 Bayan Lepas, Penang on Thursday, 27 October 2005 at 11.30 a.m. for the following purposes :-

AS ORDINARY BUSINESSES

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 May 2005 together with the Reports of the Directors and Auditors thereon. **Resolution 1**
2. To declare a first and final tax exempt dividend of 3% for the financial year ended 31 May 2005. **Resolution 2**
3. To approve the payment of Directors' fees of RM150,000/- for the financial year ended 31 May 2005. **Resolution 3**
4. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution :-

"THAT Mr Diong Chin Teck, retiring pursuant to Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the next Annual General Meeting." **Resolution 4**
5. To re-elect Dato' Noor Ahmad Mokhtar bin Haniff who retires in accordance with Article 126 of the Company's Articles of Association and being eligible, offers himself for re-election. **Resolution 5**
6. To re-appoint Messrs KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **Resolution 6**

AS SPECIAL BUSINESS

7. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution :-

Authority to Issue Shares
"THAT pursuant to Section 132D of the Companies Act, 1965, and subject to the approvals of the relevant Governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company from time to time upon such terms and conditions and for such purposes and to such person or persons whomsoever as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **Resolution 7**
8. To consider any other business for which due notice shall have been given in accordance with the Companies Act, 1965.

NOTICE OF ANNUAL GENERAL MEETING

(cont'd)

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS ALSO HEREBY GIVEN that subject to the approval of the shareholders at the Tenth Annual General Meeting, the first and final tax exempt dividend of 3% in respect of the financial year ended 31 May 2005 will be paid on 6 December 2005 to depositors registered in the Records of Depositors on 22 November 2005.

A depositor shall qualify for entitlement only in respect of:-

- (a) Shares transferred into the depositor's securities account before 4.00 p.m. on 22 November 2005 in respect of transfers;
- (b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By order of the Board

Lim Kim Teck
(MAICSA 7010844)
Secretary

Penang
Date: 30 September 2005

NOTES

1. Appointment of Proxy

- a) *A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.*
- b) *To be valid the proxy form must be duly completed and deposited at the registered office of the Company, 14A, Jalan Todak 3, Pusat Bandar, Bandar Seberang Jaya, 13700 Seberang Jaya, Prai, Penang not less than forty-eight (48) hours before the time for holding the meeting.*
- c) *A member may appoint more than two (2) proxies to attend and vote at the same meeting.*
- d) *Where a member appoints two (2) proxies or more, the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
- e) *If the appointer is a corporation, the proxy form must be executed under its Common Seal or under the hand of its attorney.*

2. Explanatory Note on Special Business

Resolution 7 - Authority to Issue Shares

The Ordinary Resolution if passed will empower the Directors of the Company to issue and allot shares in the Company from time to time and for such purposes as the Directors consider would be in the interest of the Company. This authority will, unless revoked or varied by the Company in general meeting, expire at the next Annual General Meeting of the Company.

CORPORATE INFORMATION

Board of Directors

Guan Kok Beng
Guan Kim Heng
Guan Kim Loong
Dato' Noor Ahmad Mokhtar Bin Haniff
Diong Chin Teck

Chairman/Managing Director
Executive Director
Executive Director
Independent Non-Executive Director
Independent Non-Executive Director

4

Eurospan Holdings Berhad (351927-M)

Company Secretary

Lim Kim Teck (MAICSA 7010844)

Registered Office

14A, Jalan Todak 3
Pusat Bandar
Bandar Seberang Jaya
13700 Seberang Jaya, Prai
Malaysia
Tel : 604-3976672
Fax : 604-3976675

Share Registrar

Plantation Agencies Sdn. Berhad
3rd Floor, Standard Chartered Bank Chambers
Lebuh Pantai
10300 Penang
Malaysia
Tel : 604-2625333
Fax : 604-2622018

Auditors

KPMG
1st Floor, Wisma Penang Garden
42 Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

Principal Bankers

Standard Chartered Bank Malaysia Berhad
Level 1, NB Tower 1
5050 Jalan Bagan Luar
12000 Butterworth
Malaysia

Malayan Banking Berhad
4277 Jalan Bagan Luar
12000 Butterworth
Malaysia

Stock Exchange Listing

Second Board of Bursa Malaysia Securities Berhad

GROUP STRUCTURE

Eurospan Holdings Berhad was incorporated in Malaysia on 19 July 1995 under the Companies Act, 1965 as a public limited company. It has been listed on the Second Board of Bursa Malaysia Securities Berhad since 10 July 2000. The Company is an investment holding company and its wholly-owned subsidiary companies are Eurospan Furniture Sdn. Bhd., Dynaspan Furniture Sdn. Bhd., Eurowood Furniture Sdn. Bhd. and Dynaword Sdn. Bhd.



CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, I am pleased to present the Annual Report of Eurospan Holdings Berhad and its subsidiaries ("the Group") for the financial year ended 31 May 2005.

Financial Review

For the year under review, the Group recorded a considerable improvement in its financial results. It recorded a higher revenue of RM58.17 million, an improvement of 35% over the previous year's revenue.

The Group's profit before tax had increased significantly by 183% over the previous year's to RM6.01 million. The significant increase in profit before tax was mainly due to an improved gross margin achieved from the strong revenue growth.

The Group also achieved a higher profit after tax of RM4.79 million as compared to previous year's of RM1.59 million. The resultant earnings per share had improved to 11.98 sen as compared to 3.98 sen for the previous year.

Dividend

In view of the improved financial results, the Board is pleased to recommend a first and final tax-exempt dividend of three (3) sen per share for the financial year ended 31 May 2005 for the shareholders' approval at the forthcoming Annual General Meeting. This will involve a cash payment of RM1.2 million.

Corporate Development

On 22 November 2004, Eurospan Holdings Berhad ("the Company") convened an extraordinary general meeting in which it received the shareholders' approval for the establishment of an employees' share option scheme ("the Scheme") of up to fifteen percent (15%) of the issued and paid-up capital of the Company for eligible employees of the Group. The Scheme was duly implemented on 30 December 2004.

Operations Review

The year under review saw the continuation of the Group's strategy of further broadening its access to the European and other new markets. The Group's focused differentiation strategy targeted specific customer groups of different geographical market segments by introducing new value added product lines of high perceived value to these customer groups in order to maintain the gross margins. The higher revenue gained from increased sales orders has enabled the Group to improve on its production capacity loading which facilitated a better leverage on its economies of scale.

The year under review also witnessed a price increase in the main raw material component. The Group responded by further tightening control over its cost of production. The improvement in productivity via improved capacity loading, made possible by the increased sales orders had ensured that costs were kept at competitive level when compared to the revenue generated.

Prospects

The de-pegging of the Ringgit Malaysia ("the ringgit") had resulted in an immediate short-term appreciation of the ringgit against the USD. In the long-term, export-based industries including the Group which trade in the USD would have to depend on supportive government policy and wait for the new level of ringgit to stabilize in order to assess its impact on the price competitiveness.

CHAIRMAN'S MESSAGE

(cont'd)

Prospects (cont'd)

As a whole, the Group remains optimistic of the long-term prospects of the global furniture industry. The Group will continue to offer its customers an array of choices from a range of good quality and affordable wooden dining sets to a range of premium quality wooden dining sets. It will continue with its focused differentiation strategy based on innovative product designs, timely delivery, consistent quality levels and pricing differentiation.

The Group will continue to look for opportunities for expansion while maintaining prudent management by practicing good corporate governance to further enhance shareholders' value.

Barring further unforeseen circumstances, the Board is cautiously optimistic of a better performance in the new financial year ending May 2006.

Appreciation

On behalf of the Board of Directors, I would like to thank the Management and staff for their commitment, continued hard work and contribution to the Group's goal. To our shareholders, I thank you for your unwavering loyalty and support. My gratitude also goes to all our valued customers, subcontractors, suppliers, business associates, bankers and the authorities for their continuous cooperation, support and confidence in the Group.

To my fellow Board members, my thanks and appreciation for your counsel and guidance in facing all business challenges, all of which have contributed to a successful year.

Guan Kok Beng

Chairman

Date : 30 September 2005



STATEMENT ON CORPORATE GOVERNANCE

The Directors of the Company appreciate the importance of adopting and inculcating pertinent standards of corporate governance within the Group. The Board views corporate governance as synonymous with three key concepts, namely transparency, accountability as well as corporate performance.

As such, the Board strives to adopt the substance and spirit behind corporate governance prescriptions and not merely the form. The Board is thus fully committed to the maintenance of high standards of corporate governance by supporting and implementing the prescriptions of the Principles and Best Practices set out in Parts 1 and 2 of the Malaysian Code on Corporate Governance (the "Code") respectively.

The Board is pleased to provide the following statements, which outline the main corporate governance practices that were in place throughout the financial year, unless otherwise stated.

Principles Statement

The following statement sets out how the Company has applied the Principles in Part 1 of the Code. The Principles are dealt with under the headings of "Board of Directors", "Directors' Remuneration", "Shareholders" and "Accountability and Audit".

A Board of Directors

Board Responsibilities

The Group acknowledges the pivotal role played by the Board of Directors in the stewardship of its direction and operations, and ultimately the enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for the overall corporate governance of the Group, including the strategic direction, establishing goals for management and monitoring the achievement of these goals.

Meetings

The Board ordinarily meets at least four (4) times a year at quarterly intervals with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. During the year ended 31 May 2005, the Board met on six (6) occasions, where it deliberated upon and considered a variety of matters including the Group's financial results, strategic decisions and the direction of the Group.

The Board receives documents on matters requiring its consideration prior to and in advance of each meeting. All proceedings from the Board meetings are recorded and the minutes thereof signed by the Chairman of the meeting.

Details of the Director's meeting attendance during the financial year are as follows:-

Directors	Attendance
Guan Kok Beng	6/6
Guan Kim Heng	6/6
Guan Kim Loong	6/6
Dato' Noor Ahmad Mokhtar bin Haniff	6/6
Diong Chin Teck	5/6

Board Committees

The Board of Directors delegates certain responsibilities to the Board Committees, namely the Audit Committee, Nominating Committee and Remuneration Committee, in order to enhance business and operational efficiency as well as efficacy.

All Committees have written terms of reference and operating procedures and the Board receives reports of their proceedings and deliberations, where appropriate. The Chairman of the various committees will report to the Board the outcome of the Committee meetings and such reports are normally circulated to the Board.

STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

A Board of Directors (cont'd)

Other Committee

The Board of Directors has also established an Employees' Share Option Scheme ("ESOS") Committee comprising certain Directors and Management staff to administer the ESOS Scheme of the Company in accordance with the By-laws of the Scheme.

Board Balance

As at the date of this statement, the Board consists of five (5) members, comprising three (3) Executive Directors and two (2) Independent Non-Executive Directors. The Directors, with their different backgrounds and specialisation, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, marketing and operations. A brief profile of each Director is presented on pages 20 and 21 of this Annual Report.

Although the positions of Chairman and Managing Director are held by the same Director, the Board is of the opinion that no one individual has unfettered powers of decision as there is a strong independent element within the Board in the form of the two (2) Independent Non-Executive Directors, who provide a check and balance in the Board on decision-making. Moreover, it is the practice of the Chairman to encourage participation by all members during Board meetings.

The Board is satisfied that the current Board composition fairly reflects the investment of minority shareholders in the Company.

Supply of Information

The Chairman ensures that all Directors have full and timely access to information with Board papers distributed in advance of meetings. Every Director has also unhindered access to the advice and services of the Company Secretary. The Board believes that the current Company Secretary is capable of carrying out his duties to ensure the effective functioning of the Board. The Articles of Association specifies that the removal of the Secretary is a matter for the Board as a whole.

Prior to the meetings of the Board and the Board Committees, Board papers which include the agenda and reports relevant to the issues of the meetings covering the areas of strategic, financial, operational and regulatory compliance matters, were circulated to all the Directors to obtain further explanation, where necessary, in order to be properly briefed before the meeting.

The Directors review and approve all corporate announcements, including the announcement of the quarterly financial reports, prior to releasing them to the Bursa Malaysia Securities Berhad ("Bursa Securities").

The Board as a whole will determine, whether as a full board or in their individual capacity, to take independent professional advice, where necessary and under appropriate circumstances, in furtherance of their duties, at the Group's expense.

Directors' Training

The Board as a whole ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfill the duties of a Director appropriately. There is no formal training programme for Directors. However, at the date of this Statement, all Directors have attended and successfully completed the Mandatory Accreditation Programme (MAP) conducted by Bursa Malaysia Training Sdn. Bhd. ("Bursa Training"). The Directors will continue to undergo other relevant training programmes to further enhance their skills and knowledge where relevant.

Nominating Committee

At the date of this statement, the Committee which was formed by the Board in November 2001, comprises the following:

- Dato' Noor Ahmad Mokhtar bin Haniff - Chairman (Independent Non-Executive)
- Diong Chin Teck - Member (Independent Non-Executive)

STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

A Board of Directors (cont'd)

Nominating Committee (cont'd)

The Committee consists entirely of Non-Executive Directors, all of whom are independent. The Nominating Committee is empowered by the Board and its terms of reference are to bring to the Board recommendations as to the appointment of new Directors, assess the effectiveness of the Board, its Committees and the contribution of each individual Director on an annual basis.

During the financial year ended 31 May 2005, the Committee met and deliberated on the following matters:-

- (i) size of the Board & the impact of the number upon its effectiveness;
- (ii) balance of Executive and Non-Executive Directors (including independent Directors) with an aim of achieving a balance of views on the Board;
- (iii) mix of skills and experience and other qualities, including core competencies of the members of the Board;
- (iv) contribution of each individual Director, the effectiveness of the Board as a whole and the committees of the Board; and
- (v) retirement and re-election/re-appointment of Directors.

Re-election

The Articles of Association provides that all Directors shall retire from office once at least in each three (3) years, but shall be eligible for re-election. An election of Directors shall take place each year. In addition, the Directors to retire by rotation shall be those who have been longest in office since their last appointment or re-appointment, but as between persons who became or were last re-appointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Directors over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with Section 129 (6) of the Companies Act, 1965.

The Company Secretary will ensure that all the necessary information is obtained, as well as all legal and regulatory obligations are met before the appointments are made.

B Director's Remuneration

Remuneration Committee

The Remuneration Committee was established by the Board in November 2001. The composition of the Remuneration Committee is as follows:

- Dato' Noor Ahmad Mokhtar bin Haniff - Chairman (Independent Non-Executive)
- Diong Chin Teck - Member (Independent Non-Executive)
- Guan Kim Heng - Member (Executive)

The Committee is responsible for recommending the remuneration framework for Directors as well as the remuneration packages of Executive Directors to the Board. During the financial year, the Committee met to discuss matters relating to the Directors' remuneration for recommendation to the Board of Directors for approval with individual Directors abstaining from decisions in respect of their individual remuneration.

The Company pays its Directors annual fee, which is approved annually by the shareholders.

Details of the nature and amount of each major element of the remuneration of the Directors of the Company, are as follows:

Directors	Salaries RM('000)	Fees RM('000)	Other emoluments RM('000)
Executive	720	175	283
Non-Executive	-	65	11

STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

B Director's Remuneration (cont'd)

Remuneration Committee (cont'd)

The number of Directors whose remuneration falls into the following bands, comprises:

Range of Remuneration RM	Number of Directors	
	Executive	Non-Executive
50,000 and below	-	2
300,001 - 350,000	1	-
350,001 - 400,000	1	-
450,001 - 500,000	1	-

C Shareholders

The Company recognizes the importance of communicating with its shareholders and does this through the Annual Report, Annual General Meetings (AGM), Extraordinary General Meetings (EGM) and, where appropriate, circulars to shareholders. The policy of the Company is to maintain a dialogue with its shareholders with the intention of giving shareholders as clear and complete a picture of the Company's performance and position as possible. It has also been the Company's practice to send the Notice of the AGM and related papers to shareholders at least twenty-one (21) clear days before the meeting. At the AGM and EGM, the shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general, as appropriate.

In addition, the Company makes various announcements through the Bursa Securities, in particular, the timely release of the quarterly results within two months from the close of a particular quarter. Members of the public can also obtain the full financial results and the Company's announcements from the Bursa Securities website.

D Accountability and Audit

Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly announcement of the results to shareholders and the Chairman's statement, which incorporates a review of the operations in the Annual Report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Directors' Responsibility Statement in Respect of the Preparation of the Audited Financial Statements

The Board is responsible for ensuring that the financial statements of the Group give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of their results and cashflows for the year then ended. In preparing the financial statements, the Directors have ensured that applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been applied.

In preparing the financial statements, the Directors have selected and applied consistently suitable accounting policies and made reasonable and prudent judgments and estimates.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

D Accountability and Audit (cont'd)

State of Internal Controls

The Directors recognize their ultimate responsibility for the Group's system of internal controls and the need to review its effectiveness regularly in order to safeguard the Group's assets and therefore shareholders' investments in the Group. To assist the Board, the Group has in place an adequately resourced internal audit division. As proper risk management is a significant component of a sound system of internal control, the Group has also put in place a structured risk management process to better identify, monitor and ensure that relevant and appropriate measures are implemented to manage the business risks affecting the Group. This system by its nature can only provide reasonable but not absolute assurance against misstatement, fraud or loss.

Relationship with the Auditors

Key features underlying the relationship of the Audit Committee with the internal and external auditors are included in the Audit Committee's terms of reference as detailed on pages 13 to 15 of the Annual Report.

A summary of the activities of the Audit Committee during the year are set out in the Audit Committee Report on pages 15 to 16 of the Annual Report.

Compliance Statement

The Group has complied, throughout the financial year ended 31 May 2005, with all the Best Practices of corporate governance set out in Part 2 of the Code except for the following:

- 1 Appointment of a Senior Independent Non-Executive Director to whom concerns may be conveyed has not been made. The positions of Chairman and Managing Director are held by the same Director. The Directors are of the opinion that the current arrangement is expedient and adequate for the Company as the present Board has a strong independent element within it in the form of the Independent Non-Executive Directors. Moreover, the Chairman normally encourages all the Directors to participate actively during Board meetings.
- 2 The Board does not have a formal schedule of matters specifically reserved to it for decision but it has been the practice for the Board to deliberate on matters that involve overall Group strategy and direction, acquisition and divestment policy, approval of major capital expenditure, consideration of significant financial matters and the review of the financial and operating performance of the Group. In addition, the information normally provided to Directors via Board papers is mainly financial and historical in nature. The Board is fully aware of this and will take the necessary measures to incorporate information that is non-financial in nature for Directors' attention and deliberation.
- 3 The Board does not have an agreed procedure for Directors, whether as a full Board or in their individual capacity, in furtherance of their duties, to take independent professional advice at the Company's expense. The Board is of the view that it is adequate for the matter to be brought before the whole Board for deliberation and decision whenever a need for independent professional advice arises.
- 4 The Company does not have a formal orientation and education program for new recruits to the Board. However, all its Directors have attended and successfully completed the MAP conducted by Bursa Training in their quest to understand their duties and responsibilities towards the Company. To ensure that the Directors continuously participate in training that would enhance their knowledge so as to assist them in the discharge of their duties as Directors, the Directors also attend the Continuing Education Programme (CEP).

This statement is issued in accordance with a Directors' Resolution passed at a Board of Directors' Meeting held on 25 August 2005.

AUDIT COMMITTEE REPORT

The Audit Committee of the Company was established in 19 May 2000 comprising a majority of Independent Non-Executive Directors.

MEMBERS OF THE AUDIT COMMITTEE

Chairman

Dato' Noor Ahmad Mokhtar bin Haniff
(Independent Non-Executive Director)

Members

Diong Chin Teck
(Independent Non-Executive Director)

Guan Kim Heng
(Executive Director)

TERMS OF REFERENCE

Members

- The Members shall be appointed by the Board of Directors and shall consist of not less than 3 Members, of whom a majority shall comprise of Independent Directors of the Company. No Alternate Directors shall be appointed members of the Committee.
- At least one member of the Audit Committee:-
 - (i) must be a member of the Malaysian Institute of Accountants; or
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

Quorum

- A quorum shall consist of two (2) Members and a majority of the Members present must be Independent Directors.

Chairman

- The Members of the Committee shall elect a Chairman from among their number who shall be an Independent Director.

Secretary

- The Secretary of the Audit Committee shall be the Company Secretary or any other person so appointed by the Audit Committee from time to time.

AUDIT COMMITTEE REPORT

(cont'd)

TERMS OF REFERENCE (cont'd)

Meetings

- The Committee shall regulate its own proceedings. The Committee shall meet at least four (4) times a year. Upon the request of any of its Members, the Auditors or Company's Management, the Chairman shall convene a Meeting of the Committee to consider any matter the Auditors believe should be brought to the attention of the Directors or Shareholders.

Authority

- The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- The Committee is authorised by the Board to obtain independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Terms of Office

- If a Member of the Committee for any reason ceases to be a Member of the Committee with the result that the number of Members is reduced to below three (3), the Board of Directors shall within three (3) months of that event, appoint such number of new Members as may be required to make up the minimum number of three (3) Members.

Functions and Responsibilities of the Audit Committee

The Committee is responsible to the Board of Directors for the following in its role to ensure proper management of assets, liabilities, revenue and expenses of the organisation and compliance with statutory obligations:-

- To review with the Company's Management and Auditors, the audit plan, scope and general extent of the Auditors' audit examinations;
- To review with the Auditors, his evaluation of the system of internal controls;
- To review with the Company's Management and Auditors to ensure the suitability and adequacy of accounting policies and practices, its compliance with any regulatory or other external financial reporting controls and requirements;
- To review with the Company's Management and Auditors his audit report and financial results for the year prior to their release to the public;
- To discuss with the Company's Management the scope and quality of accounting and financial reporting controls in effect;
- To review the assistance given by Company's employees to the Auditor;
- To review the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on recommendations of the internal audit function;
- To review the quarterly results, balance sheet and profit and loss account, submitted to it by the Company or the holding company, and thereafter to submit them to the Directors of the Company or the holding company for approval;
- To recommend to the Board of Directors any appropriate extension of changes in the duties of the Committee;

AUDIT COMMITTEE REPORT

(cont'd)

TERMS OF REFERENCE (cont'd)

Functions and Responsibilities of the Audit Committee (cont'd)

- To review and report any letter of resignation from the Auditors;
- To review whether there is reason to believe that the Auditor is not suitable for re-appointment;
- To nominate a person or persons as Auditors together with such other functions as may be agreed to by the Committee and the Board of Directors;
- To review any related party transactions and conflict of interest situation that may arise within the Company or Group;
- To review and report the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
- To verify the allocation of options to employees pursuant to a share scheme complies with the allocation criteria;
- To consider and examine such other matters as the Committee considers appropriate.

AUDIT COMMITTEE MEETINGS

The Committee meets at least four (4) times a year. Additional meetings will be held as and when necessary. During the financial year ended 31 May 2005, a total of five (5) meetings were held and the attendance of the Members of the Audit Committee are as follows:-

	Attendance
(i) Dato' Noor Ahmad Mokhtar bin Haniff	5/5
(ii) Diong Chin Teck	5/5
(iii) Guan Kim Heng	5/5

SUMMARY OF ACTIVITIES OF AUDIT COMMITTEE

The Audit Committee's ("the Committee") functions and responsibilities in carrying out its overseeing role are defined in the above-mentioned Terms of Reference. The Committee's overall responsibilities encompass the work processes of internal accounting and financial reporting, internal audit and external audit. In carrying out its responsibilities, the Committee held scheduled meetings with the management, the internal and the external auditors of which their work, expertise and knowledge were relied upon. In doing so, the Committee assisted the Board of Directors ("the Board") in fulfilling its fiduciary responsibilities relating to corporate accounting, financial reporting, regulatory compliances and risk management practices and procedures of the Group of Companies ("the Group").

During the year, the Committee discussed with the external auditors, the nature and scope of their audit. It discussed and reviewed the external auditors' report to take note of their areas of concern in order to ensure that appropriate actions were taken to address the areas of concern.

The Committee discussed the audited annual financial statements with the external auditors on their judgments regarding the suitability of the Company's accounting policies and practices, the clarity of its financial reporting, the regulatory compliances with the Bursa Malaysia Securities Berhad ("Bursa Securities") and the adequacy of the disclosure requirements of the Malaysian Accounting Standards Board ("MASB"). In addition, it discussed and reviewed with the external auditors the effects of any changes in accounting principles resulting from updates of new developments on accounting standards issued by the MASB. It then made recommendations for the audited financial statements to be submitted for the Board's approval.

AUDIT COMMITTEE REPORT

(cont'd)

SUMMARY OF ACTIVITIES OF AUDIT COMMITTEE (cont'd)

The Committee discussed and reviewed the unaudited quarterly financial statements with the management for compliance with the listing requirements of the Bursa Securities and the applicable accounting standards issued by the MASB to ensure a fair and full presentation of the financial affairs of the Group. It discussed and reviewed the corporate announcements for compliance with the listing requirements of the Bursa Securities. It also discussed pertinent issues that had a significant impact on the results of the Group. It then made recommendations to the Board for its consideration and approval prior to their release to the Bursa Securities.

The Committee reviewed the functions and resources of the internal audit division for adequacy in carrying out the audits. It discussed the relevance and scope of the annual risk-based internal audit plan prior to approving it. It also reviewed the internal audit reports pertaining to the risk-based audits undertaken to ensure that the instituted controls were appropriate and effectively applied to achieve acceptable risk exposure. It also ensured that appropriate actions were taken to address the areas of concern.

The Committee reviewed the statement on internal control pursuant to the Bursa Securities listing requirements after which, it then made a recommendation for the statement on internal control to be submitted for the Board's approval.

The Committee verified the allocation of options to employees pursuant to the employee share option scheme ("ESOS") offered to ensure that the scheme complies with the allocation criteria.

Lastly, the Committee reviewed the performance and fees of the external auditors prior to recommending their re-appointment to the Board.

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INTERNAL AUDIT

The internal audit division ("IAD") constitutes an independent managerial control which carries out its assurance role by providing an independent and objective assurance to the Audit Committee ("the Committee") in discharging its responsibilities. The IAD is independent of the processes that it audits and reports directly to the Audit Committee. The IAD assists the Audit Committee in discharging its duties and responsibilities by assisting management in inculcating pertinent standards of corporate governance. It plays its role in promoting corporate governance processes to the Committee and the Board of Directors by inculcating the three concepts of transparency, accountability as well as corporate performance. Upon completion of each audit, an internal audit report is generated and reviewed at the Audit Committee meeting to ensure that instituted controls are appropriate and effectively applied to achieve acceptable risk exposure.

The IAD also assists management in improving the Group of Companies' ("the Group") operations by maintaining effective control over the operations. It performs audit activities to ensure that the business functions are carried out in compliance with the Group of Companies' ("the Group") internal policies, standard operating procedures and within the applicable law. It also ensures that the assets are safeguarded and are being effectively used. In doing so, it provides objective assurance to management on the existence, adequacy and integrity of the internal controls, records and accounting policies.

During the year under review, the IAD presented the annual risk-based audit plan prioritised by the residual risk profile of the Group for the Audit Committee's approval. It performed risk-based audits on certain business processes and functions of various business units within the Group in accordance with the approved annual risk-based internal audit plan.

It verified the existence and assessed the adequacy, integrity and effectiveness of the internal controls in place. It examined the supporting documents and records for completeness and accuracy in order to provide reasonable assurance on the integrity and reliability of both the financial and non-financial reporting. It also facilitates a systematic profiling of all risk areas by verifying the risk management system for adequacy and effectiveness and validating the results.

AUDIT COMMITTEE REPORT

(cont'd)

INTERNAL AUDIT (cont'd)

It verified and reported to the Audit Committee, the allocation of options to employees pursuant to the employee share option scheme ("ESOS") offered to ensure that the scheme complies with the allocation criteria.

Upon completion of the audit, it reported its observations, findings and recommendations for improvements in the internal audit report for the Audit Committee's deliberations. The internal audit division discussed with the management regarding improvements and instituted follow-up actions to remedy the weaknesses identified in the internal audit report.

STATEMENT BY THE AUDIT COMMITTEE IN RELATION TO ESOS ALLOCATION

The Company implemented an Employee Share Option Scheme ("ESOS") on 30 December 2004.

Pursuant to Paragraph 8.21A of the Listing Requirements of Bursa Malaysia Securities Berhad, the Audit Committee verified and confirmed that the allocation of options to eligible employees in the financial year ended 31 May 2005, has been made in accordance with the allocation criteria of the scheme.



STATEMENT ON INTERNAL CONTROL

INTRODUCTION

Paragraph 15.27(b) of the Bursa Malaysia Securities Berhad Listing Requirements requires the Board of Directors of public listed companies to include in their annual report, a "statement about the state of internal control of the listed issuer as a group". The Board of Directors ("Board") is committed to maintaining a sound system of internal control throughout the Group, comprising the Company and all its subsidiaries, and is pleased to provide the following statement, which outlines the nature and scope of internal control of the Group during the year.

BOARD RESPONSIBILITY

The Board acknowledges its responsibility for the Group's system of internal control, which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. Because of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement, loss, fraud or breaches of laws or regulations. The system of internal control covers, inter-alia, financial, organisational, operational and compliance controls.

The Board is aware of the publication of the "Statement on Internal Control - A guidance to Directors of Public Listed Companies" (the "Internal Control Guidance"), which provides guidance on the process of identifying, evaluating and managing significant risks faced by the Group. The Board has adopted the Internal Control Guidance in its efforts to ensure the adequacy and integrity of the system of internal control of the Group.

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INTERNAL AUDIT FUNCTION

The Group has in place an internal audit function, which provides the Board with much of the assurance it requires regarding the adequacy and integrity of the system of internal control. The internal audit reviews the internal control processes implemented by management and reports to the Audit Committee on a quarterly basis. The internal audit also reviews the internal controls for the key activities of the Group's operations based on the approved annual internal audit plan. The internal audit plan, prepared in accordance with a risk-based approach was essentially drawn up to review the key processes established within the operations of the Group.

For the financial year under review, management acted upon the recommendations made by the internal audit function, as appropriate, in order to enhance the system of internal control.

ENTERPRISE RISK MANAGEMENT

The Group has established an enterprise risk management policy and procedures and has implemented a process of identifying, evaluating and managing the significant risks that may adversely affect the achievement of its business objectives.

STATEMENT ON INTERNAL CONTROL

(cont'd)

OTHER CONTROL PROCESSES

The Board has put in place an organisational structure with defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established which provides for a documented and auditable trail of accountability. The procedures include inter-alia, the establishment of limits of authority coupled with the issuance of policies on health and safety, training and development, staff performance and serious misconduct. These procedures are relevant across the Group operations and provide for continuous assurance to be given at increasingly higher levels of Management and, finally to the Board. The Group Managing Director also reports to the Board on significant changes in the business and external environment, which affects the operations of the Group at large.

The Group Finance Manager provides the Board with quarterly financial information, including pertinent explanations on the performance of the Group.

WEAKNESSES IN INTERNAL CONTROLS THAT RESULT IN MATERIAL LOSS

There were no material losses incurred during the current financial year as a result of weaknesses in internal control. The Board, together with Management, continues to take measures to strengthen the control environment.

This statement is issued in accordance with a Directors' Resolution passed at a Board of Directors' Meeting held on 25 August 2005.



BOARD OF DIRECTORS

The Board comprises five (5) members out of which three (3) are Executive Directors, including the Chairman and Managing Director, and the remaining two (2) being Independent Non-Executive Directors. A profile of each of the Director of the Company is described below.

Guan Kok Beng - *Chairman & Managing Director*

Mr. Guan Kok Beng, a Malaysian Citizen, aged 53, was appointed as a Director and Managing Director of the Company on 30 April 2000. On 19 May 2000 he was appointed as the Chairman of the Board of Directors.

With over 25 years of experience in the furniture industry, he is responsible for strategic business development, providing direction and coordinating the overall marketing and production operations of the Group. He also leads the Research & Development team and provides support to the members to develop new products and improving the manufacturing capabilities of the Group. His role also includes evaluation of business opportunities and identifying strategic business partners.

Between 1995 and 1998, he was the Advisor of the Penang Furniture Manufacturers and Dealers Association ("PFMDA") and from 1992 to 1995, he was the President. He was also a committee member of the Malaysian Furniture Industry Council from 1992 to 1995.

Mr. Guan has contributed significantly to the successful development and expansion of the Group and is the prime mover of the Group's achievements.

Guan Kim Heng - *Executive Director*

Mr. Guan Kim Heng, a Malaysian Citizen, aged 47, was appointed as an Executive Director of the Company on 30 April 2000 to be primarily involved in corporate planning, providing direction and overseeing the financial, human resources and administrative functions of the Group. In addition, his role also includes project development, evaluation of business opportunities and identifying strategic business partners. With his vast experience and knowledge of over 20 years in the furniture industry, he is one of the driving force behind the Group's growth.

Mr. Guan is a Member of the Company's Audit Committee, Remuneration Committee and Employees' Share Option Scheme Committee.

Guan Kim Loong - *Executive Director*

Mr. Guan Kim Loong, a Malaysian Citizen, aged 41, was appointed as an Executive Director of the Company on 30 April 2000. He holds a Diploma in Electronic Engineering and joined the Group as the Production Manager in 1989. He has gained extensive experience and exposure in furniture production and technology after more than 10 years of involvement in the furniture business.

His main responsibilities covers the operations of the production, engineering and research and development functions, providing direction and overseeing the group's management information systems, strengthening product development, manufacturing processes as well as the quality control and assurance procedures of the Group.

BOARD OF DIRECTORS

(cont'd)

Dato' Noor Ahmad Mokhtar bin Haniff - *Independent Non-Executive Director*

Dato' Mokhtar, a Malaysian Citizen, aged 66, was appointed as an Independent Non-Executive Director of the Company on 19 May 2000.

Dato' Mokhtar graduated with a Bachelor of Arts Degree (Hons) in Economics in 1964 and obtained a post graduate Diploma in Education in 1965, both from Universiti Malaya. He also obtained a certificate in Top Management from the Asian Institute of Management in Manila in 1977.

He was an Educationist with the Ministry of Education from 1965 to 1970. He assumed the position of Special Assistant to the Chief Minister of Penang from 1970 to 1971 before joining Universiti Sains Malaysia as Senior Assistant Registrar. He joined Penang Development Corporation ("PDC") as the Principal Director of the Free Trade Zone in 1972 and was subsequently promoted to its Administration Manager in 1976 and Deputy General Manager in 1980. From 1991 to his retirement in 1997, he was the General Manager of PDC.

While in the government service, Dato' Mokhtar was extensively involved in and sat on numerous state councils dealing with economic planning, investment, tourism, education and environmental conservation matters.

Dato' Mokhtar is the Chairman of the Company's Audit Committee, Nominating Committee, Remuneration Committee and Employees Share Option Scheme Committee.

Dato' Mokhtar also sits on the Board of other Bursa Malaysia Securities Berhad listed companies, i.e. Globetronics Technology Bhd., Amtek Holdings Berhad and Yikon Corporation Berhad.

Diong Chin Teck - *Independent Non-Executive Director*

Mr. Diong, a Malaysian Citizen, aged 72, was appointed as an Independent Non-Executive Director of the Company on 19 May 2000. He is a Fellow of the Institute of Chartered Accountants in Australia and a member of the Malaysian Institute of Accountants ("MIA"). In 1967, he joined KPMG, Chartered Accountants and was made a partner in 1971. He retired from the firm in 1988.

Mr. Diong is a Member of the Company's Audit Committee, Nominating Committee and Remuneration Committee.

Presently, Mr. Diong is the Secretary of Oriental Holdings Berhad and its subsidiary companies, and a Director of ABN AMRO Bank Berhad. He also sits on the Board of other Bursa Malaysia Securities Berhad listed companies i.e. Globetronics Technology Bhd. and Asas Dunia Berhad.

FAMILY RELATIONSHIP WITH ANY DIRECTOR AND OR MAJOR SHAREHOLDER OF THE COMPANY

None of the Directors of the Company has any family relationship with each other except for Messrs Guan Kok Beng, Guan Kim Heng and Guan Kim Loong, who are brothers.

CONFLICT OF INTEREST

None of the Directors of the Company has any conflict of interest with the Company.

CONVICTION FOR OFFENCES

None of the Directors has been convicted for offences within the past ten (10) years.

MATERIAL CONTRACTS

There are no material contracts of the Company and its subsidiaries that involve the Directors' and major Shareholders' interests.

OTHER INFORMATION

(pursuant to paragraph 9.25 of the Bursa Malaysia Securities Listing Requirements)

Utilisation of Proceeds Raised from Corporate Proposal

Not applicable as none was proposed/granted.

Share Buybacks

The Company did not exercise any buybacks on its own shares during the financial year ended 31 May 2005.

Options, Warrants or Convertible Securities

The amount of share options granted over unissued shares to Directors and Employees under the Company's Employees' Share Option Scheme ("ESOS") are disclosed in the Directors' Report. Except for the ESOS, the Company did not issue/grant any options, warrants or convertible securities during the financial year ended 31 May 2005.

ADR or GDR Programme

The Company does not sponsor any ADR or GDR programme.

Sanctions and/or Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies.

Shortfall in the Profit Achieved in the Financial Year as Compared with the Profit Guarantee

Not applicable as none was given during the financial year ended 31 May 2005.

Non-Audit Fees

The amount of non-audit fees paid by the Group to the external auditors during the financial year ended 31 May 2005 is RM12,320.00.

DIRECTORS' REPORT

for the year ended 31 May 2005

The directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 May 2005.

Principal activities

The principal activities of the Company are the provision of management services and investment holding.

The principal activities of the subsidiaries are set out in Note 3 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

Results

	Group RM	Company RM
Net profit for the year	<u>4,789,854</u>	<u>1,107,200</u>

Reserves and provisions

There were no material transfers to or from reserves and provisions during the year except as disclosed in the financial statements.

Dividend

Since the end of the previous financial year, the Company paid a first and final tax exempt dividend of 2 sen per ordinary share totaling RM800,000 in respect of the year ended 31 May 2004 on 28 December 2004.

The Directors recommended a first and final tax exempt dividend of 3 sen per ordinary share totalling RM1,200,000 in respect of the financial year ended 31 May 2005 which is subject to the approval of shareholders at the forthcoming Annual General Meeting of the Company.

Directors of the Company

Directors who served since the date of the last report are :

Guan Kok Beng - Chairman and Managing Director
Guan Kim Heng
Guan Kim Loong
Dato' Noor Ahmad Mokhtar Bin Haniff
Diong Chin Teck

DIRECTORS' REPORT (cont'd)

for the year ended 31 May 2005

Directors' interest in shares

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows :

<u>The Company</u>	<u>Balance at 1.6.2004</u>	<u>Direct Interest</u>		<u>Ordinary Shares of RM1 each</u>		<u>Deemed Interest</u>		<u>Balance at 31.5.2005</u>
		<u>Bought</u>	<u>(Sold)</u>	<u>Balance at 31.5.2005</u>	<u>Balance at 1.6.2004</u>	<u>Bought</u>	<u>(Sold)</u>	
Guan Kok Beng	1,761,624	144,500	-	1,906,124	18,000,000	87,000	-	18,087,000
Guan Kim Heng	1,113,036	-	-	1,113,036	18,000,000	87,000	-	18,087,000
Guan Kim Loong	774,576	-	-	774,576	18,000,000	87,000	-	18,087,000
Diong Chin Teck	15,000	-	-	15,000	-	-	-	-

<u>The Company</u>	<u>No. of options for Ordinary shares of RM1 each</u>			
	<u>Balance at 1.6.2004</u>	<u>Granted</u>	<u>Exercised</u>	<u>Balance at 31.5.2005</u>
Guan Kok Beng	-	600,000	-	600,000
Guan Kim Heng	-	530,000	-	530,000
Guan Kim Loong	-	480,000	-	480,000

By virtue of the interests of more than 15% in the shares of the Company, Messrs Guan Kok Beng, Guan Kim Heng and Guan Kim Loong are also deemed to have interests in the shares of all the subsidiaries during the financial year to the extent that the Company has an interest.

Dato' Noor Ahmad Mokhtar Bin Haniff did not have any interest in the ordinary shares of the Company and of its related companies during the financial year.

Directors' benefits

Since the end of the previous financial year, no director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related company with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the Employees' Share Option Scheme ("ESOS") of the Company.

Issue of shares and debentures

There were no changes in the issued and paid-up capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of options pursuant to the ESOS.

On 22 November 2004, the Company's shareholders approved the establishment of an ESOS of not more than 15% of the issued share capital of the Company to eligible Directors and employees of the Group.

DIRECTORS' REPORT (cont'd)

for the year ended 31 May 2005

Options granted over unissued shares (cont'd)

The options offered to take up unissued ordinary shares of RM1.00 each and the option price are as follows :

<u>Date of offer</u>	<u>Option price</u> RM	<u>Number of options over ordinary shares of RM1 each</u>			<u>Balance at</u> 31.5.2005
		<u>Balance at</u> 1.6.2004	<u>Granted</u>	<u>Lapsed</u> due to resignation	
24 January 2005	1.00	-	4,508,000	(97,000)	4,411,000
9 February 2005	1.00	-	6,000	-	6,000
10 April 2005	1.00	-	50,000	-	50,000
10 May 2005	1.00	-	65,000	-	65,000

The details of the ESOS granted to the eligible Directors and employees who have been granted with 100,000 options or more as at 31 May 2005 are as follows:

	<u>Number of options over</u> <u>ordinary shares of RM1 each</u>
Guan Kok Beng	600,000
Guan Kim Heng	530,000
Guan Kim Loong	480,000
Ting Hon Sum	250,000
Guan Cheng Muan	200,000
Lee Beng Tek	200,000
	<u>2,260,000</u>

Other than the above, a total of 2,369,000 options were granted to 233 employees of the Group. The average number of options to individual employee is 10,167.

The salient features of the scheme are as follows :

- i) Eligible employees are those who have been confirmed in writing as employees of the Group on the date of offer and have been employed for a period of at least one (1) year prior to the date of offer.
- ii) The option is personal to the grantee and is non-assignable.
- iii) The option price shall be determined by the weighted average market price of the Company's ordinary shares as shown in the daily official list issued by the Bursa Malaysia Securities Berhad for the five market days immediately preceding the respective dates of the offer in writing to the grantee or at the par value of the ordinary shares of the Company, whichever is higher.
- iv) The options granted may be exercised at any time within a period of five years from the date the ESOS comes into force or upon the date of expiry or termination of the ESOS as provided in By-Law, whichever is the earlier.
- v) The options granted may be exercised in full or in lesser number of ordinary shares provided that the number shall be in multiples of 100 shares.

The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company.

DIRECTORS' REPORT (cont'd)

for the year ended 31 May 2005

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist :

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 May 2005 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

DIRECTORS' REPORT (cont'd)

for the year ended 31 May 2005

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

.....
Guan Kok Beng

.....
Guan Kim Heng

Penang,

Date : 25 August 2005



STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements of the Group and of the Company set out on pages 30 to 51, are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 May 2005 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors :

.....
Guan Kok Beng

.....
Guan Kim Heng

Penang,

Date : 25 August 2005

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Eurospan Holdings Berhad (351927-M)

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, **Guan Kim Heng**, the director primarily responsible for the financial management of Eurospan Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 30 to 51 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Georgetown in the State of Penang on 25 August 2005.

.....
Guan Kim Heng

Chai Choon Kiat, PJM
Pesuruhjaya Sumpah
(Commissioner for Oaths)

Before me :

REPORT OF THE AUDITORS TO THE MEMBERS

of Eurospan Holdings Berhad

We have audited the financial statements set out on pages 30 to 51. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion :

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of :
 - i) the state of affairs of the Group and of the Company at 31 May 2005 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number : AF 0758
Chartered Accountants

Ooi Kok Seng
Partner
Approval Number : 2432/05/07 (J)

Penang,

Date : 25 August 2005

CONSOLIDATED BALANCE SHEET

at 31 May 2005

	Note	2005 RM	2004 RM
Property, plant and equipment	2	33,055,649	33,720,353
Current assets			
Inventories	4	10,223,779	7,494,541
Trade and other receivables	5	2,478,409	3,086,344
Tax refundable		11,143	333,728
Cash and cash equivalents	6	17,940,808	13,095,612
		30,654,139	24,010,225
Current liabilities			
Trade and other payables	7	5,959,778	5,029,310
Taxation		8,477	-
		5,968,255	5,029,310
Net current assets		24,685,884	18,980,915
		57,741,533	52,701,268
Financed by :			
Capital and reserves			
Share capital	8	40,000,000	40,000,000
Reserves	9	14,439,976	10,450,122
Shareholders' funds		54,439,976	50,450,122
Long term and deferred liabilities			
Deferred tax liabilities	10	2,725,269	1,674,858
Negative goodwill		576,288	576,288
		57,741,533	52,701,268

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The financial statements were approved and authorised for issue by the Board of Directors on 25 August 2005.

The notes set out on pages 38 to 51 form an integral part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 May 2005

	Note	2005 RM	2004 RM
Revenue	11	58,170,157	42,887,350
Cost of sales		(46,179,424)	(35,448,213)
Gross profit		11,990,733	7,439,137
Distribution costs		(1,230,545)	(1,267,819)
Administrative expenses		(4,949,360)	(4,149,995)
Other operating expenses		(219,144)	(236,606)
Other operating income		419,682	335,632
Profit before tax	12	6,011,366	2,120,349
Tax expense	14	(1,221,512)	(528,071)
Net profit for the year		4,789,854	1,592,278
Basic earnings per share (sen)	15	12.0	4.0
Diluted earnings per share (sen)	15	12.0	-
Dividend per share - net (sen)	16	3	2

Eurospan Holdings Berhad (361927-M)

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The notes set out on pages 38 to 51 form an integral part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2005

	Share Capital RM	Non-distributable Share Premium RM	Distributable Retained Profits RM	Total RM
At 1 June 2003	40,000,000	8,090,232	767,612	48,857,844
Net profit for the year	-	-	1,592,278	1,592,278
At 31 May 2004	40,000,000	8,090,232	2,359,890	50,450,122
Net profit for the year	-	-	4,789,854	4,789,854
Dividend (Note 16)	-	-	(800,000)	(800,000)
At 31 May 2005	40,000,000	8,090,232	6,349,744	54,439,976

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 May 2005

	2005 RM	2004 RM
Cash flows from operating activities		
Profit before tax	6,011,366	2,120,349
Adjustments for :		
Depreciation	3,343,302	3,431,890
Gain on disposal of plant and equipment	(85,722)	(22,063)
Plant and equipment written off	28,455	29,805
Interest income	(299,361)	(223,663)
Operating profit before working capital changes	<u>8,998,040</u>	<u>5,336,318</u>
(Increase)/Decrease in :		
Inventories	(2,729,238)	(290,720)
Trade and other receivables	607,935	694,007
Increase in :		
Trade and other payables	930,468	866,833
Cash generated from operations	<u>7,807,205</u>	<u>6,606,438</u>
Tax refunded	159,961	1,064,114
Net cash generated from operating activities	<u>7,967,166</u>	<u>7,670,552</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,737,331)	(1,326,383)
Proceeds from disposal of plant and equipment	116,000	62,000
Interest received	299,361	223,663
Net cash used in investing activities	<u>(2,321,970)</u>	<u>(1,040,720)</u>
Cash flows from financing activities		
Dividend paid	(800,000)	-
Net cash used in financing activities	<u>(800,000)</u>	<u>-</u>
Net increase in cash and cash equivalents	<u>4,845,196</u>	<u>6,629,832</u>
Cash and cash equivalents at beginning of year	<u>13,095,612</u>	<u>6,465,780</u>
Cash and cash equivalents at end of year (Note 6)	<u>17,940,808</u>	<u>13,095,612</u>

The notes set out on pages 38 to 51 form an integral part of, and should be read in conjunction with, these financial statements.

BALANCE SHEET

at 31 May 2005

	Note	2005 RM	2004 RM
Investment in subsidiaries	3	30,413,939	30,413,939
Amount due from subsidiaries	5	18,984,761	18,655,373
Current assets			
Tax refundable		5,264	25,655
Cash and cash equivalents	6	82,399	84,968
		87,663	110,623
Current liabilities			
Trade and other payables	7	184,037	184,809
		184,037	184,809
Net current liabilities		(96,374)	(74,186)
		49,302,326	48,995,126
Financed by :			
Capital and reserves			
Share capital	8	40,000,000	40,000,000
Reserves	9	9,302,326	8,995,126
Shareholders' funds		49,302,326	48,995,126

INCOME STATEMENT

for the year ended 31 May 2005

	Note	2005 RM	2004 RM
Revenue	11	1,422,427	775,869
Administrative expenses		(314,975)	(253,237)
Other operating expenses		(638)	-
Other operating income		386	4,269
Profit before tax	12	1,107,200	526,901
Tax expense	14	-	(985)
Net profit for the year		1,107,200	525,916
Dividend per share - net (sen)	16	3	2

Eurospan Holdings Berhad (361927-M)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2005

	Share Capital RM	Non-distributable Share Premium RM	Distributable Retained Profits RM	Total RM
At 1 June 2003	40,000,000	8,090,232	378,978	48,469,210
Net profit for the year	-	-	525,916	525,916
At 31 May 2004	40,000,000	8,090,232	904,894	48,995,126
Net profit for the year	-	-	1,107,200	1,107,200
Dividend (Note 16)			(800,000)	(800,000)
At 31 May 2005	40,000,000	8,090,232	1,212,094	49,302,326

CASH FLOW STATEMENT

for the year ended 31 May 2005

	2005 RM	2004 RM
Cash flows from operating activities		
Profit before tax	1,107,200	526,901
Adjustments for:		
Dividend income	(1,422,427)	(775,869)
Interest income	(154)	(4,269)
Operating loss before working capital changes	<u>(315,381)</u>	<u>(253,237)</u>
(Decrease)/Increase in :		
Trade and other payables	(772)	2,067
Cash used in operations	<u>(316,153)</u>	<u>(251,170)</u>
Dividend received	1,422,427	775,869
Tax refunded	20,391	1,994
Net cash generated from operating activities	<u>1,126,665</u>	<u>526,693</u>
Cash flows from investing activity		
Interest received	154	4,269
Net cash generated from investing activity	154	4,269
Cash flows from financing activity		
Advances to subsidiaries	(329,388)	(843,253)
Dividend paid	(800,000)	-
Net cash used in financing activities	<u>(1,129,388)</u>	<u>(843,253)</u>
Net decrease in cash and cash equivalents	<u>(2,569)</u>	<u>(312,291)</u>
Cash and cash equivalents at beginning of year	<u>84,968</u>	<u>397,259</u>
Cash and cash equivalents at end of year (Note 6)	<u>82,399</u>	<u>84,968</u>

The notes set out on pages 38 to 51 form an integral part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the merger method of accounting except for Dynaspan Furniture Sdn. Bhd. which is consolidated using acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of the subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Under the merger method of accounting, the results of the subsidiaries are presented as if the companies had been combined throughout the current and previous financial years. The difference between the nominal value of share capital issued as purchase consideration and the nominal value of the share capital of the subsidiaries acquired is taken to merger reserve or merger debit, where appropriate. Merger debit arising on consolidation is written off against reserves and retained profits.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(c) Property, plant and equipment

Freehold land and capital expenditure-in-progress are stated at cost less accumulated impairment losses, if any. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

1. Summary of significant accounting policies (cont'd)

(c) Property, plant and equipment (cont'd)

Depreciation

Freehold land and capital expenditure-in-progress are not depreciated. Leasehold land is amortised in equal instalments over the lease period of 85 years.

On other property, plant and equipment, depreciation is calculated to write off the cost of the assets on a straight line basis over the term of their estimated useful lives at the following principal annual rates :

Buildings	2%
Plant, machinery and factory equipment	10% and 20%
Furniture, fittings, renovation and office equipment	10%
Motor vehicles	10% and 20%

(d) Impairment

The carrying amount of assets, other than inventories and financial assets (other than investment in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement.

(e) Investments

Long term investments in subsidiaries are stated at cost in the Company, less accumulated impairment loss, where applicable.

(f) Inventories

Raw materials, work-in-progress and manufactured inventories are stated at the lower of cost and net realisable value with first-in, first-out being the main basis for cost. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

(g) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

1. Summary of significant accounting policies (cont'd)

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(i) Liabilities

Trade and other payables are stated at cost.

(j) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

(k) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(l) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows :

USD 1 : RM3.80 (2004 : USD 1 : RM3.80)

EURO 1 : RM4.60 (2004 : EURO 1: RM4.50)

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

1. Summary of significant accounting policies (cont'd)

(m) Income recognition

i) Sale of goods

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(n) Employee benefits

i) Short term employee benefits

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

iii) Equity and equity-related compensation benefits

The share option programme allows Group employees to acquire shares of the Company. When the options are exercised, equity is increased by the amount of the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. Property, plant and equipment - Group

	Freehold land RM	Long term leasehold land RM	Buildings RM	Plant, machinery and factory equipment RM	Furniture, fittings, renovation and office equipment RM	Motor vehicles RM	Capital expenditure- in-progress RM	Total RM
Cost								
At 1 June 2004	4,817,606	383,733	13,435,869	28,197,208	1,955,386	2,285,081	-	51,074,883
Additions	19,893	-	-	1,641,788	179,094	345,109	551,447	2,737,331
Disposals/Write off	-	-	-	(207,228)	(14,700)	(236,997)	-	(458,925)
At 31 May 2005	4,837,499	383,733	13,435,869	29,631,768	2,119,780	2,393,193	551,447	53,353,289
Accumulated depreciation								
At 1 June 2004	-	40,191	1,577,224	13,612,462	1,032,175	1,092,478	-	17,354,530
Charge for the year	-	4,515	268,718	2,662,272	189,943	217,854	-	3,343,302
Disposals/Write off	-	-	-	(173,487)	(12,513)	(214,192)	-	(400,192)
At 31 May 2005	-	44,706	1,845,942	16,101,247	1,209,605	1,096,140	-	20,297,640
Net book value								
At 31 May 2005	4,837,499	339,027	11,589,927	13,530,521	910,175	1,297,053	551,447	33,055,649
At 31 May 2004	4,817,606	343,542	11,858,645	14,584,746	923,211	1,192,603	-	33,720,353
Depreciation charge for the year ended 31 May 2004								
	-	4,514	268,386	2,784,593	189,970	184,427	-	3,431,890

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Eurospan Holdings Berhad (351927-M)

3. Investment in subsidiaries - Company

	2005 RM	2004 RM
Unquoted shares, at cost	30,413,939	30,413,939

Details of the subsidiaries are as follows :

Name of Company	Percentage of Equity Held		Principal Activities
	2005 %	2004 %	
Eurospan Furniture Sdn. Bhd.	100	100	Manufacture and trading of furniture and wood-based products
Dynaspan Furniture Sdn. Bhd.	100	100	Manufacture of furniture and wood-based products
Eurowood Furniture Sdn. Bhd.	100	100	Investment holding
Dynaword Sdn. Bhd.	100	100	Investment holding

All the above subsidiaries are incorporated in Malaysia and audited by KPMG.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

4. Inventories - Group, at cost

	2005 RM	2004 RM
Raw materials	4,290,414	3,572,794
Work-in-progress	4,700,543	3,224,106
Manufactured inventories	1,232,822	697,641
	<u>10,223,779</u>	<u>7,494,541</u>

5. Trade and other receivables

	2005 RM	Group 2004 RM
Short term		
Trade receivables	1,678,733	2,372,734
Other receivables, deposits and prepayments	799,676	713,610
	<u>2,478,409</u>	<u>3,086,344</u>

	2005 RM	Company 2004 RM
Long term		
Amount due from subsidiaries	<u>18,984,761</u>	<u>18,655,373</u>

The long term amount due from subsidiaries is unsecured, interest-free and is not repayable within the next twelve months except in so far as such repayment by the subsidiaries will not adversely affect the ability of the respective subsidiaries to meet their liabilities when due.

6. Cash and cash equivalents

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Short term funds	3,636,103	-	-	-
Deposits with licensed banks	10,387,610	11,109,429	60,000	-
Cash and bank balances	3,917,095	1,986,183	22,399	84,968
	<u>17,940,808</u>	<u>13,095,612</u>	<u>82,399</u>	<u>84,968</u>

Short term funds represent investment in fixed income trusts which can be redeemed within a period of less than 31 days.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

7. Trade and other payables

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Trade payables	3,666,716	3,219,819	-	-
Other payables and accrued expenses	2,293,062	1,809,491	184,037	184,809
	<u>5,959,778</u>	<u>5,029,310</u>	<u>184,037</u>	<u>184,809</u>

8. Share capital - Group and Company

	2005 RM	2004 RM
Ordinary shares of RM1 each		
Authorised	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid	<u>40,000,000</u>	<u>40,000,000</u>

The details of options granted to subscribe for shares which were outstanding as at 31 May 2005 are as follows:

<u>Option expiry date</u>	<u>Exercise price</u>	<u>Number of ordinary shares</u>
29 December 2009	RM1	4,532,000

The consideration is payable in full on application.

Equity compensation benefits

Share option plan

The Group offers vested share options over ordinary shares to Directors and eligible employees with more than 1 year service. Movements in the number of share options held by employees are as follows:

	2005 RM	2004 RM
Option price at RM1 per ordinary share		
Outstanding at 1 June	-	-
Granted	4,629,000	-
Lapsed due to resignation	(97,000)	-
Outstanding at 31 May	<u>4,532,000</u>	<u>-</u>

Details of share options granted during the year:

Expiry date	29.12.2009	-
Exercise price per ordinary share (RM)	1.00	-
Aggregate proceeds if shares are issued (RM)	4,629,000	-

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

9. Reserves

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Non-distributable				
Share premium	8,090,232	8,090,232	8,090,232	8,090,232
Distributable				
Retained profits	6,349,744	2,359,890	1,212,094	904,894
	<u>14,439,976</u>	<u>10,450,122</u>	<u>9,302,326</u>	<u>8,995,126</u>

Subject to agreement with the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank/distribute its entire retained profits as at 31 May 2005 if paid out as dividends.

10. Deferred tax liabilities

The recognised deferred tax liabilities are as follows:

	Group	
	2005 RM	2004 RM
Property, plant and equipment		
- capital allowances	2,814,781	2,831,338
Unabsorbed capital allowance	-	(1,055,175)
Unutilised tax losses	-	(28,200)
Provision	(89,512)	(73,105)
	<u>2,725,269</u>	<u>1,674,858</u>

11. Revenue

Group

Revenue represents the invoiced value of goods sold less discounts and returns.

Company

Revenue represents dividend income received.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

12. Profit before tax

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Profit before tax is arrived at :				
After charging :				
Auditors' remuneration				
- Current year	35,000	31,000	10,000	10,000
- Prior year	4,000	-	-	-
Depreciation (Note 2)	3,343,302	3,431,890	-	-
Directors' emoluments				
Directors of the Company				
- fees	240,000	240,000	150,000	150,000
- others	956,563	904,010	24,600	19,200
Other Directors				
- fees	45,000	45,000	-	-
- others	420,557	297,420	-	-
Research expenditure	688,234	664,640	-	-
Plant and equipment written off	28,455	29,805	-	-
Bad debts written off	-	95,318	-	-
and crediting :				
Gain on disposal of plant and equipment	85,722	22,063	-	-
Interest income	299,361	223,663	154	4,269
Realised gain on foreign exchange	34,367	89,907	-	-

The estimated monetary value of benefits receivable by executive Directors of the Group other than in cash amounted to RM77,911 (2004 : RM67,181).

13. Employee information

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Staff costs (excluding executive Directors)	9,322,560	7,237,374	-	-

The number of employees of the Group and of the Company (excluding executive Directors) at the end of the year was 568 (2004 : 482) and Nil (2004 : Nil) respectively.

Staff costs of the Group and of the Company include contributions to the Employees' Provident Fund of RM653,522 (2004 : RM526,571) and RM Nil (2004 : RM Nil) respectively.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

14. Tax expense

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Current tax expense				
- Based on results for the year	178,385	45,013	-	1,135
- (Over)/Under provision in prior years	(7,284)	(4,800)	-	(150)
	171,101	40,213	-	985
Deferred tax expense				
- Current year	1,049,108	556,900	-	-
- Prior year	1,303	(69,042)	-	-
	1,050,411	487,858	-	-
	1,221,512	528,071	-	985

Reconciliation of effective tax expense

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Profit before tax	6,011,366	2,120,349	1,107,200	526,901
Income tax using				
Malaysian tax rates	1,602,291	518,598	310,016	147,532
Non-deductible expenses	140,592	129,492	88,264	70,846
Tax exempt income	(4,306)	-	(398,280)	(217,243)
Tax incentives	(524,855)	(46,791)	-	-
Others	13,771	614	-	-
	1,227,493	601,913	-	1,135
(Over)/Under provision in prior years	(5,981)	(73,842)	-	(150)
	1,221,512	528,071	-	985

15. Basic earnings per share

Basic earnings per share

The basic earnings per share has been calculated based on the consolidated net profit for the year of RM4,789,854 (2004 : RM1,592,278) and on the number of ordinary shares of RM1 each in issue during the year of 40,000,000 (2004 : 40,000,000).

Diluted earnings per share

The fully diluted earnings per share is the same as the basic earnings per share as the effect of anti-dilutive potential ordinary shares are ignored in calculating diluted earnings per share in accordance with the MASB No.13 on Earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

16. Dividend - Group and Company

	2005 RM	2004 RM
Paid - first and final tax exempt dividend of 2% (2003 : Nil) on 40,000,000 ordinary shares of RM1 each	<u>800,000</u>	<u>-</u>

The first and final tax exempt dividend of 2 sen totalling RM800,000 proposed in the last financial year was approved by the members in the last Annual General Meeting and accordingly, the amount has been appropriated from the retained profits in this financial year.

The proposed first and final tax exempt dividend of 3 sen totalling RM1,200,000 in respect of the financial year ended 31 May 2005 has not been accounted for in the financial statements.

The net dividend per ordinary share as disclosed in the Income Statement takes into account the proposed first and final dividend for the financial year.

17. Contingent liability, unsecured - Company

	2005 RM	2004 RM
Corporate guarantee issued to licensed banks for banking facilities granted to subsidiaries	<u>21,200,000</u>	<u>9,900,000</u>

18. Related parties

18.1 Identity of related parties

- i) The Company has a controlling related party relationship with its subsidiaries as disclosed in the financial statements.
- ii) The Company has a controlling related party relationship with its substantial shareholder, TBHL Holdings Sdn. Bhd. in which Messrs. Guan Kok Beng, Guan Kim Heng and Guan Kim Loong have substantial financial interests.
- iii) The Company also has a related party relationship with the key Directors and key management personnel of the Company :
 - Guan Kok Beng
 - Guan Kim Heng
 - Guan Kim Loong

18.2 Significant transactions with related parties

There were no transactions with related parties during the financial year other than the following:

- i) Remuneration package paid to the Directors and key management personnel in accordance with the terms and conditions of their appointment.
- ii) Share options granted to Directors and key management personnel.

The share options given to Directors and key management personnel under the same terms and conditions as those offered to other employees of the Group pursuant to the ESOS.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

19. Segment reporting - Group

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group is principally engaged in the manufacturing and trading of furniture and wood-based products. Business segment information has therefore not been prepared as the Group's revenue, operating profit, assets employed, capital expenditure, depreciation and amortisation and non cash expenses are mainly confined to one business segment.

Geographical segments

The business segment is managed in one principal location namely Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are also based on the geographical location of assets.

	Malaysia RM	Asia RM	Europe RM	Oceania RM	Others RM	Consolidated RM
2005						
Revenue from external customers by location of customers	6,209,509	8,850,156	30,837,088	5,328,348	6,945,056	58,170,157
Segment assets by location of assets	63,698,645	-	-	-	-	63,698,645
Capital expenditure by location of assets	2,737,331	-	-	-	-	2,737,331
2004						
Revenue from external customers by location of customers	3,654,989	11,833,998	19,600,769	5,427,781	2,369,813	42,887,350
Segment assets by location of assets	57,396,850	-	-	-	-	57,396,850
Capital expenditure by location of assets	1,326,383	-	-	-	-	1,326,383

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

20. Financial instruments

Financial risk management and objectives

Exposure to credit, interest rate, foreign exchange risk and liquidity risk arises in the normal course of the Group's and the Company's business. The policies for controlling these risks when applicable, and the information on the related exposures are set out below :

Credit risk

Exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all new customers prior to the granting of credit terms.

The Group and the Company have no significant concentrations of credit risk at the balance sheet date other than amount due from subsidiaries. The maximum exposure to credit risk for the Group and for the Company are represented by the carrying amount of each financial asset.

Interest rate risk

The Group does not incur any interest bearing debts. Therefore, its exposure to interest rate risk is minimal.

The investments in financial assets are mainly short term in nature and are mostly placed in fixed deposits or occasionally, in short term deposits and short term funds which yield better returns than cash at bank.

Foreign exchange risk

The Group incurs foreign exchange risk mainly from its sales transactions denominated in currencies other than Ringgit Malaysia ("RM"). The currencies giving rise to this risk are primarily denominated in the United States Dollar ("USD") and Euro Dollar ("EURO").

The Group hedges at least 80 percent of its trade receivables denominated in foreign currency. At any point in time, the Group also hedges 80 percent of their estimated foreign currency exposure in respect of forecast sales over the following six months. Where necessary, the forward exchange contracts are rolled over at maturity at market rates.

Liquidity risk

The Group manages its liquidity risk by adopting a prudent approach to credit risk and cash flow management. The Group maintains a sufficient level of cash to meet its working capital requirements. It also has banking facilities available for its contingent funding requirement for working capital purposes.

Effective interest rates and repricing analysis

In respect of interest-earning financial asset, the following table indicates its effective interest rate at the balance sheet date and the periods in which it reprices or matures, whichever is earlier.

	Effective interest rate %	Total RM	Within 1 year RM	1 -5 years RM
Group				
2005				
Financial assets				
Short term funds	2.65	3,636,103	3,636,103	-
Deposits with licensed banks	2.61	10,387,610	10,387,610	-

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

20. Financial instruments (cont'd)

	Effective interest rate %	Total RM	Within 1 year RM	1 -5 years RM
Group				
2004				
Financial asset				
Deposits with licensed banks	2.7	11,109,429	11,109,429	-
Company				
2005				
Financial asset				
Deposits with licensed banks	2.2	60,000	60,000	-
2004				
Financial asset				
Deposits with licensed banks	-	-	-	-

Fair values

Recognised financial instruments

In respect of cash and cash equivalents, trade and other receivables, trade and other payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

The fair value of amount due from subsidiaries has not been determined as the timing of the expected cash flows of this balance cannot be reasonably determined due principally to a lack of fixed repayment terms entered into by the parties involved.

Unrecognised financial instruments

The contracted amount and fair value of financial instruments not recognised in the balance sheet date as at 31 May are as follows:

	Group	
	2005 RM'000	2004 RM'000
Forward foreign exchange sales contracts		
- Contracted value	25,609	-
- Unrealised Gain	(60)	-
	<u>25,549</u>	<u>-</u>

The fair value of the above forward exchange contracts is based on foreign currency contracts translated at spot rates at year end. These foreign exchange contracts will all expire within a year from the balance sheet date.

ANALYSIS OF SHAREHOLDINGS

as at 26 August 2005

1. **Authorised Share Capital** : RM50,000,000.00
Issued and Paid-up Share Capital : RM40,000,000.00
Class of shares : Ordinary shares of RM1.00 each
Voting Right : 1 vote per share

2. ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 26 AUGUST 2005

Size of shareholdings	No. of shareholders	% of total shareholders	No. of shares	% of total issued capital
Less than 100	2	0.07	100	0.00
100 to 1,000	1,506	55.15	1,499,000	3.75
1,001 to 10,000	1,037	37.97	4,123,900	10.31
10,001 to 100,000	161	5.90	4,129,000	10.32
100,001 to less than 5% of issued shares	23	0.84	12,161,000	30.40
5% and above of issued shares	2	0.07	18,087,000	45.22
TOTAL	2,731	100.00	40,000,000	100.00

3. THIRTY LARGEST SECURITIES ACCOUNT HOLDERS AS AT 26 AUGUST 2005

Name	No. of shares	% of total issued capital
1. TBHL Holdings Sdn. Bhd.	11,717,394	29.29
2. TBHL Holdings Sdn. Bhd.	6,369,606	15.92
3. Koek Tiang Kung	1,570,000	3.93
4. Guan Kok Beng	1,451,624	3.63
5. Minister of Finance (Akaun Jaminan Pinjaman Kerajaan Persekutuan)	1,315,700	3.29
6. Guan Kim Heng	1,084,036	2.71
7. Lembaga Tabung Angkatan Tentera	980,000	2.45
8. Lembaga Tabung Haji	790,000	1.98
9. Guan Kim Loong	742,576	1.86
10. Ting Hon Sum	660,764	1.65
11. Stable Level Sdn. Bhd.	549,800	1.37
12. Guan Kok Beng	454,500	1.14
13. Ooi Pey Wong	376,000	0.94
14. Yeoh Kean Hua	300,000	0.75
15. HLB Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Teo Ah Lek)	297,000	0.74
16. Mayban Securities Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Laval Furniture Sdn. Bhd.)	224,400	0.56
17. Citicorp Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Koh Kok Hooi)	212,600	0.53
18. Alliancegroup Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Ng Ah Chai)	194,000	0.49
19. Chan Beng Teik	179,000	0.45
20. Lim Yoke Lin	161,000	0.40
21. Mayban Nominees (Tempatan) Sdn. Bhd. (JMF Asset Management Sdn. Bhd. for Koperasi Kemajuan Tanah Negeri Johor Berhad)	150,000	0.38
22. Ong Ju Seng	129,000	0.32
23. Teoh Chee	123,000	0.31
24. Eu Soon Keat	115,000	0.29
25. Chan Kin Kuan	101,000	0.25
26. Tan Yen Boon	100,000	0.25
27. Chuah Tiong Hock @ Chua Teong Choo	95,200	0.24
28. Lo Siew Khoon @ Loh Ha	90,000	0.23
29. Syarikat Lean Hong Chan Sdn. Bhd.	80,000	0.20
30. Alliancegroup Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Phoon Chin Choi)	79,600	0.20

ANALYSIS OF SHAREHOLDINGS

as at 26 August 2005 (cont'd)

4. SUBSTANTIAL SHAREHOLDERS AS AT 26 AUGUST 2005

Name	Direct interest		Deemed interest	
	No. of shares held	% of total issued capital	No. of shares held	% of total issued capital
1. TBHL Holdings Sdn. Bhd.	18,087,000	45.22	-	-
2. Guan Kok Beng	1,906,124	4.77	* 18,087,000	45.22
3. Guan Kim Heng	1,113,036	2.78	* 18,087,000	45.22
4. Guan Kim Loong	774,576	1.94	* 18,087,000	45.22

* Deemed interest by virtue of their substantial shareholdings in TBHL Holdings Sdn. Bhd.

5. INTEREST OF DIRECTORS AS AT 26 AUGUST 2005

a) Interest in Shares of the Company

Name	Direct Interest		Deemed Interest	
	No. of shares held	% of total issued capital	No. of shares held	% of total issued capital
1. Guan Kok Beng	1,906,124	4.77	* 18,087,000	45.22
2. Guan Kim Heng	1,113,036	2.78	* 18,087,000	45.22
3. Guan Kim Loong	774,576	1.94	* 18,087,000	45.22
4. Dato' Noor Ahmad Mokhtar bin Haniff	-	-	-	-
5. Diong Chin Teck	15,000	0.04	-	-

Note :

* Deemed interest by virtue of their substantial shareholdings in TBHL Holdings Sdn. Bhd.

b) Interest in Shares of Related Corporations

By virtue of their interests of not less than 15% in the shares of the Company, Messrs Guan Kok Beng, Guan Kim Heng and Guan Kim Loong are also deemed to have interests in the shares of all the subsidiary companies to the extent that the Company has an interest as at 26 August 2005.

None of the other directors have any interest in the shares of related corporations as at 26 August 2005.

c) Share Options Granted under the Employees' Share Option Scheme ("ESOS") of the Company

Name	Number of options over ordinary shares of RM1.00 each	Option price RM
1. Guan Kok Beng	600,000	1.00
2. Guan Kim Heng	530,000	1.00
3. Guan Kim Loong	480,000	1.00
4. Dato' Noor Ahmad Mokhtar bin Haniff	-	-
5. Diong Chin Teck	-	-

LIST OF PROPERTIES OF THE GROUP

as at 31 May 2005

Address/Location	Date of Acquisition	Description	Use	Tenure	Approximate Age of Building	Total Land Area/ Approximate Built-up Area (Sq. ft.)	#Net Book Value (RM'000)
1. 1168 Kampung Teluk, Sungai Dua, Kawasan Perusahaan Sungai Lokan, 13800 Butterworth.	13 May, 1995	3 storey office & 1 storey factory	Office, showroom & factory	Freehold	7.5 years	62,194 / 62,600	4,318
2. 1169 Kampung Teluk, Sungai Dua, Kawasan Perusahaan Sungai Lokan, 13800 Butterworth.	7 November, 1992	1 storey factory	Factory	Freehold	*12.5 years	69,589 / 40,947	1,826
3. No.14 & 16, Lorong Perusahaan Sungai Lokan 3, Taman Perindustrian Baru Butterworth, Sungai Dua, 13800 Butterworth.	27 December, 1994	2 storey terrace light industrial building	Store	Freehold	8 years	4,368 / 6,218	618
4. No.15, Lorong Sungai Lokan 3/2, Sungai Dua, 13800 Butterworth.	7 April, 1994	2 storey terrace light industrial building	Store	Freehold	9 years	1,920 / 2,880	255
5. Lot 14, Jalan Perusahaan, Kawasan Perusahaan Kulim, 09000 Kulim, Kedah.	22 March, 1995	1 storey factory	Office & factory	Leasehold Expiry: 2080	*9.5 years	86,249 / 38,320	2,095
6. No. 2, Lorong Bakau 3, Kawasan Perusahaan Perabut Sungai Baong, 14200 Sungai Bakap, Seberang Perai Selatan.	24 April, 1996	1 storey factory	Office & factory	Freehold	4.5 years	247,420 / 152,163	6,098
7. Lot 2971 & 2972, Kawasan Perusahaan Perabut Sungai Baong, 14200 Sungai Bakap, Seberang Perai Selatan.	24 April, 1996	Industrial land	Vacant	Freehold	-	238,278	1,556
Total							16,766

Notes:

The Group does not have a formal revaluation policy for its landed properties.

Freehold lands are stated at cost and are not subject to depreciation.
Leasehold land and building are stated at cost less accumulated impairment losses and accumulated depreciation respectively.

* Based on the latest upgrading date of building



EUROSPAN HOLDINGS BERHAD (351927-M)
(Incorporated in Malaysia)

PROXY FORM

For the 10th Annual General Meeting

No. of shares held

I/We _____
(Full Name in Block Letters)

of _____
(Address)

being a member/members of the above Company appoint _____
(Full Name in Block Letters)

of _____
(Address)

or failing him, _____
(Full Name in Block Letters)

of _____
(Address)

as my/our Proxy to vote in my/our name(s) on my/our behalf at the Tenth Annual General Meeting of the Company to be held on Thursday, 27 October, 2005 at 11.30 a.m. and at any adjournment thereof in the manner indicated below :-

Resolution		For	Against
To receive and adopt the Audited Financial Statements for the financial year ended 31 May 2005 together with the Reports of the Directors and Auditors thereon.	Resolution 1		
To declare a first and final tax exempt dividend of 3% for the financial year ended 31 May 2005.	Resolution 2		
To approve the payment of Directors' fees of RM150,000/- for the financial year ended 31 May 2005.	Resolution 3		
To re-appoint Mr Diong Chin Teck, who retires pursuant to Section 129 of the Companies Act, 1965 as a Director.	Resolution 4		
To re-elect Dato' Noor Ahmad Mokhtar bin Haniff who retires in accordance with Article 126 of the Company's Articles of Association.	Resolution 5		
To re-appoint Messrs KPMG as the Company's Auditors.	Resolution 6		
To empower the Directors to issue and allot shares up to 10% of the issued share capital of the Company.	Resolution 7		

(Please indicate with an "X" in the appropriate box against each Resolution how you wish your proxy to vote. If no instruction is given, this form will be taken to authorise the proxy to vote at his/her discretion.)

Notes :

- A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- To be valid the proxy form must be duly completed and deposited at the registered office of the Company, 14A, Jalan Todak 3, Pusat Bandar, Bandar Seberang Jaya, 13700 Seberang Jaya, Prai, Penang not less than forty-eight (48) hours before the time for holding the meeting.
- A member may appoint more than two (2) proxies to attend and vote at the same meeting.
- Where a member appoints two (2) proxies or more, the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
- If the appointor is a corporation, the proxy form must be executed under its Common Seal or under the hand of its attorney.

Dated this _____ day of _____ 2005.

Signature of Shareholder

Please fold here

Affix
Stamp

The Company Secretary

Eurospan Holdings Berhad (351927-M)

14A Jalan Todak 3,
Pusat Bandar,
Bandar Seberang Jaya,
13700 Seberang Jaya,
Prai, Penang,
Malaysia

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EUROSPAN HOLDINGS BERHAD (351927-M)
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13800 Butterworth, Malaysia.
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