



EUROSPAN HOLDINGS BERHAD  
(351927-M)



*Annual Report 2004*

**Eurospan Holdings Berhad** (351927-M)  
1168 Kampung Teluk, Sungai Dua, Kawasan Perusahaan Sungai Lokan  
13800 Butterworth, Malaysia.  
Tel : 604 - 356 3727 Fax : 604-356 2441  
Website: [www.eurospan.com.my](http://www.eurospan.com.my)

## Our Vision

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

- Excellent customer service
- Universal designs
- Research & Development
- On time delivery
- Superior team work
- Price competitiveness
- Advancement in technology
- No compromise on quality

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## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Ninth Annual General Meeting of Eurospan Holdings Berhad will be held at Langkawi Room, Level 3, Shangri-La Hotel, Magazine Road, 10300 Penang on Monday, 22 November 2004 at 11.00 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 2004 together with the Reports of the Directors and Auditors thereon. Resolution 1
2. To declare a first and final tax exempt dividend of 2% for the financial year ended 31 May 2004. Resolution 2
3. To approve the payment of Directors' fees of RM150,000.00 for the financial year ended 31 May 2004. 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 the following Directors who retire in accordance with Article 126 of the Company's Articles of Association and being eligible, offer themselves for re-election:-
  - (a) Mr Guan Kim Heng Resolution 5
  - (b) Mr Guan Kim Loong Resolution 6
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 7

### 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 8
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 Ninth Annual General Meeting, the first and final tax exempt dividend of 2% in respect of the financial year ended 31 May 2004 will be paid on 28 December 2004 to depositors registered in the Records of Depositors on 9 December 2004.

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 9 December 2004 in respect of ordinary 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: 29 October 2004

### 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 8 - 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

### COMPANY SECRETARY

Lim Kim Teck (MAICSA 7010844)

### REGISTERED OFFICE

14A, Jalan Todak 3

Pusat Bandar

Bandar Seberang Jaya

13700 Seberang Jaya, Prai, Penang

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

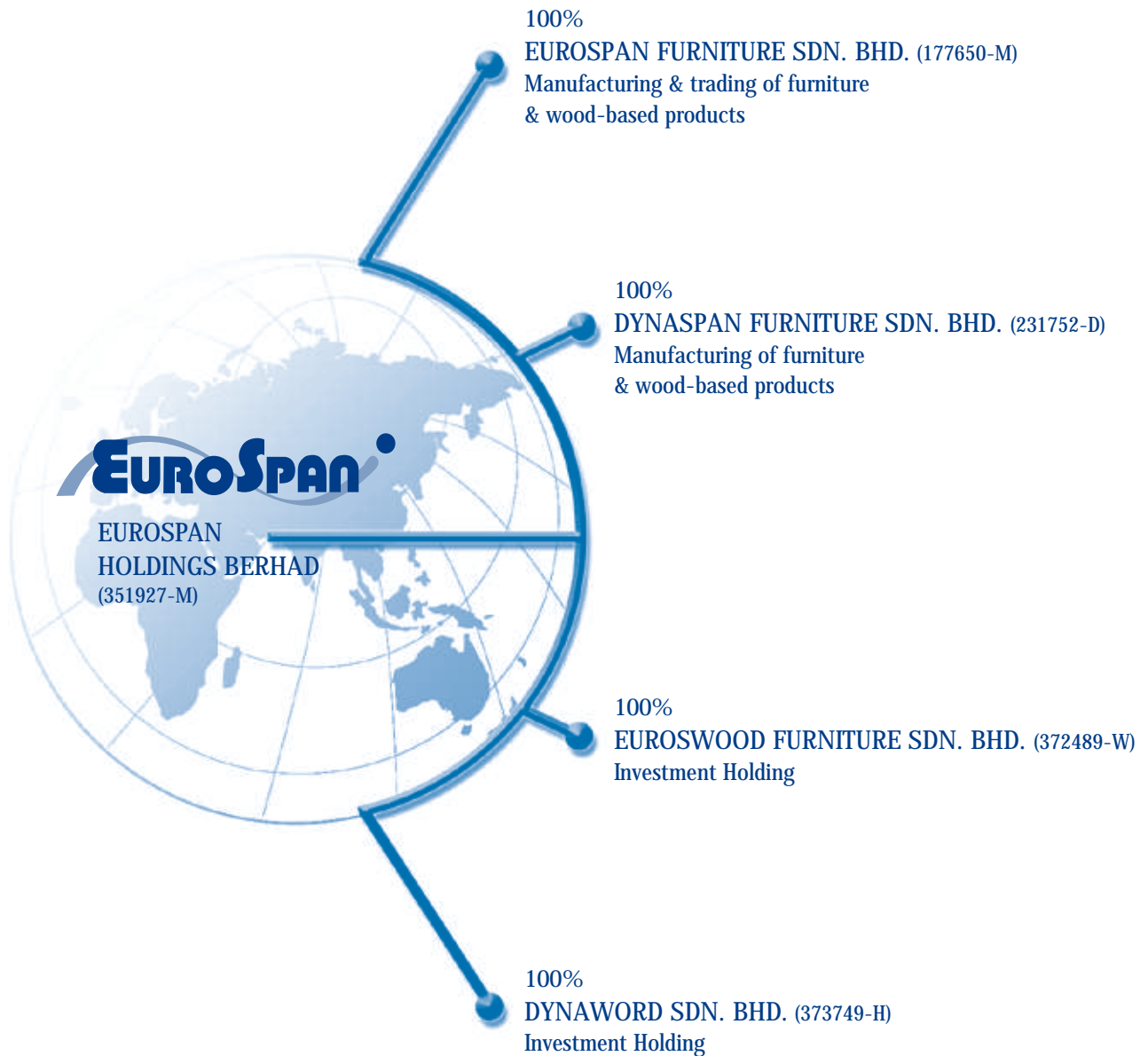
Second Board of Bursa Malaysia Securities Berhad

### DOMICILE

Malaysia

## 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 2004.

### Financial Review

For the year under review, I am happy to report that the Group achieved a higher consolidated turnover of RM42.89 million, an improvement of more than 31% over the previous year's turnover.

The Group recorded a profit before tax of RM2.12 million as compared to the loss before tax of RM1.71 million in the preceding financial year. The performance had shown a steady trend of recovery.

### Operations Review

Consistent with the Group's sales and marketing strategy adopted in the last financial year ended May 2003, the Group had continued to broaden its access to the European market and other new markets.

The production facility at Sungai Baong Furniture Village, Penang has increased and has become profitable.

As a whole, the Group returned to profitability by registering five consecutive quarterly profits after having experienced its last downturn of its financial performance bottoming out in the fourth quarter of the last financial year.

### Prospects

The Group remains optimistic of the long-term prospects of the global furniture industry. As such, it remains focused on its existing core business of being an integrated wood based furniture manufacturer for export markets.

The Group shall continue its focus on business development and product development processes. These processes are streamlined to achieve its objective of preserving its current market share and broadening its customer base through new markets penetration, product innovation and product diversification. In addition, the Group's ongoing operational management strategy emphasises on improving efficiency, productivity and quality.

The Group's cautious approach in all areas of its business has resulted in a healthy balance sheet and cash flow position. This augurs well for the long-term prospects of the Group, which ensures its resilience in facing adverse market downturns and capitalising on market upturns.

In this respect, the Group is cautiously optimistic that its financial performance will improve in the new financial year ending May 2005.

### Dividend

The Board of Directors is pleased to recommend a first and final tax-exempt dividend of 2% for the financial year ended 31 May 2004 for approval of the shareholders at the forthcoming Annual General Meeting of the Company, totalling RM800,000.

## CHAIRMAN'S MESSAGE

(cont'd)

### Appreciation

On behalf of the Board of Directors, I would like to thank all employees for their dedicated services to the Group.

I would also like to express my gratitude to our shareholders, valued customers, suppliers, business associates, bankers and the authorities for their invaluable support, trust and confidence in the future of the Group.

Lastly, I would like to extend my utmost appreciation to my fellow Board members for their counsel and guidance in facing all business challenges.

Guan Kok Beng  
Chairman  
Date : 29 October 2004



## 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 2004, the Board met on five (5) 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	5/5
Guan Kim Heng	5/5
Guan Kim Loong	5/5
Dato' Noor Ahmad Mokhtar bin Haniff	5/5
Diong Chin Teck	5/5

##### Board Committees

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

## STATEMENT ON CORPORATE GOVERNANCE (cont'd)

### A Board of Directors (cont'd)

#### Board Committees (cont'd)

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.

#### 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 21 and 22 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.

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### A Board of Directors (cont'd)

#### 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)
- Mr Diong Chin Teck - Member (Independent Non-Executive)

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 2004, 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) required 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. On 1 June 2004, Mr. Guan Kim Heng resigned as the Chairman of the Committee and Dato' Noor Ahmad Mokhtar bin Haniff was appointed in his place. Mr. Guan however remains a member of the Committee. The present composition of the Remuneration Committee is as follows:

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

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### B Director's Remuneration (cont'd)

#### Remuneration Committee (cont'd)

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	229
Non-Executive	-	65	7

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
250,001 - 300,000	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.

## STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

### 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.

#### 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 14 to 16 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 16 to 17 of the Annual Report.

#### Compliance Statement

The Group has complied, throughout the financial year ended 31 May 2004, 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.

## STATEMENT ON CORPORATE GOVERNANCE (cont'd)

### Compliance Statement (cont'd)

- 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 2004.

## 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;



## AUDIT COMMITTEE REPORT

(cont'd)

### TERMS OF REFERENCE (cont'd)

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

- 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;
- 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 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 2004, 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 provided assistance to the Board of Directors ("Board") in fulfilling its fiduciary responsibilities relating to the corporate accounting, regulatory compliances and risk management practices and procedures of the Group of Companies ("Group"). It carried out its duties in accordance with its terms of reference. It met regularly through scheduled meetings with the management, the Board, internal auditors and external auditors to ensure that their respective responsibilities were carried out. Both the external auditors and the internal auditors had full access to the Audit Committee.

During the year, the Audit 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.

## AUDIT COMMITTEE REPORT

(cont'd)

### SUMMARY OF ACTIVITIES OF AUDIT COMMITTEE (cont'd)

The Audit 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.

The Audit 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 Audit 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 Audit 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.

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

### INTERNAL AUDIT

The internal audit division ("IAD") constitutes an independent managerial control that assists management in maintaining effective control over its operations and assists the Audit Committee in discharging its duties and responsibilities. It is independent of the processes that it audits and reports directly to the Audit Committee. 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. On the whole, the IAD plays its role in providing objective assurance to management that improves an organisation's operations.

The IAD assists management in maintaining effective control over its operations by ensuring that the business functions are carried out in compliance with the 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.

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 Audit Committee and the Board of Directors by inculcating the three key concepts of transparency, accountability as well as corporate performance.

## AUDIT COMMITTEE REPORT

(cont'd)

### INTERNAL AUDIT (cont'd)

During the year under review, the IAD presented the annual risk-based internal 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.

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 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 or loss. The system of internal control covers, inter-alia, financial, organisational, operational and compliance controls.

The Board is aware of the publication on 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.

### 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 formally 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 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 2004.

## 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 52, 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.

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 46, 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 and Remuneration Committee.

**Guan Kim Loong**  
Executive Director

Mr. Guan Kim Loong, a Malaysian Citizen, aged 40, 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 65, 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 started working in 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 and Remuneration 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 71, 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 Berhad 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 2004.

**Options, Warrants or Convertible Securities**

Not applicable as none was issued/granted during the financial year ended 31 May 2004.

**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 2004.

**Non-Audit Fees**

The amount of non-audit fees paid by the Group to the external auditors during the financial year ended 31 May 2004 is approximately RM15,670.00.



**DIRECTORS' REPORT**

for the year ended 31 May 2004

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 2004.

**PRINCIPAL ACTIVITIES**

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

The principal activities of the subsidiary companies 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>1,592,278</u>	<u>525,916</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**

No dividend was paid since the end of the previous financial year. The directors recommended a first and final tax exempt dividend of 2 sen per ordinary share totalling RM800,000 in respect of the financial year ended 31 May 2004 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

for the year ended 31 May 2004 (cont'd)

### 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 :

The Company	Balance at 1.6.2003	Direct Interest		Ordinary Shares of RM1 each		Deemed Interest		Balance at 31.5.2004
		Bought	(Sold)	Balance at 31.5.2004	Balance at 1.6.2003	Bought	(Sold)	
Guan Kok Beng	1,511,624	250,000	-	1,761,624	18,000,000	-	-	18,000,000
Guan Kim Heng	1,113,036	-	-	1,113,036	18,000,000	-	-	18,000,000
Guan Kim Loong	774,576	-	-	774,576	18,000,000	-	-	18,000,000
Diong Chin Teck	15,000	-	-	15,000	-	-	-	-

By virtue of their 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 subsidiary companies 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.

### 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.

### 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

**DIRECTORS' REPORT**

for the year ended 31 May 2004 (cont'd)

**OTHER STATUTORY INFORMATION (cont'd)**

- 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, except for the change in accounting policy as disclosed in the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 May 2004 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.

**AUDITORS**

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

Signed in accordance with a resolution of the directors:

..... Director  
GUAN KOK BENG

..... Director  
GUAN KIM HENG

Penang,

Date : 25 August 2004

**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 2004 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 :

..... Director  
 GUAN KOK BENG

..... Director  
 GUAN KIM HENG

Penang,

Date : 25 August 2004

**STATUTORY DECLARATION**

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

I, GUAN KIM HENG (I/C No. 580419-07-5233), 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 GUAN KIM HENG )  
 at Georgetown in the State of Penang )  
 on 25 August 2004. )

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. Our responsibility is to express an opinion on the financial statements based on our audit.

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 2004 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 subsidiary companies have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiary companies 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 subsidiary companies were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG  
Firm No : AF : 0758  
Chartered Accountants

OOI KOK SENG  
Partner  
Approval No : 2432/05/05 (J)

Penang,

Date : 25 August 2004

**CONSOLIDATED BALANCE SHEET**

at 31 May 2004

	NOTE	2004 RM	2003 RM (Restated)
PROPERTY, PLANT AND EQUIPMENT	2	33,720,353	35,895,602
<b>CURRENT ASSETS</b>			
Inventories	4	7,494,541	7,203,821
Trade and other receivables	5	3,086,344	3,780,351
Tax refundable		333,728	1,438,055
Cash and cash equivalents	6	13,095,612	6,465,780
		<u>24,010,225</u>	<u>18,888,007</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	5,029,310	4,162,477
		<u>5,029,310</u>	<u>4,162,477</u>
NET CURRENT ASSETS		18,980,915	14,725,530
		<u>52,701,268</u>	<u>50,621,132</u>
Financed by :			
SHARE CAPITAL	8	40,000,000	40,000,000
RESERVES	9	10,450,122	8,857,844
SHAREHOLDERS' FUNDS		<u>50,450,122</u>	<u>48,857,844</u>
DEFERRED TAX LIABILITIES	13	1,674,858	1,187,000
NEGATIVE GOODWILL		576,288	576,288
		<u>52,701,268</u>	<u>50,621,132</u>

The financial statements were approved and authorised for issue by the Board of Directors on 25 August 2004.

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 2004

	NOTE	2004 RM	2003 RM
Revenue	10	42,887,350	32,573,961
Cost of sales		(35,448,213)	(29,386,054)
Gross profit		<u>7,439,137</u>	<u>3,187,907</u>
Distribution costs		(1,267,819)	(1,271,399)
Administrative expenses		(4,149,995)	(3,744,261)
Other operating expenses		(236,606)	(202,691)
Other operating income		335,632	316,455
Profit/(Loss) before tax	11	<u>2,120,349</u>	<u>(1,713,989)</u>
Tax expense	13	(528,071)	725,332
Net profit/(loss) for the year		<u>1,592,278</u>	<u>(988,657)</u>
Basic earnings/(loss) per share (sen)	14	<u>4.0</u>	<u>(2.5)</u>
Dividend per share (sen)		<u>2</u>	<u>-</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.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2004

	Share Capital RM	Non- distributable Share Premium RM	Distributable Retained Profits RM	Total RM
At 1 June 2002				
As previously reported	40,000,000	8,090,232	1,999,350	50,089,582
Effect of adopting MASB 29	-	-	(243,081)	(243,081)
As restated	40,000,000	8,090,232	1,756,269	49,846,501
Net loss for the year	-	-	(988,657)	(988,657)
At 31 May 2003 (As restated)	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

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 CASH FLOW STATEMENT

for the year ended 31 May 2004

	2004 RM	2003 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(Loss) before tax	2,120,349	(1,713,989)
Adjustments for :		
Depreciation	3,431,890	3,379,705
Gain on disposal of plant and equipment	(22,063)	-
Plant and equipment written off	29,805	-
Interest income	(223,663)	(176,900)
Operating profit before working capital changes	<u>5,336,318</u>	<u>1,488,816</u>
(Increase)/Decrease in :		
Inventories	(290,720)	(1,988,194)
Trade and other receivables	694,007	(1,453,471)
Increase in :		
Trade and other payables	866,833	988,577
Cash generated from/(used in) operations	<u>6,606,438</u>	<u>(964,272)</u>
Tax refunded	1,064,114	943
Net cash generated from/(used in) operating activities	<u>7,670,552</u>	<u>(963,329)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,326,383)	(845,084)
Proceeds from disposal of plant and equipment	62,000	-
Interest received	223,663	176,900
Net cash used in investing activities	<u>(1,040,720)</u>	<u>(668,184)</u>
Net increase/(decrease) in cash and cash equivalents	<u>6,629,832</u>	<u>(1,631,513)</u>
Cash and cash equivalents at beginning of year	6,465,780	8,097,293
Cash and cash equivalents at end of year (Note 6)	<u>13,095,612</u>	<u>6,465,780</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 2004

	NOTE	2004 RM	2003 RM
INVESTMENT IN SUBSIDIARY COMPANIES	3	30,413,939	30,413,939
AMOUNT DUE FROM SUBSIDIARY COMPANIES	5	18,655,373	17,812,120
<b>CURRENT ASSETS</b>			
Tax refundable		25,655	28,634
Cash and cash equivalents	6	84,968	397,259
		110,623	425,893
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	184,809	182,742
		184,809	182,742
NET CURRENT (LIABILITIES)/ASSETS		(74,186)	243,151
		<u>48,995,126</u>	<u>48,469,210</u>
<b>Financed by :</b>			
SHARE CAPITAL	8	40,000,000	40,000,000
RESERVES	9	8,995,126	8,469,210
SHAREHOLDERS' FUNDS		<u>48,995,126</u>	<u>48,469,210</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.

**INCOME STATEMENT**  
for the year ended 31 May 2004

	NOTE	2004 RM	2003 RM
Revenue	10	775,869	-
Administrative expenses		(253,237)	(265,937)
Other operating income		4,269	11,466
Profit/(Loss) before tax	11	<u>526,901</u>	<u>(254,471)</u>
Tax expense	13	(985)	(3,366)
Net profit/(loss) for the year		<u>525,916</u>	<u>(257,837)</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.

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2004

	Share Capital RM	Non- distributable Share Premium RM	Distributable Retained Profits RM	Total RM
At 1 June 2002	40,000,000	8,090,232	636,815	48,727,047
Net loss for the year	-	-	(257,837)	(257,837)
At 31 May 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

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

## CASH FLOW STATEMENT

for the year ended 31 May 2004

	2004 RM	2003 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(Loss) before tax	526,901	(254,471)
Adjustments for :		
Dividend income	(775,869)	-
Interest income	(4,269)	(11,466)
Operating loss before working capital changes	<u>(253,237)</u>	<u>(265,937)</u>
Increase/(Decrease) in :		
Trade and other payables	2,067	(15,958)
Cash used in operations	<u>(251,170)</u>	<u>(281,895)</u>
Dividend received	775,869	-
Tax refunded/(paid)	1,994	(3,874)
Net cash generated from/(used in) operating activities	<u>526,693</u>	<u>(285,769)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Interest received	<u>4,269</u>	<u>11,466</u>
Net cash generated from investing activity	4,269	11,466
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Advances to subsidiary companies	<u>(843,253)</u>	<u>(3,782)</u>
Net cash used in financing activity	(843,253)	(3,782)
Net decrease in cash and cash equivalents	<u>(312,291)</u>	<u>(278,085)</u>
Cash and cash equivalents at beginning of year	397,259	675,344
Cash and cash equivalents at end of year (Note 6)	<u>84,968</u>	<u>397,259</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

31 May 2004

### 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 except for the adoption of the following:

- i) MASB 25, Income Taxes;
- ii) MASB 27, Borrowing Costs; and
- iii) MASB 29, Employee Benefits.

In addition to the new policies and extended disclosures where required by these new standards, the effect of the changes in the above accounting policies are disclosed in Note 19 to the financial statements.

#### 1.1 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.

#### 1.2 Basis of Consolidation

Subsidiary companies 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 subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiary companies are consolidated using the merger method of accounting except for Dynaspan Furniture Sdn. Bhd. which is consolidated using acquisition method of accounting.

A subsidiary company is excluded from consolidation when either control is intended to be temporary if the subsidiary company 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. Subsidiary companies excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of the subsidiary companies 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 subsidiary companies' 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 subsidiary companies' net assets is reflected as goodwill or negative goodwill as appropriate.

Under the merger method of accounting, the results of the subsidiary companies 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 and reserves of the merged subsidiary companies is taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences).

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.

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

### 1.3 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.

#### 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%

### 1.4 Impairment

The carrying amount of assets, other than inventories and financial assets (other than investment in subsidiary companies), 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.

### 1.5 Investments

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

### 1.6 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.



## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

### 1.7 Trade and Other Receivables

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

### 1.8 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.

### 1.9 Liabilities

Trade and other payables are stated at cost.

### 1.10 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.

### 1.11 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.

### 1.12 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	(2003	:	USD 1	:	RM3.80)
EURO 1	:	RM4.50	(2003	:	EURO 1	:	RM4.00)

### 1.13 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.

### 1.14 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 Company. 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.

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (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
<b>Cost</b>								
At 1 June 2003	4,782,510	383,733	13,413,019	27,465,868	2,043,099	1,819,163	152,450	50,059,842
Additions	35,096	-	22,850	629,475	46,927	592,035	-	1,326,383
Disposals/Write off	-	-	-	(50,585)	(134,640)	(126,117)	-	(311,342)
Reclassification	-	-	-	152,450	-	-	(152,450)	-
At 31 May 2004	4,817,606	383,733	13,435,869	28,197,208	1,955,386	2,285,081	-	51,074,883
<b>Accumulated Depreciation</b>								
At 1 June 2003	-	35,677	1,308,838	10,866,791	958,703	994,231	-	14,164,240
Charge for the year	-	4,514	268,386	2,784,593	189,970	184,427	-	3,431,890
Disposals/Write off	-	-	-	(38,922)	(116,498)	(86,180)	-	(241,600)
At 31 May 2004	-	40,191	1,577,224	13,612,462	1,032,175	1,092,478	-	17,354,530
<b>Net Book Value</b>								
At 31 May 2004	4,817,606	343,542	11,858,645	14,584,746	923,211	1,192,603	-	33,720,353
At 31 May 2003	4,782,510	348,056	12,104,181	16,599,077	1,084,396	824,932	152,450	35,895,602
<b>Depreciation Charge For The Year Ended 31 May 2003</b>								
	-	4,514	267,792	2,758,314	176,661	172,424	-	3,379,705

## 3. INVESTMENT IN SUBSIDIARY COMPANIES - COMPANY

	2004 RM	2003 RM
Unquoted shares, at cost	30,413,939	30,413,939

Details of the subsidiary companies are as follows :

Name of Company	Percentage of Equity Held		Principal Activities
	2004 %	2003 %	
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 subsidiary companies are incorporated in Malaysia and audited by KPMG.

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

## 4. INVENTORIES - GROUP, at cost

	2004 RM	2003 RM
Raw materials	3,572,794	2,917,227
Work-in-progress	3,224,106	2,975,792
Manufactured inventories	697,641	1,310,802
	<u>7,494,541</u>	<u>7,203,821</u>

## 5. TRADE AND OTHER RECEIVABLES

	GROUP	
	2004 RM	2003 RM
Short term		
Trade receivables	2,372,734	3,447,975
Other receivables, deposits and prepayments	713,610	332,376
	<u>3,086,344</u>	<u>3,780,351</u>

	COMPANY	
	2004 RM	2003 RM
Long term		
Amount due from subsidiary companies	<u>18,655,373</u>	<u>17,812,120</u>

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

## 6. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Deposits with licensed banks	11,109,429	5,251,419	-	350,000
Cash and bank balances	1,986,183	1,214,361	84,968	47,259
	<u>13,095,612</u>	<u>6,465,780</u>	<u>84,968</u>	<u>397,259</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

## 7. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2004 RM	2003 RM (Restated)	2004 RM	2003 RM
Trade payables	3,219,819	2,385,639	-	-
Other payables and accrued expenses	1,809,491	1,776,838	184,809	182,742
	<u>5,029,310</u>	<u>4,162,477</u>	<u>184,809</u>	<u>182,742</u>

## 8. SHARE CAPITAL - GROUP AND COMPANY

	2004 RM	2003 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>

## 9. RESERVES

	GROUP		COMPANY	
	2004 RM	2003 RM (Restated)	2004 RM	2003 RM
Non-distributable				
Share premium	8,090,232	8,090,232	8,090,232	8,090,232
Distributable				
Retained profits	2,359,890	767,612	904,894	378,978
	<u>10,450,122</u>	<u>8,857,844</u>	<u>8,995,126</u>	<u>8,469,210</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 2004 if paid out as dividends.

## 10. 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

31 May 2004 (cont'd)

## 11. PROFIT/(LOSS) BEFORE TAX

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Profit/(Loss) before tax is arrived at :				
After charging :				
Auditors' remuneration				
- Current year	31,000	31,000	10,000	10,000
Depreciation (Note 2)	3,431,890	3,379,705	-	-
Directors' emoluments				
Directors of the Company				
- fees	240,000	240,000	150,000	150,000
- others	904,010	758,010	19,200	18,800
Other Directors				
- fees	45,000	45,000	-	-
- others	297,420	291,820	-	-
Research expenditure	664,640	659,387	-	-
Plant and equipment written off	29,805	-	-	-
Bad debts written off	95,318	-	-	-
and crediting :				
Gain on disposal of plant and equipment	22,063	-	-	-
Interest income	223,663	176,900	4,269	11,466
Realised gain on foreign exchange	89,907	138,415	-	-

The estimated monetary value of benefits receivable by executive directors of the Group other than in cash amounted to RM67,181 (2003 : RM64,525).

## 12. EMPLOYEE INFORMATION

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Staff costs (including executive directors)	8,415,557	7,971,883	12,200	12,200

The number of employees of the Group and of the Company (including executive directors) at the end of the year was 488 (2003 : 451) and 3 (2003 : 3) respectively.

Staff costs of the Group and of the Company include contributions to the Employees' Provident Fund of RM667,511 (2003 : RM612,977) and RM10,200 (2003 : RM10,200) respectively.

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

## 13. TAX EXPENSE

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Current tax expense				
- Based on results for the year	45,013	16,200	1,135	3,200
- (Over)/Under provision in prior years	(4,800)	(330,532)	(150)	166
	40,213	(314,332)	985	3,366
Deferred tax expense				
- Current year	556,900	(470,000)	-	-
- Prior year	(69,042)	59,000	-	-
	487,858	(411,000)	-	-
	<u>528,071</u>	<u>(725,332)</u>	<u>985</u>	<u>3,366</u>

## Reconciliation of effective tax expense :

	GROUP		COMPANY	
	2004 RM	2003 RM	2004 RM	2003 RM
Profit/(Loss) before tax	<u>2,120,349</u>	<u>(1,713,989)</u>	<u>526,901</u>	<u>(254,471)</u>
Income tax using Malaysian tax rates	518,598	(466,458)	147,532	(71,252)
Non-deductible expenses	129,492	118,627	70,846	74,452
Tax exempt income	-	-	(217,243)	-
Tax incentives	(46,791)	(108,021)	-	-
Others	614	2,052	-	-
	<u>601,913</u>	<u>(453,800)</u>	<u>1,135</u>	<u>3,200</u>
(Over)/Under provision in prior years	(73,842)	(271,532)	(150)	166
	<u>528,071</u>	<u>(725,332)</u>	<u>985</u>	<u>3,366</u>

## The recognised deferred tax liabilities are as follows:

	GROUP	
	2004 RM	2003 RM
Property, plant and equipment		
- capital allowances	2,831,338	2,954,908
Unabsorbed capital allowance	(1,055,175)	(1,739,708)
Unutilised tax losses	(28,200)	(28,200)
Provision	(73,105)	-
	<u>1,674,858</u>	<u>1,187,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

## 14. BASIC EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share has been calculated based on the consolidated net profit/(loss) for the year of RM1,592,278 (2003 : RM988,657) and on the number of ordinary shares of RM1 each in issue during the year of 40,000,000 (2003 : 40,000,000).

## 15. CONTINGENT LIABILITY, unsecured - COMPANY

	2004 RM	2003 RM
Corporate guarantee issued to licensed banks for banking facilities granted to subsidiary companies	9,900,000	14,000,000

## 16. RELATED PARTIES

## 16.1 Identity of related parties

- i) The Company has a controlling related party relationship with its subsidiary companies 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

## 16.2 Significant transactions with related parties

There were no transactions with related parties during the financial year other than the remuneration package paid to the directors and key management personnel in accordance with the terms and conditions of their appointment.

## 17. 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.



## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

### 17. SEGMENT REPORTING - GROUP (cont'd)

#### 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
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
2003						
Revenue from external customers by location of customers	4,199,056	16,642,221	9,166,662	1,631,601	934,421	32,573,961
Segment assets by location of assets	53,345,554	-	-	-	-	53,345,554
Capital expenditure by location of assets	845,084	-	-	-	-	845,084

### 18. 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.

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

## 18. FINANCIAL INSTRUMENTS (cont'd)

## Credit risk (cont'd)

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 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 regards foreign currency risk as minimal as the RM is presently pegged to USD at RM3.80 per 1 USD.

## 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				
2004				
Financial asset				
Deposits with licensed banks	2.7	11,109,429	11,109,429	-
2003				
Financial asset				
Deposits with licensed banks	2.6	5,251,419	5,251,419	-

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

## 18. FINANCIAL INSTRUMENTS (cont'd)

COMPANY	Effective interest rate %	Total RM	Within 1 year RM	1 -5 years RM
2004				
Financial asset				
Deposits with licensed banks	-	-	-	-
2003				
Financial asset				
Deposits with licensed banks	2.3	350,000	350,000	-

## 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 subsidiary companies has not been determined as the timing of the expected cash flows of this balance cannot be reasonably determined due principally to lack of fixed repayment terms entered into by the parties involved.

## 19. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENT

In the current financial year, the Group and the Company adopted three new MASB Standards. The adoption of these new standards resulted in changes in accounting policies as follows :

- i) MASB 25, Income Taxes which has been adopted retrospectively. Comparative figures have not been restated as the adoption of this standard has no material impact on the financial statements;
- ii) MASB 27, Borrowing Costs which is applied retrospectively. Comparative figures have not been restated as the previous accounting policy was in line with the accounting standard; and
- iii) MASB 29, Employee Benefits which has been adopted retrospectively. Comparative figures have been adjusted to reflect the change in the accounting policy.

The adoption of MASB 29 has resulted in the recognition for obligations in respect of short term employee benefits in the form of accumulated compensated absences. Previously, these obligations were not provided for in the financial statements.

## Prior Year Adjustment

## Change in accounting policy

The change in accounting policy due to the adoption of MASB 29 has been accounted for by restating comparatives and adjusting the opening balance of retained profits at 1 June 2003 as disclosed in Note 20 and the statement of changes in equity respectively.

## NOTES TO THE FINANCIAL STATEMENTS

31 May 2004 (cont'd)

## 20. COMPARATIVE FIGURES

The following comparatives have been restated to reflect the change in accounting policy as explained in Note 19.

	GROUP	
	As restated RM	As previously reported RM
Balance Sheet		
Trade and other payables	4,162,477	3,919,396
Statement of Changes in Equity		
Retained profits - 1 June 2002	1,756,269	1,999,350
- 31 May 2003	<u>767,612</u>	<u>1,010,693</u>

## 21. EVENT SUBSEQUENT TO BALANCE SHEET DATE

On 29 July 2004, the Board of Directors announced that the Company proposed an Employees' Share Option Scheme of up to fifteen percent (15%) of the issued and paid-up capital of the Company for its directors and employees.

## ANALYSIS OF SHAREHOLDINGS

as at 20 September 2004

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 20 SEPTEMBER 2004

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	1,653	54.45	1,645,600	4.12
1,001 to 10,000	1,177	38.77	4,661,500	11.65
10,001 to 100,000	178	5.86	4,481,200	11.20
100,001 to less than 5% of issued shares	24	0.79	11,211,600	28.03
5% and above of issued shares	2	0.06	18,000,000	45.00
<b>TOTAL</b>	<b>3,036</b>	<b>100.00</b>	<b>40,000,000</b>	<b>100.00</b>

### 3. THIRTY LARGEST SECURITIES ACCOUNT HOLDERS AS AT 20 SEPTEMBER 2004

Name	No. of shares	% of total issued capital
1. TBHL Holdings Sdn. Bhd.	11,630,394	29.08
2. TBHL Holdings Sdn. Bhd.	6,369,606	15.92
3. Guan Kok Beng	1,451,624	3.63
4. Minister of Finance (Akaun Jaminan Pinjaman Kerajaan Persekutuan)	1,315,700	3.29
5. Guan Kim Heng	1,084,036	2.71
6. Lembaga Tabung Angkatan Tentera	980,000	2.45
7. Koek Tiang Kung	896,700	2.24
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.	510,000	1.27
12. Guan Kok Beng	410,000	1.02
13. Ke-Zan Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Tan Ee Seng)	247,200	0.62
14. Chan Kin Hua	227,000	0.57
15. Yeoh Kean Hua	210,000	0.53
16. Alliancegroup Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Ng Ah Chai)	194,000	0.49
17. HLB Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Teo Ah Lek)	186,000	0.47
18. Chan Beng Teik	179,000	0.45
19. Lo Siew Khooon @ Loh Ha	174,000	0.44
20. Lim Yoke Lin	161,000	0.40
21. Lim Booi Kee	159,000	0.40
22. Mayban Nominees (Tempatan) Sdn. Bhd. (JMF Asset Management Sdn. Bhd. for Koperasi Kemajuan Tanah Negeri Johor Berhad)	150,000	0.38
23. Eu Soon Keat	130,000	0.33
24. Ong Ju Seng	129,000	0.32
25. Teoh Chee	123,000	0.31

## ANALYSIS OF SHAREHOLDINGS

as at 20 September 2004 (cont'd)

### 3. THIRTY LARGEST SECURITIES ACCOUNT HOLDERS AS AT 20 SEPTEMBER 2004 (cont'd)

Name	No. of shares	% of total issued capital
26. Chan Kin Kuan	101,000	0.25
27. Tan Yen Boon	100,000	0.25
28. Chuah Tiong Hock @ Chua Teong Choo	95,200	0.24
29. Wong Hok Yim	88,000	0.22
30. Mayban Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Loh Eng Swee)	83,000	0.21

### 4. SUBSTANTIAL SHAREHOLDERS AS AT 20 SEPTEMBER 2004

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.	18,000,000	45.00	-	-
2. Guan Kok Beng	1,861,624	4.65	*18,000,000	45.00
3. Guan Kim Heng	1,113,036	2.78	*18,000,000	45.00
4. Guan Kim Loong	774,576	1.94	*18,000,000	45.00

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

### 5. SHAREHOLDING OF DIRECTORS AS AT 20 SEPTEMBER 2004

#### In 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	1,861,624	4.65	*18,000,000	45.00
2. Guan Kim Heng	1,113,036	2.78	*18,000,000	45.00
3. Guan Kim Loong	774,576	1.94	*18,000,000	45.00
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.

#### In 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 20 September 2004.

None of the other directors have any interest in the shares of related corporations as at 20 September 2004.

## LIST OF PROPERTIES OF THE GROUP

as at 31 May 2004

	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	6.5 years	62,140 / 62,600	4,387
2.	1169 Kampung Teluk, Sungai Dua, Kawasan Perusahaan Sungai Lokan, 13800 Butterworth.	7 November, 1992	1 storey factory	Factory	Freehold	*11.5 years	69,535 / 40,947	1,863
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	7 years	4,368 / 6,218	633
4.	No. 15, Lorong Sungai Lokan 3/2, Sungai Dua, 13800 Butterworth.	7 April, 1994	2 storey terrace light industrial building	Store	Freehold	8 years	1,920 / 2,880	261
5.	Lot 14, Jalan Perusahaan, Kawasan Perusahaan Kulim, 09000 Kulim, Kedah.	22 March, 1995	1 storey factory	Office & factory	Leasehold Expiry: 2080	*8.5 years	86,249 / 38,320	2,143
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	3.5 years	247,420 / 152,163	6,197
7.	Lot 2971 & 2972, Kawasan Perusahaan Perabut Sungai Baong, Seberang Perai Selatan.	24 April, 1996	Industrial land	Vacant	Freehold	-	238,278	1,536
	<b>Total</b>							<b>17,020</b>

### 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



# PROXY FORM

For the 9th Annual General Meeting

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

No. of shares held

(Full Name in Block Letters)

(Address)

(Full Name in Block Letters)

(Address)

(Full Name in Block Letters)

(Address)

as my/our Proxy to vote in my/our name(s) on my/our behalf at the Ninth Annual General Meeting of the Company to be held on Monday, 22 November 2004 at 11.00 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 2004 together with the Reports of the Directors and Auditors thereon	Resolution 1		
To declare a first and final tax exempt dividend of 2% for the financial year ended 31 May 2004	Resolution 2		
To approve the payment of Directors' fees of RM150,000.00 for the financial year ended 31 May 2004	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 the following Directors who retire in accordance with Article 126 of the Company's Articles of Association:-  (a) Mr Guan Kim Heng (b) Mr Guan Kim Loong	Resolution 5 Resolution 6		
To re-appoint Messrs KPMG as the Company's Auditors	Resolution 7		
To empower the Directors to issue and allot shares up to 10% of the issued share capital of the Company	Resolution 8		

(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.)

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2004.

Signature of Shareholder or Common Seal

### Notes :

- 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 appointor is a corporation, the proxy form must be executed under its Common Seal or under the hand of its attorney.



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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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