EUROSPAN HOLDINGS BERHAD
(351927-M)

ANNUAL REPORT 2007

Our Vision

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

E xcellent customer service
U niversal designs
R esearch & Development
O n time delivery
S uperior team work
P rice competitiveness
A dvancement in technology
N o compromise on quality

Contents

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twelfth Annual General Meeting of Eurospan Holdings Berhad will be held at Enggang Room, Ground Floor, Hotel Equatorial, No. 1, Jalan Bukit Jambul, 11900 Bayan Lepas, Penang on Wednesday, 31 October 2007 at 11.30 a.m. for the following purposes :-

AS ORDINARY BUSINESSES

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 May 2007 together with the Reports of the Directors and Auditors thereon. Resolution 1

2. To declare a first and final dividend of 8% less 27% tax for the financial year ended 31 May 2007. Resolution 2

3. To approve the payment of Directors' fees of RM150,000.00 for the financial year ended 31 May 2007. 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 as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the total 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 to be in force until the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier." 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 CONTINUED

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS ALSO HEREBY GIVEN that subject to the approval of the shareholders at the Twelfth Annual General Meeting, the first and final dividend of 8% less 27% tax in respect of the financial year ended 31 May 2007 will be paid on 6 December 2007 to depositors registered in the Records of Depositors on 22 November 2007.

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

(a) Shares transferred into the depositor's securities account before 4.00 p.m. on 22 November 2007 in respect of transfers;

(b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By order of the Board

Lim Kim Teck
(MAICSA 7010844)
Secretary
Penang
Date : 9 October 2007

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, 35, 1st Floor, Jalan Kelisa Emas 1, Taman Kelisa Emas, 13700 Seberang Jaya, Penang, Malaysia 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 or the period within which the next Annual General Meeting of the Company is required by law to be held whichever is the earlier.

CORPORATE INFORMATION

Board of Directors	Guan Kok Beng	*Chairman/Managing Director*
	Guan Kim Heng	*Executive Director*
	Guan Kim Loong	*Executive Director*
	Dato' Noor Ahmad Mokhtar Bin Haniff	*Independent Non-Executive Director*
	Diong Chin Teck	*Independent Non-Executive Director*

Company Secretary
Lim Kim Teck (MAICSA 7010844)

Registered Office
35, 1st Floor, Jalan Kelisa Emas 1
Taman Kelisa Emas
13700 Seberang Jaya, 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

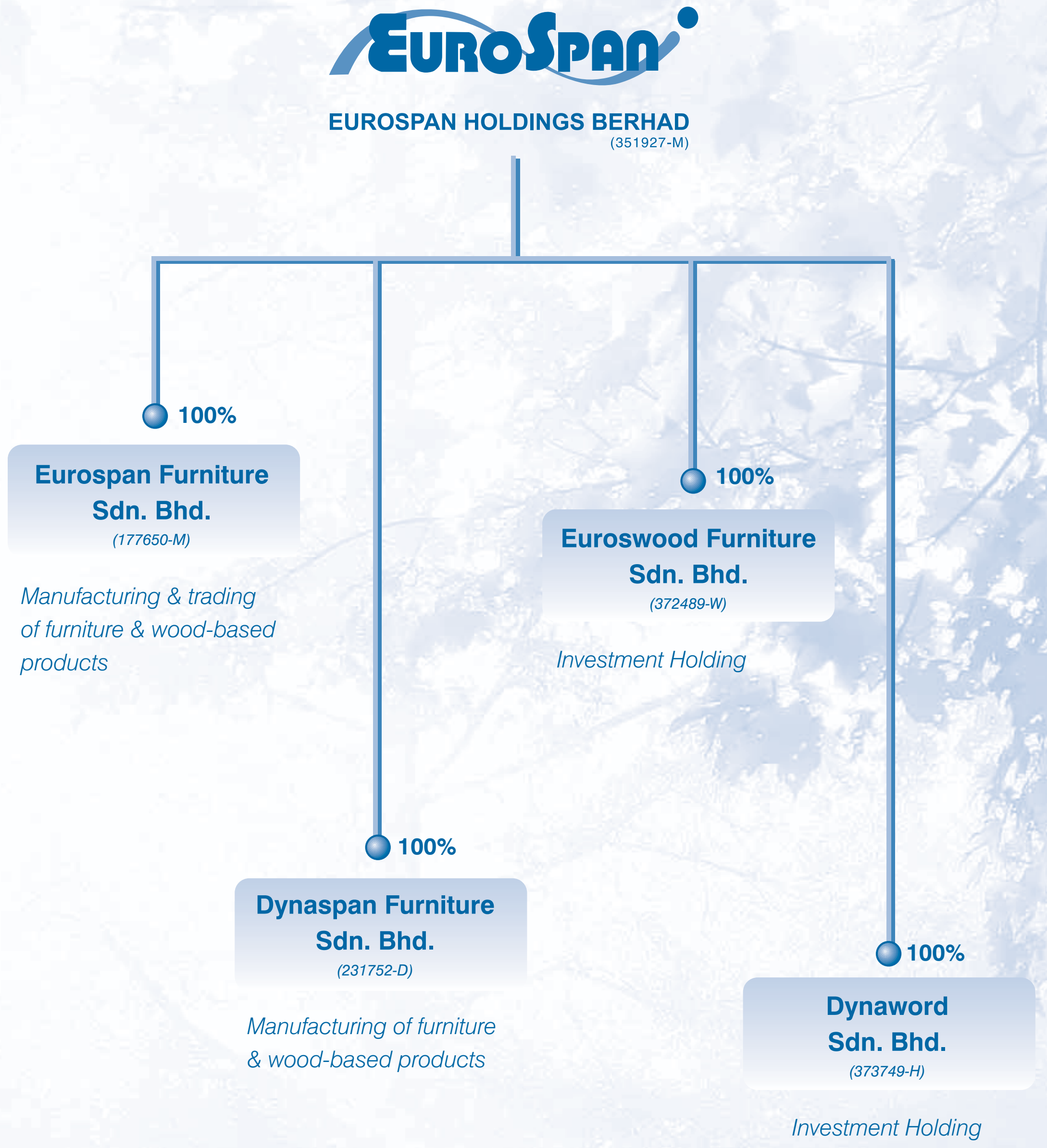
Principal Bankers
Standard Chartered Bank Malaysia Berhad
Level 1, NB Tower 1
5050 Jalan Bagan Luar
12000 Butterworth
Malaysia

Malayan Banking Berhad
4277 Jalan Bagan Luar
12000 Butterworth
Malaysia

Stock Exchange Listing
Second Board of Bursa Malaysia Securities Berhad

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., Euroswood 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 2007.

Financial Review

The Group had recorded an overall improvement in the financial results for the year under review. Revenue had increased by 19.05% from RM60.00 million in the previous year to RM71.43 million. The profit before tax rose by 23.72% from RM6.14 million in the previous year to RM7.59 million. It achieved a higher profit after tax of RM6.78 million as compared to previous year's of RM5.75 million. The resultant earnings per share had improved to 16.9 sen as compared to 14.4 sen for the previous year.

Dividend

In view of the improved financial results, the Board is pleased to recommend a first and final dividend of eight (8) sen per share less 27% tax for the financial year ended 31 May 2007 for the shareholders' approval at the forthcoming Annual General Meeting. This proposed dividend if payable in respect of all outstanding ordinary shares in issue as at 31 May 2007 will involve a cash payment of RM2,336,000.

Operations Review

It had been a challenging year but nevertheless the Group had managed to register a satisfactory performance. Consumer sentiments had remained upbeat as the global furniture markets slowly adjusted to the higher prices. The higher revenue had improved the production capacity loading which resulted in better economies of scale.

The continuance of its research & development's ("R&D") focused differentiation strategy had resulted in differentiated products, access to new markets and a widened customer base that reduced the impact on the sales margin.

Prospects

The Group is fully focused on the challenges ahead and is committed to addressing issues that affects its business. It is continuously improving its operational capabilities, strengthening its core competencies and enhancing its responsiveness to market needs.

Going forward, the Group will continue to offer its customers an array of choices from a range of good quality and affordable wooden dining sets to a range of premium quality wooden dining sets.

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

Barring unforeseen circumstances, the Board is cautiously optimistic of a better performance in the new financial year ending May 2008.

CHAIRMAN'S MESSAGE CONTINUED

Appreciation

The Group had managed to remain resilient and profitable amidst the various challenges faced by the industry mainly due to the stewardship skills of the Board of Directors and the continued hard work of Management and staff.

On behalf of the Board of Directors, I would like to take this opportunity to thank the Management and staff for their dedicated commitment and contribution. To our shareholders, we thank you for your unwavering loyalty and support and my gratitude also goes to all our valued customers, subcontractors, suppliers, business associates, bankers and the authorities for their continuous cooperation and confidence in the Group.

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

Guan Kok Beng
Chairman
Date : 9 October 2007

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

During the year ended 31 May 2007, 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	4/5
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 the Audit Committee, Nominating Committee, Remuneration Committee and Employees' Share Option Scheme Committee in order to enhance business and operational efficiency as well as efficacy.

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

Board Balance

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

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

The Board is satisfied that the Independent Non-Executive Directors in 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 determines 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

All Directors have attended and successfully completed the Mandatory Accreditation Programme (MAP) pursuant to the requirement of Bursa Malaysia Securities Berhad.

During the financial year, all the directors have attended various programmes and seminars to enhance their expertise and knowledge. The Directors will continue to undergo other relevant training programmes to further enhance their skills and knowledge where relevant.

Nominating Committee

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

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

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.

A Board of Directors

Nominating Committee (cont'd)

During the financial year ended 31 May 2007, the Committee met once 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.

The Employees' Share Option Scheme Committee

The Employees' Share Option Scheme ("ESOS") Committee was established in July 2004. The composition of the ESOS Committee is as follows:

- Dato' Noor Ahmad Mokhtar bin Haniff - Chairman (Independent Non-Executive Director)
- Guan Kim Heng - Member (Executive Director)
- Moy Ean Chung - Member (Management staff)
- Chan Kin Lip - Member (Management staff)
- Tan Ean Nee - Member (Management staff)
- Lim Mooi Nee (Resigned on 29 January 2007) - Member (Management staff)

The ESOS Committee is responsible for the policies, governance and orderly administration of the ESOS. The Committee presides over all issues, complaints and appeals regarding ESOS and discharges it duties and responsibilities to the best interest of the Group and in accordance with the objectives and provisions contained in the ESOS By-laws.

The Committee oversees management's implementation of the scheme and decides, amongst others, on the offer, offer date, eligibility, basis of allotment, the exercise of options, the administration, modification to the scheme, dispute and termination issues in relation to the scheme.

During the financial year, the Committee met on two (2) occasions and approved a total of 483,000 options to eligible employees of Eurospan Group.

B Director's Remuneration

Remuneration Committee

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

- Dato' Noor Ahmad Mokhtar bin Haniff - Chairman (Independent Non-Executive Director)
- Diong Chin Teck - Member (Independent Non-Executive Director)
- Guan Kok Beng (Appointed on 25 April 2007) - Member (Executive Director)
- Guan Kim Heng (Resigned on 25 April 2007) - Member (Executive Director)

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 twice 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	987	175	440
Non-Executive	-	65	10

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
350,001 – 400,000	1	-
400,001 – 450,000	-	-
450,001 – 500,000	-	-
500,001 – 550,000	1	-
550,001 – 600,000	-	-
600,001 – 650,000	-	-
650,001 – 700,000	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.

C Shareholders (cont'd)

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

D Accountability and Audit

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

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

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

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

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 18 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 14 to 18 of the Annual Report.

Compliance Statement
The Group has complied, throughout the financial year ended 31 May 2007, 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.

D Accountability and Audit (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 enhance their knowledge so as to assist them in the discharge of their duties as Directors, the Directors continue to attend various programmes and seminars.

This statement is issued in accordance with a Directors' Resolution passed at a Board of Directors' Meeting held on 22 August 2007.

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.

TERMS OF REFERENCE (cont'd)

Meetings

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

Authority

- The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

- The Committee is authorised by the Board to obtain independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Terms of Office

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

Functions and Responsibilities of the Audit Committee

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

- To review with the Company's Management and Auditors, the audit plan, scope and general extent of the Auditors' audit examinations;

- To review with the Auditors, his evaluation of the system of internal controls;

- To review with the Company's Management and Auditors to ensure the suitability and adequacy of accounting policies and practices, its compliance with any regulatory or other external financial reporting controls and requirements;

- To review with the Company's Management and Auditors his audit report and financial results for the year prior to their release to the public;

- To discuss with the Company's Management the scope and quality of accounting and financial reporting controls in effect;

- To review the assistance given by Company's employees to the Auditor;

- To review the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on recommendations of the internal audit function;

- To review the quarterly results, balance sheet and profit and loss account, submitted to it by the Company or the holding company, and thereafter to submitted 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;

TERMS OF REFERENCE (cont'd)

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

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

AUDIT COMMITTEE MEETINGS

During the financial year ended 31 May 2007, 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 ("the Committee") assists the Board of Directors ("the Board") in fulfilling its overseeing responsibilities. The Committee's overall responsibilities encompass the processes of audit, corporate accounting, financial reporting, system of internal control, regulatory and legal compliances and risk management practices and procedures of the Group of Companies ("the Group"). In carrying out its responsibilities, the Committee held scheduled meetings with the management, the internal and the external auditors or outside council of which their work, expertise and knowledge were relied upon.

During the year, the Committee discussed with the external auditors, the nature and scope of their audit. It discussed and reviewed the external auditors' report to take note of their areas of concern in order to ensure that appropriate actions were taken to address the areas of concern. It reviewed the independence of the external auditors by discussing with the external auditors, their relationship with the Group and their audit and non-audit services rendered.

The Committee discussed the audited annual financial statements with the external auditors on their judgments regarding the suitability of the Company's accounting policies and practices, the clarity of its financial reporting, the regulatory compliances with the Bursa Malaysia Securities Berhad ("Bursa Securities") and the adequacy of the disclosure requirements of the Financial Reporting Standards ("FRS"). 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.

SUMMARY OF ACTIVITIES OF AUDIT COMMITTEE (cont'd)

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

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

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

The Committee verified the allocation of options to employees pursuant to the Employees' Share Option Scheme ("ESOS") offered to ensure that the scheme complies with the allocation criteria.

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 which carries out its assurance role by providing an independent and objective assurance to the Audit Committee ("the Committee") in discharging its responsibilities. The IAD assists the Committee in discharging its duties and responsibilities by providing reasonable assurance that the systems of internal control and risk management processes operate satisfactorily and effectively. The IAD is independent of the processes that it audits and reports directly to the 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. In doing so, it plays its role in promoting corporate governance processes to the Committee and the Board of Directors by inculcating the three concepts of transparency, accountability as well as corporate performance.

The IAD also assists management in improving the Group's operations by assisting management in inculcating a systematic, disciplined approach in evaluating and improving on the effectiveness of the internal control and risk management processes for a more effective control over the business operations. It performs audit activities to provide reasonable assurance that the business functions are carried out in compliance with the Group's internal policies, standard operating procedures and within the applicable law. It also provides reasonable assurance on the completeness and accuracy of both financial and non-financial reports and that the assets are safeguarded and are being effectively used. In doing so, it provides reasonable assurance to the management on the existence, adequacy and integrity of the internal controls, records and accounting policies.

During the year under review, the IAD presented the annual risk-based audit plan prioritized by the risk profile of the Group for the 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. Any subsequent changes to the internal audit plan would be approved by the Audit Committee.

INTERNAL AUDIT (cont'd)

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.

It verified and reported to the Committee, the allocation of options to eligible employees pursuant to the Employees' Share Option Scheme ("ESOS") offered to ensure that the scheme complies with the allocation criteria.

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

STATEMENT BY THE AUDIT COMMITTEE IN RELATION TO ESOS ALLOCATION

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

Pursuant to Paragraph 8.21A of the Listing Requirements of Bursa Malaysia Securities Berhad, the Audit Committee verified and confirmed that the allocation of options to eligible employees in the financial year ended 31 May 2007, has been made in accordance with the allocation criteria of the scheme.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

Paragraph 15.27(b) of the Bursa Malaysia Securities Berhad Listing Requirements requires the Board of Directors of public listed companies to include in their annual report, a "statement about the state of internal control of the listed issuer as a group". The Board of Directors ("Board") is committed to maintain 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 not absolute assurance against material misstatement, loss, fraud or breaches of laws or regulations. The system of internal control covers, inter-alia, financial, organisational, operational and compliance controls.

The Board is aware of the publication of the "Statement on Internal Control – A guidance to Directors of Public Listed Companies" (The "Internal Control Guidance"), which provides guidance on the process of identifying, evaluating and managing significant risks faced by the Group. The Board has also 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 independent assurance it requires regarding the adequacy and integrity of the system of internal control. The internal audit 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 has 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 framework to identify, evaluate and manage the significant risks that may adversely affect the achievement of its business objectives.

OTHER CONTROL PROCESSES

The Board has put in place an organisational structure with defined lines of responsibility and delegation of authority. A hierarchical reporting system has been established which includes 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 provide 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, continue 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 22 August 2007.

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 55, was appointed as a Director and Managing Director of the Company on 30 April 2000. On 19 May 2000 he was appointed as the Chairman of the Board of Directors.

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

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

On 25 April 2007 he was appointed as a Member of the Company's Remuneration Committee.

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 49, 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 Employees' Share Option Scheme Committee. He was a member of the Remuneration Committee until he resigned from the Committee on 25 April 2007.

Guan Kim Loong *Executive Director*
Mr. Guan Kim Loong, a Malaysian Citizen, aged 43, 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.

Dato' Noor Ahmad Mokhtar bin Haniff *Independent Non-Executive Director*
Dato' Mokhtar, a Malaysian Citizen, aged 68, was appointed as an Independent Non-Executive Director of the Company on 19 May 2000.

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

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

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

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

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

Diong Chin Teck *Independent Non-Executive Director*
Mr. Diong, a Malaysian Citizen, aged 74, 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. He also sits on the Board of other Bursa Malaysia Securities Berhad listed companies, i.e. Globetronics Techology Bhd., Asas Dunia Berhad and Zhulian Corporation 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

Utilisation of Proceeds Raised from Corporate Proposal

Not applicable as none was proposed/granted.

Share Buy-backs

The Company did not exercise any buy-backs on its own shares during the financial year ended 31 May 2007.

Options, Warrants or Convertible Securities

Except for the ESOS, the company did not issue/grant any options, warrants or convertible securities during the financial year ended 31 May 2007.

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 2007.

Non-Audit Fees

The amount of non-audit fees paid by the Group to the external auditors during the financial year ended 31 May 2007 is approximately RM16,570.00.

DIRECTORS' REPORT

for the year ended 31 May 2007

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 2007.

Principal activities

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

The principal activities of the subsidiaries are set out in Note 4 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
Profit for the year	6,776,759	2,694,437

Reserves and provisions

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

Dividend

Since the end of the previous financial year, the Company paid a first and final dividend of 8 sen per ordinary share less 28% tax totalling RM2,304,000 in respect of the year ended 31 May 2006 on 6 December 2006.

The Directors recommend a first and final dividend of 8 sen per ordinary share less 27% tax, totalling RM2,336,000 in respect of the financial year ended 31 May 2007 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' interest in shares

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

	Ordinary shares of RM1 each			
	Balance at 1.6.2006	Bought	(Sold)	Balance at 31.5.2007
The Company				
Direct interest				
Guan Kok Beng	1,906,124	-	-	1,906,124
Guan Kim Heng	1,113,036	-	-	1,113,036
Guan Kim Loong	774,576	64,000	-	838,576
Diong Chin Teck	15,000	-	-	15,000
Indirect interest				
Guan Kok Beng	18,087,000	51,800	-	18,138,800
Guan Kim Heng	18,087,000	51,800	-	18,138,800
Guan Kim Loong	18,087,000	51,800	-	18,138,800

	No. of options for ordinary shares of RM1 each			
	Balance at 1.6.2006	Granted	Exercised	Balance at 31.5.2007
The Company				
Guan Kok Beng	600,000	-	-	600,000
Guan Kim Heng	530,000	-	-	530,000
Guan Kim Loong	480,000	-	-	480,000

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 subsidiaries during the financial year to the extent that the Company has an interest.

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

Directors' benefits

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

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

Issue of shares and debentures

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

Options granted over unissued shares

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

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

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

		Number of options over ordinary shares of RM1 each			
Date of offer	Option price RM	Balance at 1.6.2006	Granted	Lapsed due to resignation	Balance at 31.5.2007
24 January 2005	1.00	4,248,000	-	(141,000)	4,107,000
9 February 2005	1.00	6,000	-	(3,000)	3,000
10 April 2005	1.00	50,000	-	(10,000)	40,000
10 May 2005	1.00	65,000	-	(17,000)	48,000
10 July 2005	1.00	76,000	-	(3,000)	73,000
10 August 2005	1.00	23,000	-	-	23,000
10 October 2005	1.00	26,000	-	(23,000)	3,000
10 November 2005	1.00	42,000	-	(9,000)	33,000
10 December 2005	1.00	44,000	-	(3,000)	41,000
10 January 2006	1.00	112,000	-	(70,000)	42,000
10 February 2006	1.00	38,000	-	(6,000)	32,000
10 March 2006	1.00	41,000	-	(6,000)	35,000
10 April 2006	1.00	12,000	-	-	12,000
10 May 2006	1.00	24,000	-	-	24,000
10 June 2006	1.00	-	73,000	-	73,000
10 August 2006	1.00	-	74,000	(14,000)	60,000
10 September 2006	1.00	-	71,000	(40,000)	31,000
10 October 2006	1.00	-	6,000	-	6,000
10 November 2006	1.00	-	33,000	-	33,000
10 January 2007	1.00	-	71,000	(23,000)	48,000
10 February 2007	1.00	-	51,000	-	51,000
10 March 2007	1.00	-	44,000	(6,000)	38,000
10 April 2007	1.00	-	16,000	-	16,000
10 May 2007	1.00	-	44,000	-	44,000
		4,807,000	483,000	(374,000)	4,916,000

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose in this report the name of employees who have been granted options to subscribe for less than 30,000 ordinary shares of RM1 each and details of their holdings as required by Section 169(11) of the Companies Act 1965.

Options granted over unissued shares (cont'd)

The details of the ESOS granted to the eligible Directors and employees who have been granted with 30,000 options or more during the financial year ended 31 May 2007 are as follows :

	Grant date	Expiry date	Exercise price RM	Number of options over ordinary shares of RM1 each Granted	Exercised/ lapsed	Balance at 31.5.2007
Lim Mooi Nee	10.11.2006	29.12.2009	1.00	30,000	-	30,000
Tan Ean Nee	10.02.2007	29.12.2009	1.00	30,000	-	30,000
Choo Eng Kong	10.09.2006	29.12.2009	1.00	40,000	(40,000)	-
Geh Thuan Kheng	10.08.2006	29.12.2009	1.00	60,000	-	60,000
				160,000	(40,000)	120,000

Other than the above, a total of 323,000 options were granted to 40 employees of the Group. The average number of options to individual employee is 8,075.

The salient features of the scheme are as follows :

i) Eligible employees are those who have been confirmed in writing as employees of the Group on the date of offer and have been employed for a period of at least one (1) year prior to the date of offer.

ii) The option is personal to the grantee and is non-assignable.

iii) The option price shall be determined by the weighted average market price of the Company's ordinary shares as shown in the daily official list issued by Bursa Malaysia Securities Berhad for the five market days immediately preceding the respective dates of the offer in writing to the grantee or at the par value of the ordinary shares of the Company, whichever is higher.

iv) The options granted may be exercised at any time within a period of five years from the date the ESOS comes into force or upon the date of expiry or termination of the ESOS as provided in the By-Law, whichever is the earlier.

v) The options granted may be exercised in full or in lesser number of ordinary shares provided that the number shall be in multiples of 100 shares.

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

Other statutory information

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

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) all current assets have been stated at the lower of cost and net realisable value.

Other statutory information (Cont'd)

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 effects arising from the change in accounting policies 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 2007 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 on behalf of the Board of Directors in accordance with a resolution of the Directors :

……………………………………..
Guan Kok Beng

……………………………………..
Guan Kim Heng

Penang,

Date : 22 August 2007

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 31 to 63, are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 May 2007 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors :

…………………………………..
Guan Kok Beng

…………………………………..
Guan Kim Heng

Penang,

Date : 22 August 2007

STATUTORY DECLARATION

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

I, Guan Kim Heng, the Director primarily responsible for the financial management of Eurospan Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 31 to 63 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Georgetown in the State of Penang on 22 August 2007.

……………………………………….
Guan Kim Heng

Before me :

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

REPORT OF THE AUDITORS TO THE MEMBERS

of Eurospan Holdings Berhad

We have audited the financial statements set out on pages 31 to 63. The preparation of the financial statements is the responsibility of the Company's Directors.

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

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. 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 for entities other than private entities issued by the Malaysian Accounting Standards Board 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 2007 and the results of their operations and cash flows for the year ended on that date; and

  ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company;

and

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

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

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

KPMG
Firm Number : AF 0758
Chartered Accountants

Ooi Kok Seng
Partner
Approval Number : 2432/05/09 (J)

Penang,

Date : 22 August 2007

CONSOLIDATED BALANCE SHEET
at 31 May 2007

	Note	2007 RM	2006 RM (Restated)
Assets			
Property, plant and equipment	3	30,498,971	32,355,428
Other investments, at cost	5	1,500,000	-
Total non-current assets		31,998,971	32,355,428
Receivables, deposits and prepayments	6	4,287,111	3,878,788
Inventories	7	11,749,294	8,656,083
Current tax assets		83,042	60,721
Cash and cash equivalents	8	25,964,271	23,980,695
Total current assets		42,083,718	36,576,287
Total assets		74,082,689	68,931,715
Equity			
Share capital	9	40,000,000	40,000,000
Reserves	10	24,135,059	19,600,974
Total equity		64,135,059	59,600,974
Liabilities			
Deferred tax liabilities	11	2,297,456	2,604,315
Total non-current liabilities		2,297,456	2,604,315
Payables and accruals	13	7,215,748	6,511,513
Current tax liabilities		434,426	214,913
Total current liabilities		7,650,174	6,726,426
Total liabilities		9,947,630	9,330,741
Total equity and liabilities		74,082,689	68,931,715

The notes on pages 39 to 63 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 May 2007

	Note	2007 RM	2006 RM (Restated)
Continuing operations			
Revenue	14	71,434,401	60,001,047
Cost of sales		(56,563,519)	(46,816,534)
Gross profit		14,870,882	13,184,513
Distribution costs		(1,558,238)	(1,411,509)
Administrative expenses		(5,631,803)	(5,430,751)
Other operating expenses		(712,896)	(646,113)
Other operating income		627,508	443,199
Profit before tax	15	7,595,453	6,139,339
Tax expense	17	(818,694)	(392,490)
Profit for the year		6,776,759	5,746,849
Basic earnings per share (sen)	18	16.9	14.4
Diluted earnings per share (sen)	18	16.9	14.4
Dividend per share - net (sen)	19	5.84	5.76

The notes on pages 39 to 63 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2007

	Note	← Non-distributable			→	Distributable	
		Share capital RM	Share premium RM	Share option reserve RM	Negative goodwill RM	Retained earnings RM	Total RM
At 1 June 2005							
As previously reported		40,000,000	8,090,232	-	576,288	6,349,744	55,016,264
Effect of adopting FRS 2		-	-	10,350	-	(10,350)	-
As restated		40,000,000	8,090,232	10,350	576,288	6,339,394	55,016,264
Profit for the year							
As previously reported		-	-	-	-	5,784,710	5,784,710
Share-based payments - Effect of adopting FRS 2	12	-	-	37,861	-	(37,861)	-
As restated		-	-	37,861	-	5,746,849	5,784,710
Dividend	19	-	-	-	-	(1,200,000)	(1,200,000)
At 31 May 2006, restated		40,000,000	8,090,232	48,211	576,288	10,886,243	59,600,974
At 31 May 2006							
As previously reported		40,000,000	8,090,232	-	576,288	10,934,454	59,600,974
Effect of adopting FRS 2	12	-	-	48,211	-	(48,211)	-
At 31 May 2006, restated before opening balance adjustment		40,000,000	8,090,232	48,211	576,288	10,886,243	59,600,974
Effect of adopting FRS 3 - Recognition of negative goodwill		-	-	-	(576,288)	576,288	-
At 1 June 2006, restated		40,000,000	8,090,232	48,211	-	11,462,531	59,600,974
Profit for the year		-	-	-	-	6,776,759	6,776,759
Share-based payments under ESOS		-	-	61,326	-	-	61,326
Dividend	19	-	-	-	-	(2,304,000)	(2,304,000)
At 31 May 2007		40,000,000	8,090,232	109,537	-	15,935,290	64,135,059

The notes on pages 39 to 63 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 May 2007

	Note	2007 RM	2006 RM (Restated)
Cash flows from operating activities			
Profit before tax from continuing operations		7,595,453	6,139,339
Adjustments for :			
Depreciation on property, plant and equipment	3	3,422,670	3,470,881
Gain on disposal of plant and equipment	15	(27,200)	(12,667)
Interest income	15	(600,265)	(430,478)
Share-based payments	12	61,326	37,861
Operating profit before changes in working capital		10,451,984	9,204,936
(Increase)/Decrease in :			
Receivables, deposits and prepayments		(408,323)	(1,400,379)
Inventories		(3,093,211)	1,567,696
Increase in payables and accruals		704,235	551,735
Cash generated from operations		7,654,685	9,923,988
Tax paid		(928,361)	(356,586)
Net cash generated from operating activities		6,726,324	9,567,402
Cash flows from investing activities			
Acquisition of other investments	5	(1,500,000)	-
Purchase of property, plant and equipment	3	(1,566,213)	(2,882,993)
Proceeds from disposal of plant and equipment		27,200	125,000
Interest received		600,265	430,478
Net cash used in investing activities		(2,438,748)	(2,327,515)
Cash flows from financing activity			
Dividend paid	19	(2,304,000)	(1,200,000)
Net cash used in financing activity		(2,304,000)	(1,200,000)
Net increase in cash and cash equivalents		1,983,576	6,039,887
Cash and cash equivalents at 1 June		23,980,695	17,940,808
Cash and cash equivalents at 31 May	8	25,964,271	23,980,695

The notes on pages 39 to 63 are an integral part of these financial statements.

BALANCE SHEET
at 31 May 2007

	Note	2007 RM	2006 RM (Restated)
Assets			
Investment in subsidiaries	4	30,523,476	30,462,150
Other investments, at cost	5	1,500,000	-
Amount due from subsidiaries	6	16,896,731	17,669,886
Total non-current assets		48,920,207	48,132,036
Current tax assets		83,042	4,488
Cash and cash equivalents	8	2,180,667	2,595,629
Total current assets		2,263,709	2,600,117
Total assets		51,183,916	50,732,153
Equity			
Share capital	9	40,000,000	40,000,000
Reserves	10	11,003,716	10,551,953
Total equity		51,003,716	50,551,953
Liability			
Payables and accruals	13	180,200	180,200
Total current liability		180,200	180,200
Total equity and liability		51,183,916	50,732,153

The notes on pages 39 to 63 are an integral part of these financial statements.

INCOME STATEMENT
for the year ended 31 May 2007

	Note	2007 RM	2006 RM
Continuing operations			
Revenue	14	3,879,345	3,620,722
Administrative expenses		(276,662)	(242,599)
Other operating expenses		(588)	(551)
Other operating income		64,223	37,687
Profit before tax	15	3,666,318	3,415,259
Tax expense	17	(971,881)	(1,013,843)
Profit for the year		2,694,437	2,401,416
Dividend per share - net (sen)	19	5.84	5.76

The notes on pages 39 to 63 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2007

	Note		Non-distributable		Distributable	
		Share capital RM	Share premium RM	Share option reserve RM	Retained earnings RM	Total RM
At 1 June 2005						
As previously reported		40,000,000	8,090,232	-	1,212,094	49,302,326
Effect of adopting FRS 2		-	-	10,350	-	10,350
As restated		40,000,000	8,090,232	10,350	1,212,094	49,312,676
Profit for the year		-	-	-	2,401,416	2,401,416
Share-based payments under ESOS	12	-	-	37,861	-	37,861
Dividend	19	-	-	-	(1,200,000)	(1,200,000)
At 31 May 2006, restated		40,000,000	8,090,232	48,211	2,413,510	50,551,953
Profit for the year		-	-	-	2,694,437	2,694,437
Share-based payments under ESOS	12	-	-	61,326	-	61,326
Dividend	19	-	-	-	(2,304,000)	(2,304,000)
At 31 May 2007		40,000,000	8,090,232	109,537	2,803,947	51,003,716

The notes on pages 39 to 63 are an integral part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 May 2007

	Note	2007 RM	2006 RM
Cash flows from operating activities			
Profit before tax from continuing operations		3,666,318	3,415,259
Adjustments for :			
Dividend income	15	(3,879,345)	(3,620,722)
Interest income	15	(64,180)	(37,633)
Operating loss before changes in working capital		(277,207)	(243,096)
Decrease in payables and accruals		-	(3,837)
Cash used in operations		(277,207)	(246,933)
Dividend received		2,831,922	2,606,920
Tax (paid)/refunded		(3,012)	735
Net cash generated from operating activities		2,551,703	2,360,722
Cash flows from investing activities			
Repayment from subsidiaries		773,155	1,314,875
Interest received		64,180	37,633
Acquisition of other investments		(1,500,000)	-
Net cash (used in)/generated from investing activities		(662,665)	1,352,508
Cash flows from financing activity			
Dividend paid		(2,304,000)	(1,200,000)
Net cash used in financing activity		(2,304,000)	(1,200,000)
Net (decrease)/increase in cash and cash equivalents		(414,962)	2,513,230
Cash and cash equivalents at 1 June		2,595,629	82,399
Cash and cash equivalents at 31 May	8	2,180,667	2,595,629

The notes on pages 39 to 63 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Eurospan Holdings Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Second Board of the Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

Registered office

35, 1st Floor, Jalan Kelisa Emas 1
Taman Kelisa Emas
13700 Seberang Jaya, Penang
Malaysia

Principal place of business

1168 Kampung Teluk
Sungai Dua
Kawasan Perusahaan Sungai Lokan
13800 Butterworth
Penang

The consolidated financial statements as at and for the year ended 31 May 2007 comprise the Company and its subsidiaries (together referred to as the Group).

The Company is principally engaged in the provision of management services and that of an investment holding while the other Group entities are primarily involved in the manufacture and trading of furniture and wood-based products and investment holding.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965.

The MASB has issued the following Financial Reporting Standards ("FRSs") and Interpretations that are effective for annual periods beginning after 1 June 2006, and that have not been applied in preparing these financial statements :

Standard/Interpretation	**Effective date**
FRS 117, Leases	1 October 2006
FRS 124, Related Party Disclosures	1 October 2006
FRS 139, Financial Instruments : Recognition and Measurement	To be announced
Amendment to FRS 119 2004, Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
FRS 6, Exploration for and Evaluation of Mineral Resources	1 January 2007
Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007

1. **Basis of preparation (Cont'd)**

(a) **Statement of compliance (Cont'd)**

Standard/Interpretation	Effective date
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7, Applying the Restatement Approach under FRS 129 2004 Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8, Scope of FRS 2	1 July 2007
FRS 107, Cash Flow Statements	1 July 2007
FRS 111, Construction Contracts	1 July 2007
FRS 112, Income Taxes	1 July 2007
FRS 118, Revenue	1 July 2007
FRS 120, Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 134, Interim Financial Reporting	1 July 2007
FRS 137, Provisions, Contingent Liabilities and Contingent Assets	1 July 2007

The Group and the Company plan to apply FRS 117, FRS 124 initially for the annual period beginning 1 June 2007 and to apply FRS 107, FRS 112, FRS 118 and FRS 137 for the annual period beginning 1 June 2008.

The impact of applying FRS 117, FRS 124 and FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective standards.

FRS 6, Amendment to FRS 119 2004, Amendment to FRS121, FRS 111, FRS 120, FRS 134 and the Interpretations listed above except for IC Interpretation 8, Scope of FRS 2 are not applicable to the Group and the Company. Hence, no further disclosure is warranted.

The initial application of the other standards, Interpretations and Amendment are not expected to have any material impact on the financial statements of the Group and the Company.

The effects of adopting the new/revised FRSs in the financial year ended 31 May 2007 are set out in Note 24.

The financial statements were approved by the Board of Directors on 22 August 2007.

1. Basis of preparation (Cont'd)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Subsidiaries are consolidated using the purchase method of accounting except for Eurospan Furniture Sdn Bhd which is consolidated using the merger method of accounting.

Under the purchase method of accounting, the results of the subsidiaries acquired or disposed during the year is included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries net assets are determined and these values are reflected in the Group's financial statements.

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. Significant accounting policies (Cont'd)

(a) Basis of consolidation (Cont'd)

(ii) Changes in Group composition

Where a subsidiary issues new equity shares to minority interests for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statement.

When a group purchases a subsidiary's equity shares from minority interests for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the purchase method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. **Significant accounting policies (Cont'd)**

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

(i) Recognition and measurement **(Cont'd)**

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use. Long term leasehold land is amortised in equal instalments over the period of 99 years.

The other assets are depreciated at the following annual rates for the current and comparative periods:

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

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Goodwill

Goodwill/(Negative goodwill) arises on the acquisition of subsidiaries.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

With the adoption of FRS 3 beginning 1 June 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

2. Significant accounting policies (Cont'd)

(d) Goodwill (Cont'd)

Goodwill is measured at cost and is no longer amortised but tested for impairment at least annually or more frequently when there is objective evidence of impairment. When the excess is negative (negative goodwill), it is recognised immediately in the income statement. With the adoption of FRS 3, the carrying amount of negative goodwill at 1 June 2006 is derecognised with a corresponding adjustment to the opening balance of retained earnings.

Goodwill is allocated to cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

(e) Investments in equity securities

Investments in equity securities are recognised initially at fair value plus attributable transaction costs.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

All investments in equity securities are accounted for using settlement date accounting. Settlement date accounting refers to:

a) the recognition of an asset on the day it is received by the entity, and

b) the derecognition on an asset and recognition of any gain or loss on disposal on the date it is delivered.

(f) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Cash and cash equivalents

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

(i) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

2. **Significant accounting policies (Cont'd)**

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(k) Impairment of assets

The carrying amounts of assets except for inventories and financial assets (other than investment in subsidiaries) are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. For goodwill that has indefinite useful lives, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss 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.

Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. **Significant accounting policies (Cont'd)**

(l) Share capital

Incremental costs directly attributable to issue of shares and share options are classified as equity and recognised as a deduction from equity.

(m) Employee benefits

(i) Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

The Group's contributions to the Employee's Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Share-based payment transactions

The share option programme allows the Group employees to acquire shares of the Company. In the previous year, share options granted to employees is not recognised as an employee cost. Following the adoption of FRS 2, Share-based Payment, the grant date fair value of share options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The change in accounting policy is applied retrospectively only for those shares options granted after 31 December 2004 and have not vested as of 1 June 2006 as provided in the transitional provision of FRS 2. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee share options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(n) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Dividend income

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

(o) Interest income

Interest income is recognised as it accrues, using the effective interest method.

2. Significant accounting policies (Cont'd)

(p) Tax expense

Tax expense comprises current and deferred tax. Tax expense 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 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 recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences :

i) the initial recognition of goodwill

ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss).

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(q) Earnings per ordinary share

The Group presents basic and diluted earnings per ordinary share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. Property, plant and equipment - Group

	Freehold land RM	Long term leasehold land RM	Buildings RM	Plant, machinery and factory equipment RM	Furniture, fittings, renovation and office equipment RM	Motor vehicles RM	Capital expenditure-in-progress RM	Total RM
Cost								
At 1 June 2005	4,837,499	383,733	13,435,869	29,631,768	2,119,780	2,393,193	551,447	53,353,289
Additions	-	-	-	2,301,160	192,452	389,381	-	2,882,993
Disposals	-	-	-	-	-	(306,362)	-	(306,362)
Reclassification	-	-	-	269,600	11,847	-	(281,447)	-
At 31 May 2006/1 June 2006	4,837,499	383,733	13,435,869	32,202,528	2,324,079	2,476,212	270,000	55,929,920
Additions	-	-	-	527,745	176,783	296,285	565,400	1,566,213
Disposals	-	-	-	(103,728)	-	(67,709)	-	(171,437)
Reclassification	-	-	-	-	15,000	-	(15,000)	-
At 31 May 2007	4,837,499	383,733	13,435,869	32,626,545	2,515,862	2,704,788	820,400	57,324,696
Accumulated depreciation								
At 1 June 2005	-	44,706	1,845,942	16,101,247	1,209,605	1,096,140	-	20,297,640
Charge for the year	-	4,515	268,718	2,770,967	204,987	221,694	-	3,470,881
Disposals	-	-	-	-	-	(194,029)	-	(194,029)
At 31 May 2006/1 June 2006	-	49,221	2,114,660	18,872,214	1,414,592	1,123,805	-	23,574,492
Charge for the year	-	4,515	268,718	2,734,410	212,134	202,893	-	3,422,670
Disposals	-	-	-	(103,728)	-	(67,709)	-	(171,437)
At 31 May 2007	-	53,736	2,383,378	21,502,896	1,626,726	1,258,989	-	26,825,725
Carrying amounts								
At 1 June 2005	4,837,499	339,027	11,589,927	13,530,521	910,175	1,297,053	551,447	33,055,649
At 31 May 2006/1 June 2006	4,837,499	334,512	11,321,209	13,330,314	909,487	1,352,407	270,000	32,355,428
At 31 May 2007	4,837,499	329,997	11,052,491	11,123,649	889,136	1,445,799	820,400	30,498,971

4. Investment in subsidiaries - Company

	2007 RM	2006 RM (Restated)
Unquoted shares, at cost	30,413,939	30,413,939
Add : Effect of adopting FRS 2 – Share-based payment allocated to subsidiaries	109,537	48,211
	30,523,476	30,462,150

Details of the subsidiaries are as follows :

Name of Company	Percentage of Equity Held 2007 %	2006 %	Principal Activities
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
Euroswood Furniture Sdn. Bhd.	100	100	Investment holding
Dynaword Sdn. Bhd.	100	100	Investment holding

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

5. Other investments, at cost

	Group and Company 2007 RM	2006 RM
Unit trust funds	1,500,000	-
Market value of unit trust funds	1,473,800	-

6. Receivables, deposits and prepayments

	Note	Group 2007 RM	2006 RM	Company 2007 RM	2006 RM
Current					
Trade					
Trade receivables	a	3,134,638	3,309,139	-	-
Non-trade					
Other receivables		278,480	93,157	-	-
Deposits		717,758	98,883	-	-
Prepayments		156,235	377,609	-	-
		1,152,473	569,649	-	-
		4,287,111	3,878,788	-	-
Non-current					
- Subsidiaries	b	-	-	16,896,731	17,669,886

Note a

Trade receivables of the Group denominated in currencies other than the functional currency are as follows :

- RM2,296,663 (2006 : RM2,464,242) denominated in US Dollar
- RM90,298 (2006 : RM22,575) denominated in Euro Dollar

Note b

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

7. Inventories - Group, at cost

	2007 RM	2006 RM
Raw materials	5,108,279	3,823,719
Work-in-progress	4,323,659	3,249,270
Manufactured inventories	2,317,356	1,583,094
	11,749,294	8,656,083

8. Cash and cash equivalents

	Note	Group		Company	
		2007 RM	2006 RM	2007 RM	2006 RM
Short term funds	a	2,814,285	2,727,657	-	-
Deposits with licensed banks		20,530,081	13,449,533	2,110,000	2,500,000
Cash and bank balances	b	2,619,905	7,803,505	70,667	95,629
		25,964,271	23,980,695	2,180,667	2,595,629

Note a

Short term funds represent investment in fixed income trusts which can be redeemed within a period of less than 7 days.

Note b

Cash and bank balances of the Group denominated in currencies other than the functional currency is RM54,490 (2006 : RM109,584) denominated in US Dollar.

9. Share capital - Group and Company

	2007 RM	2006 RM
Authorised:		
50,000,000 ordinary shares of RM1 each	50,000,000	50,000,000
Issued and fully paid:		
40,000,000 ordinary shares of RM1 each	40,000,000	40,000,000

10. Reserves

	Group		Company	
	2007 RM	2006 RM (Restated)	2007 RM	2006 RM (Restated)
Non-distributable				
Share premium	8,090,232	8,090,232	8,090,232	8,090,232
Share option reserve	109,537	48,211	109,537	48,211
Negative goodwill	-	576,288	-	-
	8,199,769	8,714,731	8,199,769	8,138,443
Distributable				
Retained profits	15,935,290	10,886,243	2,803,947	2,413,510
	24,135,059	19,600,974	11,003,716	10,551,953

The share premium account arose from the public issue of the Company's shares and the issue of shares pursuant to the Company's ESOS and is presented net of share issue expenses.

The share option reserve comprises the cumulative value of employees service received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expired, the amount from the share option reserve is transferred to retained earnings.

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank/distribute approximately RM2,803,000 and RM756,000 respectively from its retained profits at 31 May 2007 if paid out as dividends.

11. Deferred tax liabilities

The recognised deferred tax liabilities are as follows :

	Group	
	2007 RM	2006 RM
Property, plant and equipment - capital allowances	2,576,237	2,868,827
Provision	(278,781)	(264,512)
	2,297,456	2,604,315

The component and movement of deferred tax liabilities during the year are as follows:

	At 1 June 2005 RM	Recognised in the income statement RM	At 31 May 2006 RM	Recognised in the income statement RM	At 31 May 2007 RM
Property, Plant and equipment					
- Capital allowances	2,841,781	54,046	2,868,827	(292,590)	2,576,327
Provision	(89,512)	(175,000)	(264,512)	(14,269)	(278,781)
	2,725,269	(120,954)	2,604,315	(306,859)	2,297,546

12. Share-based payments

The Group offers share options over ordinary shares to Directors and other employees with more than 1 year of service for Employees' Share Option Scheme ("ESOS"). The contractual life of ESOS is 5 years commencing from 30 December 2004.

Details of grants are as follows:

Grant date	Number of options
24 January 2005	4,248,000
9 February 2005	6,000
10 April 2005	50,000
10 May 2005	65,000
10 July 2005	76,000
10 August 2005	26,000
10 October 2005	26,000
10 November 2005	45,000
10 December 2005	54,000
10 January 2006	152,000
10 February 2006	38,000
10 March 2006	41,000
10 April 2006	12,000
10 May 2006	24,000
10 June 2006	73,000
10 August 2006	74,000
10 September 2006	71,000
10 October 2006	6,000
10 November 2006	33,000
10 January 2007	71,000
10 February 2007	51,000
10 March 2007	44,000
10 April 2007	16,000
10 May 2007	44,000

The number and weighted average exercise prices of share options are as follows :

	2007		2006	
	Weighted average exercise price RM	Number of options	Weighted average exercise price RM	Number of options
Outstanding at 1 June 2006/2005	1.00	4,807,000	1.00	4,532,000
Granted	1.00	483,000	1.00	494,000
Lapsed due to resignation	1.00	(374,000)	1.00	(219,000)
Outstanding at 31 May	1.00	4,916,000	1.00	4,807,000
Exercisable at 31 May		3,972,500		3,533,500

The options outstanding at 31 May 2007 have an exercise price of RM1.00 and a weighted contractual life of 2.58 years.

12. Share-based payments (Cont'd)

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial lattice model, with the following inputs :

Grant Date	Vesting conditions	Fair value at grant date	Weighted average share price	Exercise price	Expected volatility (weighted average volatility) %	Option life (expected weighted average life)	Expected dividends %	Risk-free interest rate (based on Malaysian government bonds) %
24 January 2005	On grant date 25% of	0.08	0.73	1.00	35.96	4.92	5.76	3.56
9 February 2005	the options granted	0.08	0.70	1.00	35.96	4.92	5.76	3.59
10 April 2005	vest immediately	0.11	0.82	1.00	35.96	4.75	5.76	3.61
10 May 2005	followed by 25% for	0.09	0.76	1.00	35.96	4.67	5.76	3.48
10 July 2005	the each subsequent	0.08	0.74	1.00	35.96	4.50	5.76	3.28
10 August 2005	year	0.09	0.76	1.00	35.96	4.42	5.76	3.30
10 October 2005		0.08	0.75	1.00	35.96	4.25	5.76	3.31
10 November 2005		0.09	0.76	1.00	35.96	4.17	5.76	3.53
10 December 2005		0.07	0.70	1.00	35.96	4.08	5.76	3.59
10 January 2006	On grant date 25% of	0.07	0.70	1.00	35.96	4.00	5.76	3.58
10 February 2006	the options granted	0.08	0.74	1.00	35.96	3.92	5.76	3.71
10 March 2006	vest immediately	0.07	0.71	1.00	35.96	3.83	5.76	3.63
10 April 2006	followed by 25% for	0.08	0.72	1.00	35.96	3.75	5.76	3.76
10 May 2006	the subsequent year	0.08	0.74	1.00	35.96	3.67	5.76	4.20
10 June 2006	and the remaining on	0.07	0.68	1.00	35.96	3.58	5.76	4.45
10 August 2006	30 December 2008	0.12	0.82	1.00	35.96	3.42	5.76	4.12
10 September 2006		0.15	0.88	1.00	34.97	3.33	5.76	3.92
10 October 2006		0.14	0.87	1.00	34.97	3.25	5.76	3.86
10 November 2006		0.18	0.96	1.00	34.97	3.17	5.76	3.67
10 January 2007		0.18	0.96	1.00	34.49	2.97	5.76	3.61
10 February 2007		0.19	1.00	1.00	34.49	2.88	5.76	3.64
10 March 2007		0.16	0.94	1.00	34.56	2.82	5.76	3.56
10 April 2007		0.15	0.92	1.00	34.56	2.72	5.76	3.41
10 May 2007		0.20	1.03	1.00	34.56	2.64	5.76	3.22

12. Share-based payments (Cont'd)

Value of employee services received for issue of share options

	2007 RM	2006 RM (Restated)
Share options granted in 2005	26,440	32,650
Share options granted in 2006	8,613	5,211
Share options granted in 2007	26,273	-
Total expense recognised as share-based payments	61,326	37,861

13. Payables and accruals

	Group 2007 RM	Group 2006 RM	Company 2007 RM	Company 2006 RM
Trade				
Trade payables	4,631,992	3,880,166	-	-
Non-trade				
Other payables	1,155,892	793,399	-	-
Accrued expenses	1,427,864	1,837,948	180,200	180,200
	2,583,756	2,631,347	180,200	180,200
	7,215,748	6,511,513	180,200	180,200

14. Revenue

Group

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

Company

Revenue represents dividend income received.

15. Profit before tax

Profit before tax is arrived at :

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
After charging :				
Auditors' remuneration				
Audit services				
- Current year	35,000	35,000	10,000	10,000
- Prior year	-	1,000	-	-
Other services by auditors of the Company and its affiliated firm	16,570	12,120	4,800	700
Depreciation (Note 3)	3,422,670	3,470,881	-	-
Directors' emoluments				
Directors of the Company				
- fees	240,000	240,000	150,000	150,000
- others	1,376,080	1,037,410	22,440	22,000
Other Directors				
- fees	45,000	45,000	-	-
- others	454,470	491,629	-	-
Research expenditure	1,014,544	858,053	-	-
Loss on foreign exchange				
- realised	360,537	434,333	-	-
- unrealised	92,638	-	-	-
and crediting :				
Dividend income	-	-	3,879,345	3,620,722
Gain on disposal of plant and equipment	27,200	12,667	-	-
Interest income	600,265	430,478	64,180	37,633

The estimated monetary value of benefits receivable by executive Directors of the Group other than in cash amounted to RM83,869 (2006 : RM71,910).

16. Employee information

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Staff costs (excluding executive Directors)	11,688,319	10,582,413	-	-

Staff costs of the Group include contributions to the Employees' Provident Fund of RM844,168 (2006 : RM743,927).

17. Tax expense

Recognised in the income statement

	Group 2007 RM	Group 2006 RM	Company 2007 RM	Company 2006 RM
Current tax expense				
- Based on results for the year	1,166,926	497,096	1,014,158	1,013,802
- (Over)/Under provision in prior years	(41,373)	16,348	(42,277)	41
Total current tax recognised in the income statement	1,125,553	513,444	971,881	1,013,843
Deferred tax expense				
- Current year	(271,276)	(52,975)	-	-
- Prior year	(35,583)	(67,979)	-	-
Total deferred tax recognised in the income statement	(306,859)	(120,954)	-	-
	818,694	392,490	971,881	1,013,843

Reconciliation of effective tax expense

	Group 2007 RM	Group 2006 RM (Restated)	Company 2007 RM	Company 2006 RM
Profit before tax	7,595,453	6,139,339	3,666,318	3,415,259
Tax using Malaysian tax rates at 27% (2006 : 28%)	2,050,772	1,719,015	989,906	956,273
Effect of lower tax rates for certain subsidiaries**	(67,895)	(81,116)	-	-
Effect of different tax rates*	(89,694)	-	-	--
Non-deductible expenses	105,811	128,432	24,252	57,529
Tax exempt income	(51,806)	(36,073)	-	-
Tax incentives	(1,053,453)	(1,290,294)	-	-
Others	1,915	4,157	-	-
	895,650	444,121	1,014,158	1,013,802
(Over)/Under provision in prior years	(76,956)	(51,631)	(42,277)	41
	818,694	392,490	971,881	1,013,843

* With effect from year of assessment 2007, corporate tax rate is 27%. The Malaysian Budget 2007 also announced the reduction of corporate tax of 26% in 2008. Consequently, deferred tax liabilities are measured using these rates.

** With effect from year of assessment 2004, companies with paid up capital of RM2.5 million and below at beginning of the basis period for a year of assessment are subject to corporate tax at 20% on chargeable income up to RM500,000.

18. Basic earnings per share

Basic earnings per share

The basic earnings per share has been calculated based on the consolidated net profit for the year of RM6,776,759 (2006 : RM5,746,849) and on the number of ordinary shares of RM1 each in issue during the year of 40,000,000 (2006 : 40,000,000).

Diluted earnings per share

The fully diluted earnings per share is the same as the basic earnings per share as the effect of anti-dilutive potential ordinary shares is ignored in calculating diluted earnings per share in accordance with the FRS 133 on Earnings per share.

19. Dividend - Group and Company

	2007 RM	2006 RM
Paid - first and final dividend of 8% less 28% tax (2005 : 3% tax exempt) on 40,000,000 ordinary shares of RM1 each	2,304,000	1,200,000

The first and final tax exempt dividend of 8 sen less 28% tax totalling RM2,304,000 proposed in the last financial year was approved by the shareholders in the last Annual General Meeting and accordingly, the amount has been appropriated from the retained profits in this financial year.

The proposed first and final dividend of 8 sen per ordinary share less 27% tax, totalling RM2,336,000 in respect of the financial year ended 31 May 2007 has not been accounted for in the financial statements. The dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting. This dividend will be recognised in subsequent year financial statements upon approval by the shareholders.

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

20. Contingent liability, unsecured - Company

	2007 RM	2006 RM
Corporate guarantee issued to licensed banks for banking facilities granted to subsidiaries	21,200,000	21,200,000

21. Related parties

21.1 Identity of related parties

i) The Company has a controlling related party relationship with its subsidiaries as disclosed in the financial statements.

ii) The Company has a controlling related party relationship with its substantial shareholder, TBHL Holdings Sdn. Bhd. in which Messrs. Guan Kok Beng, Guan Kim Heng and Guan Kim Loong have substantial financial interests.

iii) The Company also has a related party relationship with the key Directors and key management personnel of the Company:

- Guan Kok Beng
- Guan Kim Heng
- Guan Kim Loong

21.2 Significant transactions with related parties

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

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

ii) Share options granted to Directors and key management personnel.

iii) Dividend paid to TBHL Holdings Sdn. Bhd.

22. Segment reporting - Group

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

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

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

Business segments

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

22. Segment reporting - Group (Cont'd)

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	Others RM	Consolidated RM
2007					
Revenue from external customers by location of customers	1,362,130	9,671,612	42,567,033	17,833,626	71,434,401
Segment assets by location of assets	73,999,647	-	-	-	73,999,647
Capital expenditure by location of assets	1,566,213	-	-	-	1,566,213
2006					
Revenue from external customers by location of customers	2,670,409	7,284,640	34,047,344	15,998,654	60,001,047
Segment assets by location of assets	68,870,994	-	-	-	68,870,994
Capital expenditure by location of assets	2,882,993	-	-	-	2,882,993

23. Financial instruments

Financial risk management and objectives

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

Credit risk

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

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

23. Financial instruments (Cont'd)

Interest rate risk

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

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

Foreign exchange risk

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

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

Liquidity risk

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

Effective interest rates and repricing analysis

In respect of interest-earning financial assets, 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 per annum %	Total RM	Within 1 year RM	1 - 5 years RM
Group				
2007				
Financial assets				
Short term funds	3.10	2,814,285	2,814,285	-
Deposits with licensed banks	2.74	20,530,081	20,530,081	-
2006				
Financial assets				
Short term funds	2.90	2,727,657	2,727,657	-
Deposits with licensed banks	2.80	13,449,533	13,449,533	-
Company				
2007				
Financial asset				
Deposits with licensed banks	2.80	2,110,000	2,110,000	-
2006				
Financial asset				
Deposits with licensed banks	2.80	2,500,000	2,500,000	-

23. Financial instruments (Cont'd)

Fair values

Recognised financial instruments

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

The Company provides financial guarantees to banks for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the subsidiaries have yet to utilize the credit facilities granted.

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

Unrecognised financial instruments

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

	Group	
	2007 RM'000	2006 RM'000
Forward foreign exchange sales contracts		
- Contracted value	11,740	39,269
- Unrealised gain	(13)	(239)
	11,727	39,030

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

24. Changes in accounting policies

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 May 2007.

The changes in accounting policies arising from the adoption of the following are summarised below :

FRS 2, Share-based Payment

In accordance with the transitional provisions, FRS 2 has been applied to all grants after 1 January 2005. The adoption of FRS 2 has resulted in a change in the Group's accounting policy for share-based payments, whereby the Group charges the cost of share options to the income statement. The change in accounting policy is made in accordance with the transitional provision.

24. Changes in accounting policies (Cont'd)

The adoption of FRS 2 resulted in :

	Group 2007 RM	Group 2006 RM (Restated)
Income statement for the year ended 31 May		
Increase in staff cost		
- Cost of sales	38,275	28,300
- Administrative expenses	23,051	9,561

	Group 2007 RM	Group 2006 RM (Restated)	Company 2007 RM	Company 2006 RM (Restated)
Balance sheet at 31 May				
Cumulative increase in investment in subsidiaries	-	-	109,537	48,211
Cumulative decrease in retained profits	(109,537)	(48,211)	-	-
Cumulative increase in share option reserve	109,537	48,211	109,537	48,211

Earnings per share

	Group 2007 RM	Group 2006 RM (Restated)
Decrease in basic earnings per share (sen)	0.2	0.1
Decrease in diluted earnings per share (sen)	0.2	0.1

FRS 3, Business Combinations

In accordance with FRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of FRS 3, whereby negative goodwill as at 31 May 2006 was derecognised at 1 June 2006 with a corresponding adjustment to the Group's opening retained earnings. This has resulted in the derecognition of negative goodwill and an increase of retained earnings for the Group as at 1 June 2006 by RM576,288.

This change in accounting policy has no material impact on earnings per share.

25. Comparative figures

Certain comparative figures have been reclassified/restated as a result of changes in accounting policies as stated in Note 24 and to conform with the presentation requirements of FRS 101 and current year's classification:

	Group		Company	
	As restated RM	As previously reported RM	As restated RM	As previously reported RM
Balance Sheet				
Investment in subsidiaries	-	-	30,462,150	30,413,939
Reserves	19,600,974	19,649,185	10,551,953	10,503,742
Income Statement				
Revenue	60,001,047	63,416,493	-	-
Cost of sales	46,816,534	50,203,680	-	-
Gross profit	13,184,513	13,212,813	-	-
Administrative expenses	5,430,751	5,421,190	-	-
Profit before tax	6,139,339	6,177,200	-	-
Profit for the year	5,746,849	5,784,710	-	-
Basic earnings per share (sen)	14.4	14.5	-	-
Diluted earnings per share (sen)	14.4	14.5	-	-
Statement of changes in equity				
Retained earnings at 1 June 2005	6,339,394	6,349,744	-	-
Retained earnings at 1 June 2006	10,886,243	10,934,454	-	-
Share option reserve at 1 June 2005	10,350	-	10,350	-
Share option reserve at 1 June 2006	48,211	-	48,211	-

ANALYSIS OF SHAREHOLDINGS

as at 10 September 2007

1. **Authorised Share Capital** : RM50,000,000.00
   Issued and Paid-up Share Capital : RM40,203,500.00
   Class of shares : Ordinary shares of RM1.00 each
   Voting Right : 1 vote per share

2. ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 10 SEPTEMBER 2007

Size of shareholdings	No. of shareholders	% of total shareholders	No. of shares	% of total issued capital
Less than 100	5	0.24	200	0.00
100 to 1,000	1,108	52.36	1,097,900	2.73
1,001 to 10,000	797	37.67	3,218,300	8.01
10,001 to 100,000	175	8.27	5,516,200	13.72
100,001 to less than 5% of issued shares	29	1.37	11,859,700	29.50
5% and above of issued shares	2	0.09	18,511,200	46.04
TOTAL	2,116	100.00	40,203,500	100.00

3. THIRTY LARGEST SECURITIES ACCOUNT HOLDERS AS AT 10 SEPTEMBER 2007

	Name	No. of shares	% of total issued capital
1.	TBHL Holdings Sdn. Bhd.	12,141,594	30.20
2.	TBHL Holdings Sdn. Bhd.	6,369,606	15.84
3.	Guan Kok Beng	1,451,624	3.61
4.	Minister of Finance (Akaun Jaminan Pinjaman Kerajaan Persekutuan)	1,315,700	3.27
5.	Guan Kim Heng	1,084,036	2.70
6.	Guan Kim Loong	742,576	1.85
7.	Lembaga Tabung Angkatan Tentera	688,000	1.71
8.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. (Pheim Asset Management Sdn. Bhd. for Employees Provident Fund)	673,600	1.68
9.	Ting Hon Sum	660,764	1.64
10.	Stable Level Sdn. Bhd.	498,000	1.24
11.	Guan Kok Beng	454,500	1.13
12.	Ooi Pey Wong	401,800	1.00
13.	Yeoh Kean Hua	380,000	0.95
14.	AMMB Nominees (Tempatan) Sdn. Bhd. (Amtrustee Berhad for Apex Dana Al-Sofi-I)	349,500	0.87
15.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. (Pheim Asset Management Sdn. Bhd. for Magnum Corporation Bhd)	300,000	0.75
16.	AIBB Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Koek Tiang Kung)	275,800	0.69
17.	Mayban Nominees (Tempatan) Sdn. Bhd. (Pheim Asset Management Sdn. Bhd. for Benta Wawasan Sdn. Bhd.)	252,300	0.63
18.	Yong Ping	234,000	0.58
19.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Ng Ah Chai)	224,800	0.56
20.	Malaysia Nominees (Tempatan) Sendirian Berhad (Pheim Asset Management Sdn. Bhd. for Pintaras Jaya Berhad)	221,000	0.55
21.	Citigroup Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Ng Ah Chai)	199,300	0.50
22.	Cheng Mei Fung @ Chirn Mei Fung	185,200	0.46
23.	Chan Beng Teik	179,000	0.45
24.	Lim Yoke Lin	161,000	0.40
25.	Tee Kian Hong	160,000	0.40
26.	Mayban Nominees (Tempatan) Sdn. Bhd. (Mayban Trustees Berhad for Pheim Asia Ex-Japan Islamic Fund)	158,200	0.39
27.	HLB Nominees (Tempatan) Sdn. Bhd. (Pledged securities account for Teo Ah Lek)	145,000	0.36
28.	Citigroup Nominees (Tempatan) Sdn. Bhd. (Axa Affin Life Insurance Berhad for Asia Pacific Growth Fund)	131,000	0.33
29.	Ong Ju Seng	129,000	0.32
30.	Teoh Chee	103,000	0.26

ANALYSIS OF SHAREHOLDINGS CONTINUED

as at 10 September 2007

4. SUBSTANTIAL SHAREHOLDERS AS AT 10 SEPTEMBER 2007

	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.	18,511,200	46.04	-	-
2.	Guan Kok Beng	1,906,124	4.74	*18,511,200	46.04
3.	Guan Kim Heng	1,113,036	2.77	*18,511,200	46.04
4.	Guan Kim Loong	838,576	2.09	*18,511,200	46.04

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

5. INTEREST OF DIRECTORS AS AT 10 SEPTEMBER 2007

a) Interest in shares of the Company

Name	Direct interest		Deemed interest	
	No. of shares held	% of total issued capital	No. of shares held	% of total issued capital
Guan Kok Beng	1,906,124	4.74	*18,511,200	46.04
Guan Kim Heng	1,113,036	2.77	*18,511,200	46.04
Guan Kim Loong	838,576	2.09	*18,511,200	46.04
Dato' Noor Ahmad Mokhtar bin Haniff	-	-	-	-
Diong Chin Teck	15,000	0.04	-	-

Note :

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

b) Interest in shares of related corporations

By virtue of their interests of not less than 15% in the shares of the Company, Messrs Guan Kok Beng, Guan Kim Heng and Guan Kim Loong are also deemed to have interests in the shares of all the subsidiary companies to the extent that the Company has an interest as at 10 September 2007.

None of the other directors have any interest in the shares of related corporations as at 10 September 2007.

c) Share options granted under the Employees' Share Option Scheme ("ESOS") of the Company

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

LIST OF PROPERTIES OF THE GROUP

as at 31 May 2007

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	9.5 years	62,194 / 62,600	4,182
2. 1169 Kampung Teluk, Sungai Dua, Kawasan Perusahaan Sungai Lokan, 13800 Butterworth.	7 November, 1992	1 storey factory	Factory	Freehold	*14.5 years	69,589 / 40,947	1,751
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	10 years	4,368 / 6,218	588
4. No. 15, Lorong Sungai Lokan 3/2, Sungai Dua, 13800 Butterworth.	7 April, 1994	2 storey terrace light industrial building	Store	Freehold	11 years	1,920 / 2,880	243
5. Lot 14, Jalan Perusahaan, Kawasan Perusahaan Kulim, 09000 Kulim, Kedah.	22 March, 1995	1 storey factory	Office & factory	Leasehold Expiry: 2080	*11.5 years	86,249 / 38,320	1,999
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	6.5 years	247,420 / 152,163	5,901
7. Lot 2971 & 2972, Kawasan Perusahaan Perabut Sungai Baong 14200 Sungai Bakap, Seberang Perai Selatan.	24 April, 1996	Industrial land	Vacant	Freehold	-	238,278	1,556
Total							16,220

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 12th Annual General Meeting

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

No. of shares held	

I/We ____
(Full Name in Block Letters)

of ____
(Address)

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

of ____
(Address)

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

of ____
(Address)

as my/our Proxy to vote in my/our name(s) on my/our behalf at the Twelfth Annual General Meeting of the Company to be held on Wednesday, 31 October, 2007 at 11.30 a.m. and at any adjournment thereof in the manner indicated below :-

Resolution		For	Against
To receive and adopt the Audited Financial Statements for the financial year ended 31 May 2007 together with the Reports of the Directors and Auditors thereon	Resolution 1		
To declare a first and final dividend of 8% less 27% tax for the financial year ended 31 May 2007	Resolution 2		
To approve the payment of Directors' fees of RM150,000.00 for the financial year ended 31 May 2007	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	Resolution 5		
b) Mr Guan Kim Loong	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 ____________________ 2007.

____
Signature of Shareholder

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, 35, 1st Floor, Jalan Kelisa Emas 1, Taman Kelisa Emas, 13700 Seberang Jaya, Penang, Malaysia 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.

Please fold here

Affix
Stamp

The Company Secretary

Eurospan Holdings Berhad (351927-M)
35, 1st Floor, Jalan Kelisa Emas 1,
Taman Kelisa Emas, 13700 Seberang Jaya,
Penang, Malaysia

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Eurospan Holdings Berhad (351927-M)
1168, Kampung Teluk, Sungai Dua, Kawasan Perusahaan Sungai Lokan,
13800 Butterworth, Malaysia.
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Website : www.eurospan.com.my