

11. ACCOUNTANTS' REPORT (Cont'd)**2.2 SHARE CAPITAL**

The authorised share capital of EHB is RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of EHB since its incorporation are as follows:

Date of allotment	No. of Ordinary shares of RM1.00 each	Par value RM	Consideration	Total issued and fully paid-up share capital (cumulative) RM
19.7.95	2	1.00	Subscribers' shares	2
30.4.00	27,073,048	1.00	Issued as consideration for the acquisition of 100% equity interest in Eurospan Furniture Sdn. Bhd. ("EFSB")	27,073,050
30.4.00	2,227,035	1.00	Issued as consideration for the acquisition of 66.66% equity interest in Dynaspan Furniture Sdn. Bhd. ("DFSB")	29,300,085
17.5.00	4,699,915	1.00	Rights Issue on the basis of approximately sixteen(16) new ordinary shares for every one hundred(100) existing ordinary shares held at an issue price of RM1.86 per share	34,000,000

The issued and paid-up share capital of EHB would subsequently be increased to RM40,000,000 by way of a public issue of 6,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.90 per share.

11. ACCOUNTANTS' REPORT (Cont'd)



2.3 RESTRUCTURING SCHEME

In conjunction with and as part of the listing of and quotation for the entire issued and paid-up share capital of EHB on the Second Board of the KLSE, the following restructuring scheme was carried out:-

(I) Acquisitions

- (i) Acquisition of the entire issued and fully paid-up share capital in EFSB by EHB comprising 258,623 ordinary shares of RM1.00 each for a total consideration of RM27,073,048, based on the audited net tangible assets at 31 May 1999, to be satisfied by the issue of 27,073,048 new ordinary shares of RM1.00 each, at par, in EHB.
- (ii) Acquisition of 166,668 ordinary shares of RM1.00 each representing 66.66% of the issued and fully paid-up share capital in DFSB by EHB for a total consideration of RM2,227,035, based on the audited net tangible assets at 30 June 1999, to be satisfied by the issue of 2,227,035 new ordinary shares of RM1.00 each, at par, in EHB.
- (iii) Acquisition of 83,335 ordinary shares of RM1.00 each representing 33.34% of the issued and fully paid-up share capital in DFSB by EHB for a total cash consideration of RM1,113,852 from EFSB.
- (iv) Acquisition of the entire issued and fully paid-up share capital in E-Wood by EHB comprising 2 ordinary shares of RM1.00 each for a total cash consideration of RM2 from EFSB.
- (v) Acquisition of the entire issued and fully paid-up share capital in D-Word by EHB comprising 2 ordinary shares of RM1.00 each for a total cash consideration of RM2 from EFSB.

The above acquisitions were completed on 30 April 2000.

(II) Nominaton of Rights to Allotment of Shares

Concurrent with the above acquisitions, the promoters namely Mr Guan Kok Beng, Mr Guan Kim Heng and Mr Guan Kim Loong nominated the rights to allotment of shares that involved the nomination of 15,511,810 rights to allotment of ordinary shares of RM1.00 each in EHB held by them to TBHL Holdings Sdn Bhd ("TBHL"), an investment holding company controlled by them for the purpose of consolidating the shareholding of the promoters by locking their collective interest in a company which is controlled by them.

The above nomination of rights to allotment of shares was completed on 30 April 2000.

11. ACCOUNTANTS' REPORT (Cont'd)



(III) Rights Issue

Proposed Rights Issue of 4,699,915 new ordinary shares of RM1.00 each at an issue price of RM1.86 per share, for cash on the basis of approximately 16 new ordinary shares for every 100 existing ordinary shares held, based on the enlarged share capital of 29,300,085 ordinary shares of RM 1.00 each in EHB (after the above proposed acquisitions).

The rights issue was completed on 17 May 2000.

(IV) Public Issue

A public issue of 6,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.90 per ordinary share.

The estimated listing expenses of RM1,000,000 will be set off against the Share Premium Account.

The Company together with its subsidiary companies acquired in the above restructuring scheme are hereinafter referred to as the "EHB Group" or the "Group".

(V) Offer for Sale

The offer for sale of 12,060,000 ordinary shares of RM1.00 each at an offer price of RM1.90 per ordinary share.

2.4 SUBSIDIARY COMPANIES

Eurospan Furniture Sdn Bhd ("EFSB")

EFSB was incorporated on 10 January 1989 as a private limited company with an authorised share capital of RM300,000 divided into 300,000 ordinary shares of RM1.00 each of which RM258,623 comprising 258,623 ordinary shares of RM1.00 each have been issued and fully paid-up.

EFSB is principally engaged in the manufacture and export of furniture and wood based products.

Dynaspan Furniture Sdn Bhd ("DFSB")

DFSB was incorporated on 4 January 1992 as a private limited company with an authorised share capital of RM260,000 divided into 260,000 ordinary shares of RM1.00 each of which RM250,003 comprising 250,003 ordinary shares of RM1.00 each have been issued and fully paid-up.

DFSB is principally engaged in the manufacture of furniture and wood based products.

11. ACCOUNTANTS' REPORT *(Cont'd)*



Euroswood Furniture Sdn Bhd (“E-Wood”)

E-Wood was incorporated on 3 January 1996 as a private limited company with an authorised share capital of RM100,000 divided into 100,000 ordinary shares of RM1.00 each of which RM2 comprising 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

E-Wood is an investment holding company.

Dynaword Sdn Bhd (“D-Word”)

D-Word was incorporated on 13 January 1996 as a private limited company with an authorised share capital of RM100,000 divided into 100,000 ordinary shares of RM1.00 each of which RM2 comprising 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

D-Word is an investment holding company.

3. ACCOUNTS AND AUDITORS

We have been the auditors of EHB, E-Wood, and D-Word since its date of incorporation, and of EFSB and DFSB from the year ended 31 May 1994 and 30 June 1995 respectively. Prior to that financial years, EFSB and DFSB were audited by another firm of auditors.

The accounts of all the companies within the Group for all the financial years/periods under review have been reported without any qualification in the auditors' reports.

The financial year end of DFSB for the relevant financial years/period under review is 30 June. As the financial year for EHB is 31 May, for the purpose of this report, the results of DFSB have been prorated evenly to reflect a prorated results for 12 months ended 31 May in the proforma consolidated results of the Group. The financial year end of EFSB, E-Wood and D-Word is 31 May.

11. ACCOUNTANTS' REPORT (Cont'd)



4. SUMMARISED PROFORMA CONSOLIDATED RESULTS OF THR GROUP

4.1 The summarised proforma consolidated results of the EHB Group for the past 5 financial years ended 31 May 1995 to 1999 and 7 months ended 31 December 1999 have been prepared for illustrative purposes after making such adjustments that we considered necessary and assuming that the EHB Group had been in existence throughout the years/period under review.

EHB GROUP

	<----- Year ended 31 May ----->					7 Months
	1995	1996	1997	1998	1999	Ended 31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	28,057	33,815	39,752	45,814	45,719	41,130
Profit before depreciation/ amortisation and interest	6,676	7,516	8,213	9,232	9,809	7,085
Depreciation/ amortisation	(534)	(562)	(782)	(933)	(1,394)	(986)
Interest expense	(58)	(20)	(27)	(34)	(19)	(6)
Interest income	110	198	191	58	138	80
Profit before taxation	6,194	7,132	7,595	8,323	8,534	6,173
Taxation	(1,440)	(1,168)	(1,492)	(1,738)	163	(1,006)
Profit after taxation	4,754	5,964	6,103	6,585	8,697	5,167
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	29,300	29,300	29,300	29,300	29,300	29,300
Gross earnings per share (sen)	21.1	24.3	25.9	28.4	29.1	36.1*
Net earnings per share (sen)	16.2	20.3	20.8	22.5	29.7	30.2*
Gross dividend per share (sen)	-	-	-	-	-	-
Effective tax rate (%)	23.3	21.6	19.6	17.0	2.1	22.5

* Annualised

11. ACCOUNTANTS' REPORT (*Cont'd*)



Notes :

- i) The proforma consolidated results of the EHB Group are prepared for illustrative purposes only and are based on the audited accounts of EHB, EFSB, DFSB, E-Wood and D-Word.
- ii) There were no extraordinary items for all the years/periods under review.
- iii) Turnover increased progressively from 1995 to 1997 at the growth rate of 17% to 21% mainly due to the increase in orders from overseas customers.

The strengthening of US Dollars has contributed to a higher turnover for 1998 and 1999 as sales were mostly billed in US Dollars.

The increase in turnover for the period ended 31 December 1999 was mainly due to the increase in demand from overseas as well as the change in billing system with the subcontractors.

- iv) The profit before tax increased progressively from 1995 to 1998 mainly as a result of increase in turnover.
- v) The disproportionate tax charge in relation to the results of the Group for the financial years 1995 to 1999 is mainly due to the availability of tax incentives to the subsidiary companies.
- vi) The weighted average number of ordinary shares in issue is arrived at after the acquisition of EFSB, DFSB, E-Wood and D-Word.

vii) Earnings per share

The gross earnings per share has been calculated based on the profit before taxation and on the weighted average number of issued and paid-up share capital of the Group at 29,300,085 ordinary shares of RM1 each.

The net earnings per share has been calculated based on the profit after taxation and on the weighted average number of issued and paid-up share capital of the Group at 29,300,085 ordinary shares of RM1 each.

- 4.2** The summarised results of the companies in EHB Group based on the audited accounts of EHB, EFSB, E-Wood and D-Word for the 5 years ended 31 May 1995 to 1999 and 7 months ended 31 December 1999 and, for the 5 years ended 30 June 1995 to 1999, and 6 months ended 31 December 1999 for DFSB are set out below:-

EHB

EHB is principally an investment holding company.

There were no operating results for the years/period under review.

11. ACCOUNTANTS' REPORT (Cont'd)**EFSB**

	<-----Year ended 31 May----->					7 Months
	1995	1996	1997	1998	1999	Ended 31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	25,790	31,656	37,048	44,224	45,096	43,560
Profit before depreciation and interest	6,081	6,818	7,507	8,467	7,948	4,374
Depreciation	(466)	(438)	(572)	(679)	(1,108)	(809)
Interest expense	(51)	(12)	(11)	(18)	(9)	(5)
Interest income	110	194	183	49	100	61
Profit before taxation	5,674	6,562	7,107	7,819	6,931	3,621
Taxation	(1,417)	(1,232)	(1,470)	(1,685)	323	(283)
Profit after taxation	4,257	5,330	5,637	6,134	7,254	3,338
Weighted average number of ordinary shares of RM1.00 each in issue during the year ('000)	259	259	259	259	259	259
Gross earnings per share (sen)	2,190.7	2,533.6	2,744.0	3,018.9	2,676.1	2,396.7*
Net earnings per share (sen)	1,643.6	2,057.9	2,176.4	2,368.3	2,800.8	2,209.4*
Gross dividend per share (sen)	140.0	140.0	540.0	700.0	875.0	-
Effective tax rate (%)	25.0	24.5	20.7	17.7	2.5	18.8

* Annualised

Note :

- i) There were no extraordinary items for all the years/period under review.
- ii) The increase in turnover from 1995 to 1997 was mainly due to the increase in orders from overseas customers. The strengthening of US Dollars has contributed to a higher turnover for 1998 and 1999 as sales were mostly billed in US Dollars.

The increase in turnover for the period ended 31 December 1999 was mainly due to the increase in demand from overseas as well as the change in billing system with the subcontractors.

- iii) The profit before tax for 1995 to 1998 increased in tandem with the increase in turnover.

The decline in profit before tax for 1999 and seven months ended 31 December 1999 was mainly due to the relocation of certain production lines to DFSB.

11. ACCOUNTANTS' REPORT (Cont'd)



iv) Earnings per share

The gross earnings per share has been calculated based on the profit before taxation and on the weighted average number of ordinary shares of RM1 each in issue during the above financial years/period.

The net earnings per share has been calculated based on the profit after taxation and on the weighted average number of ordinary shares of RM1 each in issue during the above financial years/period.

DFSB

The summarised results for the financial years ended 30 June 1995 to 1999 are set out below :

	<-----Year ended 30 June----->					6 Months
	1995	1996	1997	1998	1999	Ended 31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	7,135	6,787	7,910	8,475	13,977	13,602
Profit before depreciation and interest	615	706	706	770	2,546	2,499
Depreciation	(70)	(129)	(217)	(257)	(289)	(153)
Interest expense	(7)	(8)	(17)	(16)	(10)	-
Interest income	-	4	8	9	41	16
Profit before taxation	538	573	480	506	2,288	2,362
Taxation	(14)	71	(30)	(55)	(169)	(709)
Profit after taxation	524	644	450	451	2,119	1,653
Weighted average number of ordinary shares of RM1.00 each in issue during the year ('000)	250	250	250	250	250	250
Gross earnings per share (sen)	215.2	229.2	192.0	202.4	915.2	1,889.6*
Net earnings per share (sen)	209.6	257.6	180.0	180.4	847.6	1,322.4*
Gross dividend per share (sen)	-	-	-	280.0	350.0	-
Effective tax rate (%)	3.3	-	6.2	7.1	-	30.0

* Annualised

11. ACCOUNTANTS' REPORT (Cont'd)



The annualised results of DFSB for the financial years ended 31 May 1995 to 1999 are set out below :

	<-----Year ended 31 May----->					7 Months
	1995	1996	1997	1998	1999	Ended 31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	6,938	6,816	7,816	8,428	13,519	14,767
Profit before depreciation and interest	595	698	706	764	2,398	2,712
Depreciation	(68)	(124)	(210)	(254)	(286)	(177)
Interest expense	(7)	(8)	(16)	(16)	(10)	(1)
Interest income	-	4	8	9	38	19
Profit before taxation	520	570	488	503	2,140	2,553
Taxation	(23)	64	(22)	(53)	(159)	(723)
Profit after taxation	497	634	466	450	1,981	1,830
Weighted average number of ordinary shares of RM1.00 each in issue during the year ('000)	250	250	250	250	250	250
Gross earnings per share (sen)	208.0	228.0	195.2	201.2	856.0	1,750.6*
Net earnings per share (sen)	198.8	253.6	186.4	180.0	792.4	1,254.8*
Gross dividend per share (sen)	-	-	-	280.0	350.0	-
Effective tax rate (%)	5.2	-	4.5	6.9	-	27.8

* Annualised

Note :

- i) There were no extraordinary items for all the years/period under review.
- ii) Turnover increased substantially in 1999 and seven months ended 31 December 1999 due to the shifting of certain production lines from EFSB to DFSB.
- iii) The profit before tax also increased substantially in 1999 and seven months ended 31 December 1999 mainly as a result of the increase in turnover.
- iv) Earnings per share

The gross earnings per share has been calculated based on the profit before taxation and on the weighted average number of ordinary shares of RM1 each in issue during the above financial years/period.

The net earnings per share has been calculated based on the profit after taxation and on the weighted average number of ordinary shares of RM1 each in issue during the above financial years/period.

11. ACCOUNTANTS' REPORT (Cont'd)

**E-Wood**

	<-----Year ended 31 May----->				7 Months
	1996	1997	1998	1999	Ended
	RM'000	RM'000	RM'000	RM'000	31.12.99
Turnover	-	-	-	-	-
Loss before taxation	-	-	-	(6)	-
Taxation	-	-	-	-	-
Loss after taxation	-	-	-	(6)	-
Weighted average number of ordinary shares of RM1.00 each in issue during the year ('000)	*	*	*	*	*
Gross earnings per share (sen)	-	-	-	-	-
Net earnings per share (sen)	-	-	-	-	-
Net dividend per share (sen)	-	-	-	-	-

* These denote share capital of RM2 each

Note :

Loss for the financial year ended 31 May 1999 represents expenditure carried forward written off.

D-Word

	<-----Year ended 31 May----->				7 Months
	1996	1997	1998	1999	Ended
	RM'000	RM'000	RM'000	RM'000	31.12.99
Turnover	-	-	-	-	-
Loss before taxation	-	-	-	(7)	-
Taxation	-	-	-	-	-
Loss after taxation	-	-	-	(7)	-
Weighted average number of ordinary shares of RM1.00 each in issue during the year ('000)	*	*	*	*	*
Gross earnings per share (sen)	-	-	-	-	-
Net earnings per share (sen)	-	-	-	-	-

* These denote share capital of RM2 each

Note :

Loss for the financial year ended 31 May 1999 represents expenditure carried forward written off.

11. ACCOUNTANTS' REPORT (Cont'd)



5. DIVIDENDS

5.1 EHB has not paid or declared any dividends since its incorporation on 19 July 1995.

5.2 Details of the dividends declared and paid by EFSB and DFSB for the past 5 years are as follows :-

EFSB

Financial Year Ended/Ending	Issued and Paid-up Share Capital of RM1 each	Gross Dividend Rate	Net Dividend (RM)
31 May 1995	258,623	140% tax exempt	362,072
31 May 1996	258,623	140% tax exempt	362,072
31 May 1997	258,623	540% tax exempt	1,396,564
31 May 1998	258,623	500% tax exempt + 200% less 28% tax	1,665,532
31 May 1999	258,623	875% tax exempt	2,262,951
31 May 2000	258,623	1,719% tax exempt	4,445,729

DFSB

Financial Year Ended/Ending	Issued and Paid-up Share Capital of RM1 each	Gross Dividend Rate	Net Dividend (RM)
30 June 1998	250,003	280% tax exempt	700,008
30 June 1999	250,003	100% tax exempt + 250% less 28% tax	700,008
30 June 2000	250,003	569% tax exempt	1,422,517

5.3 Except as shown above, no dividends have been paid or declared for other years/period under review.

11. ACCOUNTANTS' REPORT (Cont'd)



6. SUMMARISED BALANCE SHEETS

The summarised balance sheets of the companies in the EHB Group based on the audited accounts are set out below:

EHB

	<-----As at 31 May----->				As at
	1996	1997	1998	1999	31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000
Current assets	**	**	**	**	**
Current liabilities	(15)	(16)	(18)	(184)	(372)
Net current liabilities	(15)	(16)	(18)	(184)	(372)
Expenditure carried forward	15	16	18	184	372
	-	-	-	-	-
Financed by :-					
Share capital	*	*	*	*	*
Reserve	-	-	-	-	-
	-	-	-	-	-
Net liabilities per share (RM)	(7,500)	(8,000)	(9,000)	(92,000)	(186,000)

* Represents 2 subscribers' shares of RM1.00 each.

** Represents cash in hand of RM2

Note : EHB was incorporated on 19 July 1995 and its first set of audited accounts was for the period ended 31 May 1996.

11. ACCOUNTANTS' REPORT (Cont'd)**EFSB**

The summarised audited balance sheets of EFSB as at the end of the 6 years ended 31 May 1994 to 1999 and the 7 months ended 31 December 1999 are as follows:

	<-----As at 31 May----->						As at
	1994	1995	1996	1997	1998	1999	31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed assets	627	6,109	7,092	9,995	16,456	16,518	17,137
Investment	-	182	182	182	182	182	182
Current assets	6,059	7,254	9,298	14,218	12,201	15,205	17,479
Current liabilities	(3,191)	(5,775)	(3,807)	(7,210)	(6,688)	(4,736)	(4,059)
Net current assets	2,868	1,479	5,491	7,008	5,513	10,469	13,420
Expenditure carried forward	7	-	-	-	-	-	-
	3,502	7,770	12,765	17,185	22,151	27,169	30,739
Financed by :-							
Share capital	250	259	259	259	259	259	259
Capital reserve	-	174	174	174	174	174	174
Unappropriated profits	3,145	7,040	12,008	16,248	20,718	25,709	29,046
Shareholders' funds	3,395	7,473	12,441	16,681	21,151	26,142	29,479
Long term liabilities	6	70	18	55	39	1	83
Deferred taxation	101	227	306	449	961	1,026	1,177
	3,502	7,770	12,765	17,185	22,151	27,169	30,739
Net tangible assets (NTA)	3,388	7,473	12,441	16,681	21,151	26,142	29,479
NTA per share (RM)	13.55	28.85	48.03	64.40	81.66	100.93	113.82

11. ACCOUNTANTS' REPORT (Cont'd)**DFSB**

The summarised audited balance sheets of DFSB as at the end of the 6 years ended 30 June 1994 to 1999 and the 6 months ended 31 December 1999 are as follows:

	<-----As at 30 June ----->						As at
	1994	1995	1996	1997	1998	1999	31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed assets	365	2,361	3,256	4,052	3,944	3,725	3,711
Current assets	916	1,034	994	1,362	1,371	2,633	3,660
Current liabilities	(659)	(2,231)	(2,374)	(3,184)	(3,393)	(2,854)	(2,177)
Net current assets/(liabilities)	257	(1,197)	(1,380)	(1,822)	(2,022)	(221)	1,483
	622	1,164	1,876	2,230	1,922	3,504	5,194
Financed by :-							
Share capital	250	250	250	250	250	250	250
Unappropriated profits	303	827	1,471	1,921	1,672	3,091	4,744
Shareholders' funds	553	1,077	1,721	2,171	1,922	3,341	4,994
Long term liabilities	-	-	155	59	-	-	-
Deferred taxation	69	87	-	-	-	163	200
	622	1,164	1,876	2,230	1,922	3,504	5,194
Net tangible assets (NTA)	553	1,077	1,721	2,171	1,922	3,341	4,994
NTA per share (RM)	2.21	4.31	6.88	8.69	7.69	13.36	19.98

11. ACCOUNTANTS' REPORT (Cont'd)

**E-Wood**

The summarised balance sheets of E-Wood as at the end of the 4 years ended 31 May 1996 to 1999 and the 7 months ended 31 December 1999 are as follows:

	←-----As at 31 May----->				As at
	1996	1997	1998	1999	31.12.99
	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed assets	1,559	1,559	1,559	1,559	1,559
Current assets	**	**	**	**	43
Current liabilities	(1,559)	(1,561)	(1,563)	(1,565)	(1,608)
Net current liabilities	(1,559)	(1,561)	(1,563)	(1,565)	(1,565)
Expenditure carried forward	-	2	4	-	-
	-	-	-	(6)	(6)
Financed by :-					
Share capital	*	*	*	*	*
Accumulated losses	-	-	-	(6)	(6)
	-	-	-	(6)	(6)
Net liabilities per share (RM)	-	(1,000)	(2,000)	(3,000)	(3,000)

* Represents 2 subscribers' shares of RM1.00 each.

** Represents cash in hand of RM2

Note : E-Wood was incorporated on 3 January 1996 and its first set of audited accounts was for the period ended 31 May 1996.

11. ACCOUNTANTS' REPORT (Cont'd)

**D-Word**

The summarised balance sheets of the companies in the D-Word based on the audited accounts are set out below:

	<-----As at 31 May----->				As at 31.12.99 RM'000
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	
Fixed assets	1,501	1,501	1,501	1,501	1,501
Current assets	**	**	**	**	42
Current liabilities	(1,501)	(1,504)	(1,506)	(1,508)	(1,551)
Net current liabilities	(1,501)	(1,504)	(1,506)	(1,508)	(1,509)
Expenditure carried forward	-	3	5	-	-
	-	-	-	(7)	(8)
Financed by :-					
Share capital	*	*	*	*	*
Accumulated losses	-	-	-	(7)	(8)
	-	-	-	(7)	(8)
Net liabilities per share (RM)	-	(1,500)	(2,500)	(3,500)	(4,000)

* Represents 2 subscribers' shares of RM1.00 each.

** Represents cash in hand of RM2

Note : D-Word was incorporated on 13 January 1996 and its first set of audited accounts was for the period ended 31 May 1996.

11. ACCOUNTANTS' REPORT (Cont'd)



7. STATEMENT OF ASSETS AND LIABILITIES

The following is the detailed statement of assets and liabilities of EHB and of the Proforma EHB Group which has been prepared for illustrative purposes only and is based on the audited accounts of the companies in the EHB Group as at 31 December 1999. The statement of assets and liabilities has been prepared as if the acquisition of EFSB, DFSB, E-Wood and D-Word ("Acquisitions"), nomination of rights to allotment of shares involve the nomination of 15,511,810 ordinary shares of RM1.00 each, Rights Issue of 4,699,915 ordinary shares of RM1.00 each at an issue price of RM1.86, the Public Issue of 6,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.90 per share and the estimated listing expenses of RM1,000,000 had been effected on 31 December 1999 and should be read in conjunction with the notes thereon :-

	Note	Company Audited RM'000	(A) Proforma Group After Acquisitions RM'000	(B) After (A) and Rights Issue RM'000	(C) After (B) and Public Issue and Estimated Listing Expenses RM'000
EMPLOYMENT OF CAPITAL					
FIXED ASSETS	7.2	-	23,907	23,907	23,907
CURRENT ASSETS					
Stocks	7.3	-	4,047	4,047	4,047
Trade debtors		-	6,907	6,907	6,907
Other debtors, deposits and prepayments		-	461	461	461
Short term deposits with licensed banks		-	5,773	5,773	5,773
Cash and bank balances		-	1,107	9,849	20,249
		-	18,295	27,037	37,437
CURRENT LIABILITIES					
Trade creditors		-	4,740	4,740	4,740
Other creditors and accruals		372	1,255	1,255	1,255
Provision for taxation		-	842	842	842
		372	6,837	6,837	6,837
NET CURRENT(LIABILITIES)/ASSETS		(372)	11,458	20,200	30,600
EXPENDITURE CARRIED FORWARD	7.4	372	372	372	372
		-	35,737	44,479	54,879
CAPITAL EMPLOYED					
SHARE CAPITAL	7.5	*	29,300	34,000	40,000
RESERVE ON CONSOLIDATION		-	1,102	1,102	1,102
SHARE PREMIUM	7.6	-	-	4,042	8,442
UNAPPROPRIATED PROFITS		-	3,875	3,875	3,875
		-	34,277	43,019	53,419
HIRE PURCHASE OBLIGATION		-	83	83	83
DEFERRED TAXATION		-	1,377	1,377	1,377
		-	35,737	44,479	54,879
Net Tangible Assets/(Liabilities) per share (RM)		(186,000)	1.16	1.25	1.33

* This represents issued and paid-up share capital of RM2

11. ACCOUNTANTS' REPORT (Cont'd)

**7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES****7.1 Significant Accounting Policies****(a) Accounting Convention**

The accounts have been drawn up on the historical cost convention and in compliance with approved accounting standards in Malaysia.

(b) Basis of Consolidation

The Proforma Group accounts include the audited accounts of the Company and its subsidiary companies made up to 31 December 1999 on the assumption that the restructuring of EHB as stated in paragraph 2.3 had been effected as at 31 December 1999. The accounts of the subsidiary companies are consolidated using the merger method of accounting in accordance with the provisions of Malaysian Accounting Standard No. 2 except for Dynaspan Furniture Sdn Bhd which is consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of the subsidiary companies acquired or disposed of during the year are included in the Consolidated Profit and Loss Account from the effective date of acquisition or up to the date of disposal as appropriate. The difference between the acquisition cost and the fair value of the net assets of the subsidiary companies acquired is reflected as goodwill or reserve on consolidation, as appropriate. Goodwill on consolidation is written off to the Profit and Loss Account.

Under the merger method of accounting, the results of the Company and the subsidiary companies are presented as if the companies had been combined throughout the current period and previous financial years/period. The difference between the nominal value of the share capital issued as purchase consideration and the nominal value of the share capital of the subsidiary company acquired is taken to merger reserve. Any merger debit arising is written off against reserves and unappropriated profits.

Inter-company balances and transactions are eliminated on consolidation and the Group accounts reflect external transactions only.

(c) Depreciation

Freehold land is not amortised. Leasehold land is amortised over the remaining lease period of 85 years. On other fixed assets, depreciation is calculated to write off the cost of each asset on a straight line basis over its expected useful life at the following annual rates :-

	Rate
Factory buildings	2%
Plant and machinery, and factory equipment	10 & 20%
Furniture, fittings, renovation and office equipment	10%
Motor vehicles	10 & 20%

11. ACCOUNTANTS' REPORT (Cont'd)



(d) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost in the case of work-in-progress and finished goods includes direct materials, direct labour and attributable production overheads.

Cost is determined on the weighted average basis.

(e) Expenditure Carried Forward

Preliminary and pre-operating expenses incurred by the Company prior to commencement of operations are deferred and carried forward in the balance sheet at cost. The expenditure carried forward is written off against future profits whilst listing expenses included in pre-operating expenses are set off against Share Premium Account.

(f) Foreign Currency Translation

Transactions in foreign currencies during the period are converted into Ringgit Malaysia at the rates of exchange prevailing on the dates of transactions.

Assets and liabilities in foreign currencies at balance sheet date are translated into Ringgit Malaysia at rates of exchange approximating those prevailing on that date. Where forward exchange contracts have been arranged in respect of assets and liabilities, the contracted rates of exchange are used.

All exchange gains and losses are included in the Profit and Loss Account.

(g) Deferred Taxation

Provision is made by the liability method for taxation deferred in respect of all timing differences except where it is thought reasonably probable that the tax effects of such deferrals will continue in the foreseeable future.

Deferred tax benefit is recognised only when there is reasonable assurance of realisation in due course.

II. ACCOUNTANTS' REPORT (Cont'd)



7.2 FIXED ASSETS - PROFORMA GROUP

Cost	Freehold land RM'000	Long term leasehold land RM'000	Factory buildings RM'000	Plant and machinery, and factory equipment RM'000	Furniture, fittings, renovation and office equipment RM'000	Motor vehicles RM'000	Capital expenditure in-progress RM'000	Total RM'000
At 1.6.1999	1,723	3,444	8,046	11,984	1,243	976	227	27,643
Additions	-	-	5	632	181	306	457	1,581
Disposal/Write-off	-	-	-	(32)	-	-	-	(32)
Transfer	-	-	-	122	57	-	(179)	-
At 31.12.1999	1,723	3,444	8,051	12,706	1,481	1,282	505	29,192
Accumulated Depreciation								
At 1.6.1999	-	18	441	3,264	291	326	-	4,340
Charge for the period	-	2	90	731	76	63	-	962
Disposal/Write-off	-	-	-	(17)	-	-	-	(17)
At 31.12.1999	-	20	531	3,978	367	389	-	5,285
Net Book Value at 31.12.99	1,723	3,424	7,520	8,728	1,114	893	505	23,907

11. ACCOUNTANTS' REPORT (Cont'd)**7.3 STOCKS - PROFORMA GROUP**

	RM'000
Raw materials	1,373
Work-in-progress	1,186
Finished goods	1,456
Consumable stocks	32
	<u>4,047</u>

7.4 EXPENDITURE CARRIED FORWARD - PROFORMA GROUP AND THE COMPANY

	RM'000
At Cost	
Preliminary expenses	3
Pre-operating expenses	369
	<u>372</u>

Included under pre-operating expenses is an amount of RM500 in respect of auditors' remuneration for the period.

7.5 SHARE CAPITAL

	The Company RM'000	Proforma Group RM'000
Ordinary shares of RM 1.00 each		
Authorised :	<u>50,000</u>	<u>50,000</u>
Issued and fully paid :		
Balance at 31 December 1999	*	*
Issued as consideration for the acquisition of subsidiary companies	-	29,300
	<u>*</u>	<u>29,300</u>
Rights Issue	-	4,700
	<u>*</u>	<u>34,000</u>
Public Issue	-	6,000
	<u>*</u>	<u>40,000</u>

* This represents 2 ordinary shares of RM1.00 each.

11. ACCOUNTANTS' REPORT (Cont'd)**7.6 SHARE PREMIUM - PROFORMA GROUP**

	RM'000
Share premium arising from the Rights and Public Issue of 4,699,915 and 6,000,000 new ordinary shares of RM1.00 each at an issue price price of RM1.86 and RM1.90 per share respectively	9,442
Less : Estimated listing expenses	(1,000)
	<u>8,442</u>

7.7 MERGER DEBIT - PROFORMA GROUP

	RM'000
Arising on acquisition of EFSB	
Par value of shares issued	27,073
Par value of shares acquired	(259)
Merger debit	<u>26,814</u>
This merger debit has been applied against the following :-	
Share premium of a subsidiary	174
Unappropriated profits	26,640
	<u>26,814</u>

8. NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the statement of assets and liabilities of the Proforma EHB Group as at 31 December 1999, the net tangible assets cover per share after acquisition, rights issue and public issue is calculated as follows :-

	RM '000
Net tangible assets as per the proforma Group's statement of assets and liabilities	<u>53,047</u>
Number of ordinary shares of RM1.00 each in issue ('000)	<u>40,000</u>
Net tangible assets cover per ordinary share of RM1.00 each (RM)	<u>1.33</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*



9. ACCOUNTS

No audited accounts have been prepared in respect of any period subsequent to 31 December 1999.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Jong'.

KPMG
Firm No : AF : 0758
Public Accountants

A handwritten signature in black ink, appearing to be 'Ng Swee Weng'.

Ng Swee Weng
Partner
Approval Number : 1414/03/02 (J/PH)

12. DIRECTORS' REPORT
(Prepared for inclusion in this Prospectus)

REGISTERED OFFICE :

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

5 June 2000

The Shareholders

EUROSPAN HOLDINGS BERHAD (351927-M)

Dear Sir/Madam

On behalf of the Directors of Eurospan Holdings Berhad (351927-M), I report, after due inquiry that during the period from 31 December 1999 (being the date to which the last audited accounts of the Company have been made up) to 25 May 2000 (being a date not earlier than fourteen (14) days before the issuance of this Prospectus) that:-

- (a) the business of the Company and its subsidiaries have, in the opinion of the Directors, been satisfactory maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Company and its subsidiaries which have affected adversely the trading or the value of the assets of the Company and its subsidiaries;
- (c) the current assets of the Company and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees given by the Company or any of its subsidiaries; and
- (e) since the last audited accounts of the Company and its subsidiaries, there have been no changes in the published reserves or any unusual factors affecting the profit of the Company other than as illustrated in the Accountants Report and the Proforma Consolidated Balance Sheets.

Yours faithfully
for and on behalf of the Board of Directors
EUROSPAN HOLDINGS BERHAD (351927-M)

GUAN KIM HENG
Executive Director

13. STATUTORY AND GENERAL INFORMATION

13.1 Share Capital

- (a) No ordinary shares will be allotted on the basis of this Prospectus later than six (6) months after the date of issue of this Prospectus.
- (b) There are no founder, management or deferred shares in the Company.
- (c) There is only one class of shares in the Company namely ordinary shares of RM1.00 each, all of which rank pari passu with one another.
- (d) Save for the 1,500,000 ordinary shares of RM1.00 each reserved for the eligible employees of EHB Group, Directors and other persons, no person has been or is entitled to be given an option to subscribe for any shares, stocks or debentures of the Company or any of its subsidiaries.
- (e) Save as disclosed in this Prospectus, no shares or debentures in the Company or its subsidiaries have been issued or are proposed to be issued as partly or fully paid-up for cash or otherwise than in cash within the two (2) years preceding the date hereof.
- (f) None of the capital of the Company or any of its subsidiaries is under any option or agreed conditionally or unconditionally to be put under any option.

13.2 Articles of Association

The following provisions are reproduced from the Company's Articles of Association which have been approved by the KLSE :-

1. Remuneration of Directors

The provisions in the Company's Articles of Association dealing with the remuneration of the Directors are as follows :-

Article 109

The fees of the Directors shall from time to time be determined by the Company in General Meeting but the remuneration of the executive Directors shall from time to time be determined by the Board of Directors. The fees payable to the Directors shall not be increased except pursuant to a resolution passed at the General Meeting when notice of the proposed increase has been given in the notice convening the meeting. The fees payable to non-executive Directors' shall be a fixed sum and not by a commission on or percentage of profits or turnover and the remuneration payable to executive Directors may not include a commission on or percentage of turnover. Any fee paid to an alternate Director shall be agreed between him and his Appointor and shall be deducted from his appointor's remuneration.

13. STATUTORY AND GENERAL INFORMATION (Cont'd)

Article 110

The Directors may be paid all travelling hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of Directors or general or other meetings of the Company or in connection with the business of the Company.

Article 111

The Directors may grant special remuneration to any Director who (on request by the Directors) is willing to:-

- (1) render any special or extra services to the Company; or
- (2) to go or reside outside his country of domicile or residence in connection with the conduct of any of the Company's affairs.

Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be paid in a lump sum or by way of salary, or by a percentage of profits, or by all or any of such methods but shall not include (where such special remuneration is paid by way of salary) a commission on or a percentage of turnover.

2. Voting and Borrowing Powers of Directors

The provisions in the Articles of Association of the Company dealing with voting powers of the Directors in proposals, arrangements or contracts in which they are interested and the borrowing powers exercisable by them and how such borrowings powers can be varied are as follows :-

Article 123

The Directors may exercise all the powers of the Company to borrow any sum or sums of money from any person, bank, firm or company and to mortgage or charge its undertaking, property and uncalled capital, and any part thereof, and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company, or its wholly owned subsidiaries or of any related corporation. The Directors may guarantee the whole or any part of the loans or debts raised or incurred by or on behalf of the Company or any interest payable thereon with power to the Directors to indemnify the guarantors from or against liability under their guarantees by means of a mortgage or hypothecation of or charge upon any property and asset of the Company or otherwise. The Directors may exercise all the powers of the Company to guarantee and give guarantees or indemnities for the payment of money, the performance of contracts or obligations or for the benefit or interest of the Company or of any subsidiary corporation.

Article 124

The Directors shall not borrow any money or mortgage or charge any of the Company's or its Subsidiaries' undertaking, property or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

13. STATUTORY AND GENERAL INFORMATION (Cont'd)

Article 150

Except as otherwise provided by these Articles, a Director shall not vote at a meeting of Directors or of a committee of Directors on any resolution concerning any contract, proposed contract, arrangement or other matter in which he has, directly or indirectly, a personal interest or duty which is material and which conflicts or may conflict with the interests of the Company unless his interest or duty arises only because the case falls within one or more of the following paragraphs:-

- (1) any arrangement for giving him any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company or any of its Subsidiaries;
- (2) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any of its Subsidiaries for which he has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of a security.

A Director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

3. Changes in the Capital and Variation of Class Rights

The provisions in the Articles of Association of the Company as to changes in capital variation of class rights which are not less stringent than those provided in Companies Act, 1965 ("the Act") are as follows :-

Article 11

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may (subject to Sections 55 and 65 of the Act and whether or not the Company is being wound up) be varied or abrogated with:

- (1) the consent in writing of the holders of three-fourths of the issued shares of that class; or
- (2) the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

To every such separate general meeting, the provisions of these Articles relating to general meetings shall mutatis mutandis apply, except that the necessary quorum shall be 2 persons at least holding or representing by proxy one-third of the issued shares of the class (but so that if at any adjourned meeting of such holders, a quorum is not present, the holders present, shall form a quorum), and any holder of shares of the class present in person or by proxy may demand a poll.

Article 12

Subject to Section 65 of the Act, the rights attached to any class shall not (unless otherwise provided by the terms of issue of such shares) be deemed to be varied by the creation or issue of further shares ranking in any respect *pari passu* with that class.