10. ACCOUNTANTS' REPORT

(Prepared for the inclusion in this Prospectus)

HALS & Associates
(AF 0755)
Chartered Accountants

20 DEC 2004

The Board of Directors
Euro Holdings Berhad
Suite 1603, 16th Floor
Wisma Lim Foo Yong
86 Jalan Raja Chulan
50200 Kuala Lumpur

Dear Sirs

ACCOUNTANTS' REPORT

1 INTRODUCTION

This report has been prepared by us, approved company auditors, for inclusion in the Prospectus to be dated 28 December 2004 in connection with the public issue of 20,250,000 new ordinary shares of 50 sen each at an issue price of 75 sen per share and subsequent listing of and quotation for the entire issued and paid-up capital of Euro Holdings Berhad ("the Company") on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

2 GENERAL INFORMATION

2.1 Background

Euro Holdings Berhad was incorporated in Malaysia under the Companies Act, 1965 on 24 March 2004.

2.2 Principal Activity

The principal activity of the Company is investment holding.

2.3 Share Capital

The authorised share capital of the Company is RM50,000,000 comprising 100,000,000 ordinary shares of 50 sen each. The present issued and paid-up share capital of the Company is RM30,375,000 comprising 60,750,000 ordinary shares of 50 sen each

3 FINANCIAL STATEMENTS AND AUDITORS

We were the auditors for ECM, ECS, ESS, ESI and ECSB (as defined in section 4 below) for the financial year ended 31 December 2003 and financial period ended 30 June 2004. The financial statements of these companies were audited by another firm of auditors prior to that. The financial statements audited by us and by the other firm of auditors for all years relevant to this report had been reported on without qualification.

The financial statements including the proforma consolidated financial statements presented herein have been prepared in accordance with Malaysian Accounting Standards Board ("MASB") standards and on the accounting principals and bases consistent with those normally adopted by the Group.

Suite 1602, 16th Floor, Wisma Lim Foo Yong, 86 Jalan Raja Chulan, 50200 Kuala Lumpur
P.O. Box 11688, 50754 Kuala Lumpur
Tel: 03-2732 0322 Fax: 03-2142 3116

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4 THE RESTRUCTURING AND LISTING SCHEME

In conjunction with and as an integral part of the proposed listing of and quotation for the entire share capital of the Company on the Second Board of Bursa Securities, the Company undertook the following restructuring and listing scheme:

i) Acquisition

- Acquisition of 800,048 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Euro Chairs Manufacturer (M) Sdn Bhd ("ECM") for a purchase consideration of RM1,820,235 which was satisfied by the issuance of 3,578,620 new ordinary shares of 50 sen each in the Company at an issue price of approximately 51 sen per share;

- Acquisition of 660,012 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Euro Chairs System Sdn Bhd ("ECS") for a purchase consideration of RM 10,080,899 which was satisfied by the issuance of 19,819,259 new ordinary shares of 50 sen each in the Company at an issue price of approximately 51 sen per share;

- Acquisition of 2,000,000 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Euro Space Industries (M) Sdn Bhd ("ESI") for a purchase consideration of RM6,462,501 which was satisfied by the issuance of 12,705,413 new ordinary shares of 50 sen each in the Company at an issue price of approximately 51 sen per share;

- Acquisition of 200,000 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Euro Space System Sdn Bhd ("ESS") for a purchase consideration of RM5,334,373 which was satisfied by the issuance of 10,487,489 new ordinary shares of 50 sen each in the Company at an issue price of approximately 51 sen per share.

- Acquisition of 2 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Euro Chairs (M) Sdn Bhd ("ECSB") at RM2.

The total purchase consideration of RM23,698,010 for the Acquisition was arrived at based on the aggregate audited NTA of the acquiree companies as at 31 December 2003.

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The above acquisitions have resulted in a group of companies comprising the following subsidiary companies:

Subsidiaries	*Principal Activities*	*Country of Incorporation*	*Group Interest %*
ECM	*Manufacturing and marketing of furniture*	*Malaysia*	*100*
ECS	*Trading of furniture, furniture fabric materials and other furniture components*	*Malaysia*	*100*
ESS	*Trading of office furniture*	*Malaysia*	*100*
ESI	*Manufacturing and trading of office furniture, partitions, chairs and panels*	*Malaysia*	*100*
ECSB	*Holds the industrial designs and trademark of the Group*	*Malaysia*	*100*

ii) Rights issue

Renounceable rights issue of 14,159,215 new ordinary shares of 50 sen each at par.

iii) Public Issue

The Company undertakes the public issue of 20,250,000 new ordinary shares of 50 sen each at an issue price of 75 sen per share.

The estimated listing expenses of RM1,600,000 will be set off against the share premium account.

The Company with its subsidiary companies acquired pursuant to the above restructuring and listing scheme shall hereinafter be referred to as the "EHB Group" or " Proforma Group".

5 SUMMARISED INCOME STATEMENT

The summarised proforma consolidated results of the EHB Group for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004 have been prepared for illustrative purposes only after making such adjustments that we consider necessary and assuming that EHB Group had been in existence throughout the years under review.

The summarised results of the Company and the subsidiary companies for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004 based on the audited financial statements are as follows:

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

5.1 EHB

	Period ended 24 March 2004 to 30 June 2004 RM'000
Revenue	-
Operating loss before charges for depreciation, interest and taxation	(7)
Depreciation	-
Interest	-
Operating loss after depreciation and interest but before taxation	(7)
Taxation	-
Loss after taxation	(7)
No. of shares in issue	4
Net (loss per share) (RM'000)	(7)*
Gross dividend rate (%)	-

**Annualised*

Commentary:

1. *There were no extraordinary or exceptional items as defined in MASB 3 for the financial period under review.*
2. *EHB has not commenced operations as at 30 June 2004.*
3. *There was no tax charge as EHB had no chargeable income.*

5.2 EHB Group

	<—— Financial years ended 31 December ——>					6-month period ended 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	24,494	31,775	28,435	40,372	52,922	28,379
Operating profit before charges for depreciation, interest and taxation	6,200	5,966	5,993	7,475	9,575	4,896
Depreciation	(1,512)	(1,602)	(1,667)	(1,847)	(2,259)	(1,363)
Interest	(1,381)	(1,469)	(1,236)	(1,177)	(1,080)	(429)
Operating profit after depreciation and interest but before taxation	3,307	2,895	3,090	4,451	6,236	3,104
Taxation	(94)	(721)	(624)	(1,291)	(1,609)	(417)
Profit after taxation	3,213	2,174	2,466	3,160	4,627	2,687
No. of shares assumed in issue ('000)	60,750	60,750	60,750	60,750	60,750	60,750
Net earnings per share ("EPS")/ (sen)	5.29	3.58	4.06	5.20	7.62	8.85*
Gross dividend rate (%)	-	-	-	-	-	-

**Annualised*

Commentary:

1. *There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review.*

2. *The Proforma Group achieved higher revenue of RM31.8 million for the year ended 31 December 2000 attributable to increase in revenue from local projects secured and also from additional new foreign customers especially in Singapore. However despite the growth, the Proforma Group registered a lower pre-tax profit of RM2.9 million for the year as a result of increase in salary costs and sale of lower-margin products.*

3. *For the year ended 31 December 2001, the revenue decreased by 11% to RM28.4 million from RM31.8 million in the previous year as a result of lower revenue from project sales. Despite the decrease in revenue a higher pre-tax profit of RM3 million was registered due to lower operating expenses incurred during the year.*

4. *The Proforma Group achieved a revenue growth of 42% for the year ended 31 December 2002 attributed to increase in sales volume to existing and new customers mainly from the region of South East Asia. During the year the Proforma Group secured new local projects to supply and install system furniture and chairs which resulted the high growth in Proforma Group's revenue. As a result, the pre-tax profit increased further to RM4.4 million for the year.*

5. *Revenue for the financial year ended 31 December 2003 continued to grow on the back of the growing demand from the export market where the Proforma Group has established itself as one of the main high end suppliers for system furniture and chairs. The growing demand from the local projects which the Proforma Group had managed to secure has further contributed to the increase in revenue during the year. On the back of higher revenue, the pre-tax profit increased further to RM6.2 million for the year.*

6. *Revenue for the 6-month period ended 30 June 2004 registered at RM28.4 million, representing an annualised 7% increase as compared to RM52.9 million in the previous year. The increase was in line with the growing demand from the established export market mainly from India and the region of South East Asia. Consequently, a pre-tax profit of RM3.1 million was registered.*

7. *There was no tax charge in 1999 as it was a tax free year. The low effective tax rate for 2000 to 2004 was due to the utilisation of investment tax allowances, reinvestment allowances, unabsorbed tax losses and capital allowances.*

5.3 ECM

	< Financial years ended 31 December >					6-month period ended 30 June
	1999 RM'000	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Revenue	4,150	4,865	3,243	6,129	13,582	9,498
Operating profit/(loss) before charges for depreciation, interest and taxation	428	(330)	270	562	2,925	1,969
Depreciation	(597)	(512)	(530)	(493)	(506)	(348)
Interest	(566)	(626)	(565)	(450)	(367)	(161)
Operating profit/(loss) after depreciation and interest but before taxation	(735)	(1,468)	(825)	(381)	2,052	1,460
Taxation	(64)	386	258	114	(559)	(189)
Profit/(Loss) after taxation	(799)	(1,082)	(567)	(267)	1,493	1,271
No. of shares in issue ('000)	800	800	800	800	800	800
Net EPS/(loss per share) (RM)	(1.00)	(1.35)	(0.71)	(0.33)	1.87	3.18*
Gross dividend rate (%)	-	-	-	-	-	-

**Annualised*

Commentary:

1. *There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review.*

2. *ECM achieved higher revenue of RM4.9 million for the year ended 31 December 2000 attributable to higher revenue from existing and new customers mainly from Middle East and England. However, despite the growth ECM incurred a higher loss RM1.5 million due to lower profit margin as a result of sale of lower-end products and increase in salary cost from the new recruitments during the year.*

3. *For the year ended 31 December 2001, ECM's revenue decreased by 33% to RM3.2 million from RM4.9 million in the previous year as part of the Company's manufacturing activities and sales of system furniture were spun off to another company within the Proforma Group, ESI, during the year. However, the gross margin increased mainly attributed to the sale of higher margin products. Along with the restructuring in operations, the efficiency in labour and material usage increased and ECM managed to reduce the loss to RM825,000 for the year.*

4. *ECM achieved a revenue growth of 89% for the year ended 31 December 2002 attributed to increase in sales volume to existing and new customers mainly from India, Japan and South East Asia market namely Singapore and the Philippines. The gross margin increased on the back of increased production volume and higher efficiency enabling ECM to register a much lower loss of RM381,000 from RM825,000 in the previous year.*

5. *In 2003, ECM's revenue more than doubled to RM13.6 million mainly due to the company having extended its market presence in South East Asia market in Singapore and the Philippines. Gross margin also increased significantly to 30% from 17% in the previous year attributed mainly to increased production volume and economies of scale. On the back of higher revenue and gross margin, ECM registered a pre-tax profit of RM2 million, a turnaround from the net loss in the previous year.*

6. *Revenue for the 6-month period ended 30 June 2004 registered at RM9.5 million, representing an annualised 40% increase as compared to RM13.6 million in the previous year. The increase in revenue was attributable to high demand from the South East Asia market. On the back of higher revenue ECM registered a pre-tax profit of RM1.5 million.*

7. *There was no charge for current tax as ECM had no chargeable income and had sufficient unabsorbed tax losses and capital allowances to fully offset against its chargeable income. The taxation charge shown was in relation to deferred taxation.*

5.4 ECS

	< Financial years ended 31 December				>	6-month period ended 30 June
	1999 RM'000	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Revenue	15,229	6,529	9,269	14,641	17,280	6,403
Operating profit before charges for depreciation, interest and taxation	3,367	1,209	1,306	1,819	2,043	401
Depreciation	(365)	(359)	(276)	(287)	(472)	(301)
Interest	(151)	(99)	(70)	(51)	(79)	(43)
Operating profit after depreciation and interest but before taxation	2,851	751	960	1,481	1,492	57
Taxation	(30)	(280)	(297)	(528)	(457)	(64)
Profit /(Loss) after taxation	2,821	471	663	953	1,035	(7)
No. of shares in issue ('000)	660	660	660	660	660	660
Net EPS/(loss per share) (RM)	4.27	0.71	1.00	1.44	1.57	(0.02)
Gross dividend rate (%)	-	-	-	-	-	-

Commentary:

1. *There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review*

2. *For the financial year ended 31 December 2000, revenue decreased by 57% to RM6.5 million from RM15.2 million in the previous year as a result of certain sales being channeled through ESS as part of the operations restructuring. As a result, the pre-tax profit decreased to RM751,000 from RM2.9 million in the previous year.*

3. *Revenue for the financial year ended 31 December 2001 increased by 42% to RM9.3 million from RM6.5 million in the previous year arising from the new projects secured during the year. Consequently, a higher pre-tax profit of RM960,000 was registered.*

4. *In 2002, ECS's revenue increased further to RM14.6 million attributed to new projects that were secured during the year. As a result, the pre-tax profit increased further to RM1.5 million.*

5. *Revenue for the financial year ended 31 December 2003 increased by 18% to RM17.3 million as ECS secured further new projects supplying chairs and furniture. In spite of the increase in sales, the pre-tax profit remained unchanged at RM1.5 million due to the increase in operating expenses such as salaries and upkeep of motor vehicle.*

6. *For the period ended 30 June 2004, revenue and pre-tax profit was recorded at RM6.4 million and RM57,000 respectively in line with the traditional low sales in the first half of the year.*

7. *There was no tax charge in 1999 as it was a tax-free year. The higher effective tax rate in 2000 to 2004 as compared to the statutory rates was due to certain expenses incurred being disallowed for tax deduction.*

5.5 ESS

	<—— Financial years ended 31 December ——>					**6-month period ended 30 June**
	1999 RM'000	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Revenue	7,380	20,154	14,977	22,191	13,790	5,696
Operating profit before charges for depreciation, interest and taxation	1,353	2,991	1,281	1,868	1,131	293
Depreciation	(35)	(113)	(222)	(299)	(331)	(204)
Interest	(18)	(131)	(112)	(152)	(119)	(43)
Operating profit after depreciation and interest but before taxation	1,300	2,747	947	1,417	681	46
Taxation	-	(807)	(310)	(473)	(249)	(53)
Profit /(Loss) after taxation	1,300	1,940	637	944	432	(7)
No. of shares in issue ('000)	200	200	200	200	200	200
Net EPS/(loss per share) (RM)	6.50	9.70	3.19	4.72	2.16	(0.07)*
Gross dividend rate (%)	-	-	-	-	-	-

**Annualised*

Commentary:

1. *There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review*

2. *Revenue for the financial year ended 31 December 2000 more than doubled to RM20.2 million from RM7.4 million in 1999, as the company secured major contracts supplying mainly furniture during the year. The higher revenue enabled the company to achieve a profit before tax of RM2.7 million.*

3. *In 2001, revenue dropped by 26% to RM15.0 million as a result of lower revenue from project sales. This resulted in the company recording a lower pre-tax profit of RM947,000 for the year.*

4. *For the financial year ended 31 December 2002, revenue of the company increased by 48% to RM22.2 million as the company secured two new contracts from major government projects. On the back of higher revenue, the pre-tax profit increased by 50% to RM1.4 million for the year.*

5. *For the financial year ended 31 December 2003, ESS's revenue decreased by 38% to RM13.8 million from RM22.2 million in the previous year as the major projects were completed during the year. Consequently, the pre-tax profit decreased to RM681,000 from RM1.4 million in the previous year.*

6. *For the period ended 30 June 2004, revenue and pre-tax profit was recorded at RM5.7 million and RM46,000 respectively in line with the traditional low sales in the first half of the year.*

7. *There was no tax charge in 1999 due to the tax waiver. From 2000 to 2004, the effective tax rates were higher than the statutory rates due to certain expenses incurred being disallowed for tax deduction.*

5.6 ESI

	< Financial years ended 31 December				>	6-month period ended 30 June
	1999 RM'000	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Revenue	5,880	13,703	13,199	21,063	22,386	11,955
Operating profit before charges for depreciation, interest and taxation	1,052	2,111	3,138	3,225	3,478	2,241
Depreciation	(515)	(617)	(638)	(768)	(950)	(510)
Interest	(645)	(619)	(490)	(524)	(516)	(182)
Operating profit/(loss) after depreciation and interest but before taxation	(108)	875	2,010	1,933	2,012	1,549
Taxation	-	(20)	(275)	(404)	(344)	(110)
Profit/(Loss) after taxation	(108)	855	1,735	1,529	1,668	1,439
No. of shares in issue ('000)	2,000	2,000	2,000	2,000	2,000	2,000
Net EPS/(loss per share) (RM)	(0.05)	0.43	0.87	0.76	0.83	1.44*
Gross dividend rate (%)	-	-	-	-	-	-

**Annualised*

Commentary:

1. *There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review*

2. *For the year ended 31 December 2000, revenue increased to RM13.7 million from RM5.9 million arising from additional revenue from new overseas customers in India and Singapore. Consequently, the year showed a turnaround from the loss of RM108,000 in the previous year to a pre-tax profit of RM875,000.*

3. *In 2001, revenue decreased marginally by 4% to RM13.2 million in tandem with the lower project sales by ESS and ECS. Despite the decrease in turnover a higher pre-tax profit of RM2 million was registered due to lower operating expenses incurred during the year.*

4. *For the financial year ended 31 December 2002, revenue recovered to RM21 million attributed mainly to an increase in revenue from new customers secured during the year mainly from Kuwait, USA and Bangladesh. Despite the increase in the company's turnover, a lower pre-tax profit of RM1.9 million was registered due to lower margin products sales.*

5. *In 2003, revenue continued to grow on the back of the growing demand for the company's products and its ability to secure additional contracts from new major customers. Consequently a higher pre-tax profit of RM2 million was registered.*

6. *Revenue for the 6-month period ended 30 June 2004 registered at 12.0 million on the back of consistent sales from existing customers mainly from India. Consequently a pre-tax profit of RM1.5 million was registered for the period.*

7. *There was no tax charge in 1999 as it had no chargeable income. The lower effective tax rates thereafter was due to the company utilising investment tax allowance and reinvestment allowances to reduce its chargeable income.*

5.7 ECSB

	< Financial years ended 31 December				>	6-month period ended 30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	-	-	-
Operating loss before charges for depreciation, interest and taxation	-	(10)	(1)	(1)	(1)	(2)
Depreciation	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Operating loss after depreciation and interest but before taxation	-	(10)	(1)	(1)	(1)	(2)
Taxation	-	-	-	-	-	-
Loss after taxation	-	(10)	(1)	(1)	(1)	(2)
No. of shares in issue	2	2	2	2	2	2
Net (loss per share) (RM'000)	N/A	(5)	(0.5)	(0.5)	(0.5)	(2)*
Gross dividend rate (%)	-	-	-	-	-	-

N/A :Not applicable

**Annualised*

Commentary:

1. *There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years/period under review.*
2. *ECSB has not commenced operations as at 30 June 2004.*
3. *There was no tax charge as ECSB had no chargeable income.*

6. DIVIDENDS

The Company and its subsidiary companies have not paid or declared any dividends for the financial years/period under review.

7 SUMMARISED BALANCE SHEETS

The summarised proforma consolidated balance sheet of the EHB Group for the past 5 financial years ended 31 December 1999 to 2003 and for the financial period ended 30 June 2004 have been prepared for illustrative purposes only after making such adjustments that we consider necessary and assuming that the EHB Group had been in existence through the years under review.

The summarised balance sheets of the Company and the subsidiary companies for the past 5 financial years ended 31 December 1999 to 2003 and for the financial period ended 30 June 2004 based on the audited financial statements are as follows:

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

7.1 EHB

	As at 30 June 2004 RM'000
Current assets	412
Current liabilities	419
Net current liabilities	(7)
	(7)
Financed by :	
Share capital	*
Accumulated Losses	(7)
Shareholders' deficit	(7)
Net liabilities (RM'000)	(7)
Net liabilities per share (RM'000)	(1.75)

- *The paid up capital was RM2*

Commentary:
1. Current liabilities comprised mainly of amount due to other creditors and accrued expenses.

7.2 EHB GROUP

	< As at 31 December				>	As at 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Fixed assets	20,553	20,531	20,420	21,378	22,477	21,551
Quoted Investment	-	-	12	12	-	-
Deferred expenditure	9	-	-	-	-	-
Deferred tax assets	-	218	476	590	31	-
Current assets	15,154	15,476	14,917	21,444	29,371	29,701
Current liabilities	19,148	18,405	16,387	20,668	25,537	23,123
Net current assets/(liabilities)	(3,994)	(2,929)	(1,470)	776	3,834	6,578
	16,568	17,820	19,438	22,756	26,342	28,129
Financed by :						
Share capital	3,660	3,660	3,660	3,660	3,660	3,660
Revaluation reserves	4	4	4	4	4	4
Retained profit	7,594	9,768	12,234	15,394	20,021	22,708
Shareholders' funds	11,258	13,432	15,898	19,058	23,685	26,372
Term loans	3,703	3,038	2,316	1,495	622	215
Hire purchase creditors	1,370	1,271	1,025	1,888	1,632	1,098
Deferred taxation	237	79	199	315	403	444
	16,568	17,820	19,438	22,756	26,342	28,129
Net Tangible Assets ("NTA") (RM'000)	11,258	13,432	15,898	19,058	23,685	26,372
NTA per share (RM)	3.08	3.67	4.34	5.21	6.47	7.21

Commentary:

1. *Fixed assets comprised mainly of factory building, industrial land, machinery and equipment.*
2. *Previously, deferred tax assets were not recognised unless there was reasonable expectation of their realisation. The change in accounting policy has been applied retrospectively and comparatives have been restated.*

7.3 ECM

	<---- As at 31 December				---->	As at 30 June
	1999 RM'000	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Fixed assets	9,763	9,685	9,423	8,934	8,751	8,601
Quoted Investment	-	-	12	12	-	-
Deferred tax assets	-	218	476	590	31	-
Current assets	3,938	3,369	2,756	4,650	5,284	6,274
Current liabilities	9,871	10,888	11,246	13,318	11,996	11,533
Net current liabilities	(5,933)	(7,519)	(8,490)	(8,668)	(6,712)	(5,259)
	3,830	2,384	1,421	868	2,070	3,342
Financed by :						
Share capital	800	800	800	800	800	800
Retained profit /(Accumulated losses)	1,444	362	(205)	(472)	1,021	2,291
Shareholders' funds	2,244	1,162	595	328	1,821	3,091
Term loans	1,220	1,009	770	512	236	88
Hire purchase creditors	198	213	56	28	13	5
Deferred Taxation	168	-	-	-	-	158
	3,830	2,384	1,421	868	2,070	3,342
NTA (RM'000)	2,244	1,162	595	328	1,821	3,091
NTA per share (RM)	2.81	1.45	0.74	0.41	2.28	3.86

Commentary:

1. *Fixed assets comprised mainly of factory buildings, industrial land, machinery and equipment.*
2. *Current liabilities comprised mainly of amount due to trade and other creditors.*

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

7.4 ESS

	< As at 31 December 1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000 >	As at 30 June 2004 RM'000
Fixed assets	366	543	1,187	893	1,359	1,176
Current assets	2,851	6,028	4,797	7,679	9,244	8,031
Current liabilities	1,587	2,895	1,273	3,183	4,854	3,552
Net current assets	1,264	3,133	3,524	4,496	4,390	4,479
	1,630	3,676	4,711	5,389	5,749	5,655
Financed by :						
Share capital	200	200	200	200	200	200
Retained profit	1,180	3,120	3,757	4,701	5,133	5,127
Shareholders' funds	1,380	3,320	3,957	4,901	5,333	5,327
Hire purchase creditors	250	353	748	482	386	286
Deferred taxation	-	3	6	6	30	42
	1,630	3,676	4,711	5,389	5,749	5,655
NTA (RM'000)	1,380	3,320	3,957	4,901	5,333	5,327
NTA per share (RM)	6.90	16.60	19.79	24.51	26.67	26.64

Commentary:

1. Current liabilities comprised mainly of trade creditors and short term bank borrowings.

7.5 ECS

	< As at 31 December 1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000 >	As at 30 June 2004 RM'000
Fixed assets	1,418	1,251	1,070	1,503	1,854	1,583
Current assets	9,185	8,745	9,690	12,384	12,629	12,401
Current liabilities	3,291	2,338	2,531	4,273	3,746	3,329
Net current assets	5,894	6,407	7,159	8,111	8,883	9,072
	7,312	7,658	8,229	9,614	10,737	10,655
Financed by :						
Share capital	660	660	660	660	660	660
Retained profit	6,299	6,770	7,433	8,386	9,421	9,414
Shareholders' funds	6,959	7,430	8,093	9,046	10,081	10,074
Hire purchase creditors	283	152	52	428	531	441
Deferred taxation	70	76	84	140	125	140
	7,312	7,658	8,229	9,614	10,737	10,655
NTA (RM'000)	6,959	7,430	8,093	9,046	10,081	10,074
NTA per share (RM)	10.54	11.26	12.26	13.71	15.27	15.26

Commentary:

1. Current liabilities comprised mainly of amounts due to trade and other creditors.

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

7.6 ESI

	As at 31 December					As at 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Fixed assets	9,006	9,051	8,740	10,049	10,513	10,191
Current assets	2,832	3,947	3,232	6,172	7,509	8,220
Current liabilities	8,041	8,888	6,884	9,325	10,221	9,912
Net current liabilities	(5,209)	(4,941)	(3,652)	(3,153)	(2,712)	(1,692)
	3,797	4,110	5,088	6,896	7,801	8,499
Financed by :						
Share capital	2,000	2,000	2,000	2,000	2,000	2,000
Revaluation reserve	4	4	4	4	4	4
Retained profit	(1,329)	(474)	1,261	2,790	4,458	5,897
Shareholders' funds	675	1,530	3,265	4,794	6,462	7,901
Term loans	2,482	2,027	1,545	983	387	128
Hire purchase creditors	640	553	170	949	704	366
Deferred taxation	-	-	108	170	248	104
	3,797	4,110	5,088	6,896	7,801	8,499
NTA (RM'000)	675	1,530	3,265	4,794	6,462	7,901
NTA per share (RM)	0.34	0.77	1.63	2.40	3.23	3.95

Commentary:

1. *Fixed assets comprised mainly of freehold industrial land and building, factory building, machinery and equipment.*
2. *Current liabilities comprised mainly of amounts due to trade and other creditors.*

7.7 ECSB

	As at 31 December					As at 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Deferred Expenditure	9	-	-	-	-	-
Current assets	~	~	~	~	~	~
Current liabilities	9	10	11	12	13	15
Net current liabilities	(9)	(10)	(11)	(12)	(13)	(15)
	~	(10)	(11)	(12)	(13)	(15)
Financed by :						
Share capital	*	*	*	*	*	*
Accumulated Losses	-	(10)	(11)	(12)	(13)	(15)
Shareholders' deficit	~	(10)	(11)	(12)	(13)	(15)
Net liabilities (RM'000)	~	(10)	(11)	(12)	(13)	(15)
Net liabilities per share (RM'000)	~	(5)	(5.5)	(6)	(6.5)	(7.5)

~ Neligible
**The paid up capital was RM2*

Commentary:

1. *Current liabilities comprised mainly of amount due to directors and accrued expenses incurred over the years.*

8 PROFORMA CONSOLIDATED CASHFLOW STATEMENT

The following is the proforma consolidated cashflow statement for the period ended 30 June 2004 of the Proforma Group which has been prepared for illustrative purposes only after making such adjustments that we consider necessary and is based on the audited financial statements of the companies in the EHB Group for the period ended 30 June 2004.

	RM'000
Cashflow from Operating Activities	
Profit before taxation	3,104
Adjustment for:-	
Provision for doubtful debts	218
Depreciation	1,363
Interest expense	429
Interest income	(1)
Operating Profit before Working Capital Changes	5,113
Increase in inventories	(726)
Decrease in receivables	27
Increase in payables	(939)
Cash Generated from Operations	3,475
Interest paid	(429)
Interest received	1
Tax paid	(1,190)
Net Cash from Operating Activities	1,857
Cashflow from Investing Activities	
Purchase of fixed assets	(437)
Net Cash Used in Investing Activities	(437)
Cashflow from Financing Activities	
Term loan obtained	1,000
Repayment of term loan	(429)
Repayment of hire purchase creditors	(633)
Net Cash Used in Financing Activities	(62)
Net decrease in cash and cash equivalents	1,358
Cash and cash equivalents at beginning of the period	(4,285)
Cash and cash equivalent at end of the period	(2,927)

Note:

1. *Cash and cash equivalents at end of the period:*

	RM'000
Cash and bank balances	*579*
Bank overdrafts	*(3,506)*
	(2,927)

2. *The above proforma consolidated cashflow statement is stated after making adjustment for significant inter-company transactions and balances.*

9 STATEMENT OF ASSETS AND LIABILITIES

The following is the statement of assets and liabilities as at 30 June 2004 of the Proforma Group which has been prepared for illustrative purposes only and is based on the audited financial statements of the companies in the EHB Group as at 30 June 2004. The statement of assets and liabilities has been prepared as if the acquisition, rights issue and public issue and the estimated listing expenses of RM1.6 million were effected on 30 June 2004 and should be read in conjunction with the notes thereon:

	Note	Proforma Group As at 30 June 2004 RM'000
FIXED ASSETS	2	21,551
CURRENT ASSETS		
Inventories	3	7,020
Trade receivable	4	18,153
Other receivable, deposits and prepayments	4	2,640
Amount due from directors	5	882
Tax recoverable		228
Fixed deposits	6	200
Cash and bank balances	7	21,247
		50,370
CURRENT LIABILITIES		
Trade payables	8	7,334
Other payables	8	2,843
Hire purchase creditors	9	1,133
Bank borrowings	10	11,685
Provision for taxation		128
		23,123
NET CURRENT ASSETS		27,247
		48,798
Financed by:		
SHARE CAPITAL	11	40,500
RESERVE ON CONSOLIDATION	12	2,682
SHARE PREMIUM	13	3,866
RETAINED PROFIT		(7)
SHAREHOLDERS' FUNDS		47,041
HIRE PURCHASE CREDITORS	9	1,098
TERM LOAN – SECURED	14	215
DEFERRED TAXATION	15	444
		48,798

Notes to the Financial Statements

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements unless otherwise indicated.

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Proforma Group has been prepared under the historical cost convention modified to include the revaluation of certain assets, in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards issued by the MASB in Malaysia.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the financial period. The financial statements of the subsidiaries acquired during the period are included in the consolidated income statement from the date of their acquisitions. Inter-company transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

Goodwill or reserves arising on consolidation represents the differences between purchase price and the value of net assets of subsidiary companies at the date of acquisition. Goodwill arising on consolidation is fully written off in the year of acquisition and a reserve arising on consolidation is retained in the consolidated balance sheet.

(c) FIXED ASSETS AND DEPRECIATION

Fixed assets are stated either at cost or valuation less accumulated depreciation and impairment losses.

The freehold land is stated at valuation. No amortisation is provided for freehold land.

One of the freehold buildings is stated at valuation less accumulated depreciation and impairment loss.

The carrying amounts of fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an item of fixed assets exceeds its recoverable amount. The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it will be charged to equity. Any subsequent increase in recoverable amount is reduced by the amount that would have been recognised as depreciation had the write down or write off not occurred. Such subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

Depreciation on fixed assets is calculated on a straight line method to write off the cost of fixed assets over the expected useful lives at the following annual rates:-

Leasehold land	99 years
Freehold building	2%
Motor vehicles	20%
Plant and machinery, moulds, electrical fittings, containers and water installation	10 – 20%
Furniture and fittings, office equipments, air conditioners, computer set, signboard and telecommunication equipment	10 – 20%
Renovation	15%

The Proforma Group carried one of its freehold land and building at revalued amount less accumulated depreciation and impairment losses. In accordance with the transitional provisions issued by the MASB on the adoption of MASB Standard No. 15: Property, Plant and Equipment, these assets acquired since the last valuation are maintained at their original valuation less accumulated depreciation and impairment losses. The aggregate carrying amount on revalued assets as at 30 June 2004 are disclosed in the Note 2 to the financial statements.

Incidental cost inclusive of interest on borrowing to finance the purchase of freehold land and building has been capitalized as part of the cost of assets up to the date when the property is ready for use.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit from operations

(d) Fixed Assets Acquired Under Finance Lease and Hire Purchase Arrangements

The cost of the assets acquired under finance lease and hire purchase arrangements which in substance transfer the risk and benefits of ownerships of the assets to the Proforma Group and the Company are capitalised.

The fixed assets are recorded at the lower of the minimum lease payments or the fair value of the lease assets at the beginning of the respective lease terms less accumulated depreciation. Assets acquired under such arrangement are depreciated over the useful lives of equivalent owned assets. The depreciation policy on these assets are similar to that of the Proforma Group's and the Company's fixed assets depreciation policy.

Outstanding obligation due under the finance lease or hire purchase arrangements after deducting finance expenses are included as liabilities in the financial statements. Finance charges of hire purchase agreements are allocated to income statements so as to give a constant periodic rate of interest on the outstanding liability at the end of the financial period.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on first in, first out (FIFO) basis and includes all costs in bringing the inventory to its present location and condition. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the cost of realization and where appropriate, the cost of conversion from their existing state to a finished condition. In the case of finished goods, cost includes all direct expenditure and production overheads based on normal level activity.

(f) Trade and Other Receivables

Trade receivables are carried at invoiced amount less any estimates made for doubtful debts based on a review of outstanding amounts at the period end. Known bad debts are written off and specific allowance is made for any debt which is considered to be doubtful for collection.

(g) Trade and Other Payables

Payables are stated at cost which is the consideration to be paid in the future for products and services received.

(h) Taxation

Provision for taxation is made based on the amount of tax estimated to be payable on profits adjusted for tax purposes and it is measured using tax rates that have been enacted at the balance sheet date. Deferred tax is provided by the balance sheet liability method based on all taxable temporary differences by comparing carrying amounts of assets and liabilities and their corresponding tax bases.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credit to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credit can be utilised. Deferred tax is not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(i) Borrowings and Borrowing Costs

Borrowings are reported at their face value.

All borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

(j) Revenue Recognition

Revenue from sale of goods is recognised upon delivery of products and customers' acceptance when goods are delivered.

(k) Cash and Cash Equivalents

Cash consists of cash at bank and in hand including bank overdrafts and deposits with licensed bank.

Cash equivalents consist of investment maturing within three months from the date of acquisition and which are readily convertible to known amount of cash which are subject to an insignificant risk of change in value.

(l) Foreign Currencies Transactions

Transactions in foreign currencies are converted into Malaysian Ringgit at the exchange rates prevailing at the transaction dates, or where settlement has not taken place at the Balance Sheet date, at the approximate exchange rate prevailing at that date. All exchange gains or losses, including those arising from translation, are taken up in the income statement.

The principal closing rates used in translation of foreign currency are as follows:-

Foreign Currency	**30.06.2004 RM**
US Dollars	3.825
Singapore Dollar	2.238
Euro	4.641

(m) Financial Instruments

(i) The recognised financial instruments carried on the balance sheet include trade and other receivables (exclude tax recoverable and repayment), payables, cash and bank balances, hire purchase creditors and bank borrowings. These instruments are recognised in the financial statements when a contract or contractual arrangements has been entered into with the counter parties.

(ii) Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends, gains and losses relating to financial instruments classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to set off the recognised amount and intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The measurement basis, extent and nature of the financial instruments are disclosed in the respective notes to the financial statements.

2. FIXED ASSETS

Proforma Group

	At 1 January 2004 RM'000	Addition RM'000	Disposal RM'000	At 30 June 2004 RM'000
Cost:				
Freehold industrial land				
- at cost	1,106	-	-	1,106
- at valuation	1,194	-	-	1,194
Factory building				
-at cost	3,618	34	-	3,652
-at valuation	510	-	-	510
Leasehold land	2,536	-	-	2,536
Freehold building	5,648			5,648
Furniture and fittings	1,370	2	-	1,372
Plant and machinery	7,326	167	-	7,493
Motor vehicles	3,470	-	-	3,470
Office equipment	620	1	-	621
Computers	847	109	(87)	869
Signboards	7	-	-	7
Mould	4,809	116	-	4,925
Electrical installation	31	8	-	39
TOTAL	33,092	437	(87)	33,442

Proforma Group

	At 1 January 2004 RM'000	Charge For The Period RM'000	Disposal RM'000	At 30 June 2004 RM'000	Net Book Value at 30 June 2004 RM'000
Accumulated Depreciation:					
Freehold industrial land					
- at cost	-	-	-	-	1,106
- at valuation	-	-	-	-	1,194
Factory building					
-at cost	407	36	-	443	3,209
-at valuation	60	5	-	65	445
Leasehold land	77	13	-	90	2,446
Freehold building	904	56	-	960	4,688
Furniture and fittings	688	98	-	786	586
Plant and machinery	3,269	345	-	3,614	3,879
Motor vehicles	1,756	281	-	2,037	1,433
Office equipment	343	28	-	371	250
Computers	583	47	(87)	543	326
Signboards	4	*	-	4	3
Mould	2,510	452	-	2,962	1,963
Electrical installation	14	2	-	16	23
TOTAL	10,615	1,363	(87)	11,891	21,551

i) The net book value of the freehold industrial land and building charged to bank to obtain banking facilities granted to the subsidiary company was RM5,952,704.

ii) The net book value of the leasehold land and freehold building charged to bank for credit facilities granted to the subsidiary company was RM7,133,821.

iii) The net book value of fixed assets acquired under hire purchase instalment plan are:-

	Proforma Group RM'000
Plant and machinery	2,108
Motor vehicles	1,360
	3,468

The freehold industrial land and factory building stated at valuation was revalued in year 1997 by the subsidiary company based on opinion expressed by professional valuers on the basis of 'Open Market Value'.

3. **INVENTORIES- AT COST**

	Proforma Group RM'000
Raw materials	4,229
Work in progress	1,805
Finished goods	986
	7,020

4. TRADE AND OTHER RECEIVABLES

	Proforma Group RM'000
Trade receivables	18,470
Less: Allowances for doubtful debts	(317)
	18,153

The currency exposure profile of trade receivables are as follows:-

	Proforma Group RM'000
Functional currency of the Proforma Group	
Ringgit Malaysia	14,289
United States Dollar	2,524
Singapore Dolllar	1,340
	18,153

The credit period on trade receivables is normally 30 days to 90 days or contractual periods based on project contract sales.

Other receivables' credit terms are assessed and approved on case by case basis.

5. AMOUNT DUE FROM DIRECTORS

Proforma Group

The amount due is unsecured, interest free with no fixed term of repayment. The amount due from Directors has been fully recovered subsequent to the Balance Sheet date.

6. FIXED DEPOSITS

Proforma Group

The fixed deposits have been pledged as security for banking facilities granted.

The fixed deposits earned interest rate of 3% p.a.

7. The currency exposure profile of cash and bank balances are as follows:-

Functional currency of the Proforma Group	**Proforma Group RM'000**
Ringgit Malaysia	21,020
United States Dollar	227
	21,247

8. TRADE AND OTHER PAYABLES

The currency exposure profile of payables are as follows;-

Functional currency of Proforma Group	**Proforma Group RM'000**
i) Trade Payables	
Ringgit Malaysia	6,782
United States Dollar	238
Euro	298
Singapore Dollar	16
	7,334
ii) Other Payables	
Ringgit Malaysia	1,816
United States Dollar	1,027
	2,843

The normal credit terms granted to the Proforma Group ranges within 30 – 90 days. Other payables credit terms are granted to the Proforma Group based on case by case basis.

9. HIRE PURCHASE CREDITORS

	Proforma Group RM'000
Minimum hire purchase payments:	
Not later than 1 year	1,269
Later than 1 year and not later than 5 years	1,177
Later than 5 years	9
	2,455
Less: Future finance charges	(224)
Present value of hire purchase liabilities	2,231
Present value of hire purchase liabilities:	
Not later than 1 year	1,133
Later than 1 year and not later than 5 years	1,090
Later than 5 years	8
	2,231
Instalment due:	
Within next 12 months	1,133
After next 12 months	1,098
	2,231
Fair Value	2,231

The hire purchase creditors bears interest rate at 4.5% to 9.75% per annum.

10. BANK BORROWINGS

	Proforma Group RM'000
Bills payable	6,330
Bank overdrafts	3,506
Term loan-portion repayable within next 12 months (Note 14)	1,849
	11,685

Interest rates per annum on the above are as follows:-

Bills payable	4.48%-4.75%
Bank overdrafts	7.50%-7.75%
Term loans	7.50%-11.00%

The bank borrowings are secured against the following:-

i) Land and properties belonging to the Proforma Group and certain directors' related company.

ii) All monies restricted debentures over the lands and properties owned by the Proforma Group and certain directors' related company.

iii) All monies facility agreement.

iv) All monies charge over the Proforma Group's freehold land and factory buildings as subsidiary instrument.

v) Pledge of 1st Party fixed deposit of RM200,000 together with a duly signed Letter of Set-off and Memorandum of Deposit stamped as Subsidiary Instrument. The accrued fixed deposit interest is to added onto the principal as collateral. The fixed deposit is pledged for the total banking facilities.

vi) Personal guarantee and indemnity by certain directors.

vii) Deed of Assignment over a unit of condominium belonging to one of the directors as subsidiary instrument.

Terms of repayment of bank borrowings are as follows:-

(i)	Bank overdrafts	:	repayable on demand
(ii)	Bills payable	:	120-150 days
(iii)	Term loans	:	1-15 years

11. SHARE CAPITAL

	Proforma Group RM'000
Ordinary shares of 50 sen each	
Authorised	50,000
Issued and fully paid:	
Issued pursuant to:	
Acquisition	23,295
Rights issue	7,080
Public issue	10,125
Balance at end of the period	40,500

12. RESERVE ON CONSOLIDATION

	Proforma Group RM'000
Non-distributable:	
Reserve arising from acquisition of subsidiaries during the period	2,682

13. SHARE PREMIUM

	Proforma Group RM'000
Non-distributable:	
Arising from the acquisition	403
Arising from the public issue	5,063
	5,466
Estimated listing expenses	(1,600)
	3,866

14. TERM LOANS – SECURED

	Proforma Group RM'000
Amount due:	
Within next 2 years	2,016
After next 2 years but within 5 years	48
	2,064
Less: Payable within next 12 months and included under current liabilities (Note 10)	(1,849)
	215

15. DEFFERED TAX LIABILITY

	Proforma Group RM'000
At beginning of the period	372
Transfer from income statement	72
At end of the period	444

Deferred tax liability arises from taxable temporary differences between depreciation charge and its corresponding taxation allowance.

16. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Proforma Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Proforma Group's business whilst managing its credit, liquidity and cash flow, interest rate and foreign exchange risk.

a) **Credit Risk**

Credit risk or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Trade receivables are monitored on an ongoing basis via Proforma Group management reporting procedures.

b) **Liquidity and Cash Flow Risk**

As part of the Proforma Group's overall liquidity management, the Proforma Group maintains sufficient level of cash to meet its working capital requirements.

The Proforma Group's cash flow position is monitored on an ongoing basis through the Proforma Group's budgetary controls as well as management reporting procedures.

c) **Interest Rate Risk**

The Proforma Group's exposure to market risk for changes in interest rates relate primarily to interest bearing debts. The Proforma Group monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favourable rates.

d) **Foreign Exchange Risk**

The Proforma Group is exposed to foreign currency risk as a result of its normal trading activities, where the currency denomination differs from the local currency, Ringgit Malaysia (RM). The Proforma Group maintains a foreign exchange account to hedge against foreign currency fluctuation and to limit their exposure to foreign currency payables and/or cash flows generated from anticipated transactions denominated in foreign currencies.

e) **Fair Value of Financial Instruments**

The carrying amounts of all the financial instruments are stated approximately at the fair values, unless otherwise indicated in the respective notes to the financial statements.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:-

(i) **Bank Balances**

The carrying amount of bank balances approximate fair value due to the relatively short term maturity of these instruments.

(ii) **Trade and Other Receivables and Payables**

The historical cost carrying amount of receivables and payables subject to normal trade credit terms approximate fair value. The carrying amounts of other receivables and payables are reasonable estimates of fair value because of their short term maturity.

(iii) **Borrowings**

The carrying amount of short term borrowings approximate fair value because of the short period to maturity of those instruments. The carrying amount of long term borrowings approximate fair value as these borrowings bear floating market rate of interest.

(iv) **Hire Purchase Creditors**

The fair value of the hire purchase creditors are estimated by discounting the future contractual cash flows at the average effective interest rate available to the Proforma Group for similar financial instrument.

(v) **Amount Due From Directors**

There is no fixed term of repayment but the Proforma Group does not anticipate the carrying amount recorded at the balance sheet date to be significantly different from the values that would eventually be received.

17. CAPITAL COMMITMENT

	Proforma Group RM'000
Amount contracted but not provided for	1,903

18. SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

(i) On 23[th] April 2004, the Company applied to the Ministry of International Trade and Industry (MITI), Foreign Investment Committee (FIC) and Securities Commission (SC) for proposed restructuring and subsequent listing of the Company on the Second Board of Bursa Securities.

(ii) On 19[th] April 2004, the Company has entered into separate, conditional Sale and Purchase agreements ("S & P Agreements") to acquire 100% equity interest in Euro Chairs Manufacturer (M) Sdn Bhd, Euro Chairs System Sdn Bhd, Euro Space System Sdn Bhd and Euro Space Industries (M) Sdn Bhd for consideration of RM1,820,235, RM10,080,899, RM5,334,373 and RM6,462,501 respectively. The purchase consideration is to be satisfied by the issuance of RM46,590,781 ordinary shares of RM0.50 each in the share capital of the Company at an issue price of approximately RM0.51. At the same date, the Company acquired 100% equity interest in Euro Chairs (M) Sdn Bhd for a cash purchase consideration of RM2. The "S & P Agreements" are subject to the approval to be obtained from MITI, FIC and SC for the proposed listing of the Company on the Second Board of Bursa Securities. The Acquisition were completed on 1 October 2004.

19. SUBSEQUENT EVENT AFTER THE FINANCIAL PERIOD

The Company obtained the following approvals for the restructuring and listing of the Company on the Second Board of Bursa Securities.

(a) SC vide letter dated 13 September 2004 and 16 December 2004
(b) FIC, through the SC's letter dated 13 September 2004; and
(c) MITI vide its letters dated 29 May 2004 and 2 November 2004.

On 18 October 2004, the Company obtained approval-in-principal from Bursa Securities for the admission of EHB to the Official List of the Second Board of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up ordinary shares of EHB on the Second Board Of Bursa Securities.

On 2 November 2004, EHB implemented a renounceable right issue of 14,159,215 new EHB Shares at par on the basis of approximately 3.04 new Shares for every 10 shares held after the Acquisitions.

20. PROFORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Proforma Group as at 30 June 2004, the NTA cover per share after the acquisition, rights issue, public issue and the estimated listing expenses is calculated as follows:

NTA as per Proforma Group's statement of assets and liabilities (RM'000)	47,041
Number of ordinary shares of 50 sen each in issue ('000)	81,000
Proforma net tangible assets cover per share (sen)	58

21. FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 June 2004.

Yours faithfully,

HALS & ASSOCIATES
AF 0755
CHARTERED ACCOUNTANTS

SUBRAMANIAM SANKAR
Bil 925/02/06(J/PH)
Partner

11. INDEPENDENT MARKET RESEARCHERS' REPORT

(Prepared for the inclusion in this Prospectus)

Infocredit D&B (527570-M)
Creating value ... building trust

Tel : 603-2718 1000
Fax : 603-2718 1001
www.icdnb.com.my

20 DECEMBER 2004

Board of Directors
Euro Holdings Berhad
Suite 1603, Tingkat 16
Wisama Lim Foo Yong
86, Jalan Raja Chulan
50200 Kuala Lumpur

RE: INDEPENDENT MARKET RESEARCHERS REPORT - EXECUTIVE SUMMARY FOR EURO HOLDINGS BERHAD

This Report has been prepared for inclusion in the Prospectus dated 28 December 2004 pursuant to the listing of Euro Holdings Berhad ("EHB") on the Second Board of the Bursa Malaysia Securities Berhad.

This research is undertaken with the purpose of providing an overview of the Office Furniture Industry in Malaysia. The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house corporate databases, Internet research as well as online databases.

Infocredit D&B (Malaysia) Sdn Bhd ("Expert") has prepared this Report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Report. In addition, the Expert acknowledges that if there are significant changes affecting the content of the Expert's Report after the issue of the Prospectus and before the issue of securities, then the Expert has an on-going obligation to either cause the Report to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Report in the Prospectus.

An Executive Summary is highlighted in the following sections.

For and on behalf
INFOCREDIT D&B (MALAYSIA) SDN BHD

Tan Sze Chong
Managing Director

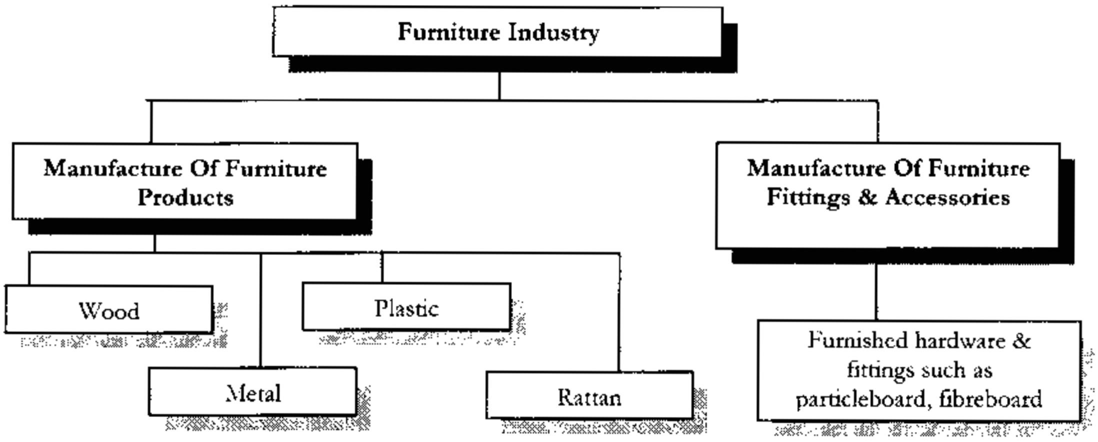
EXECUTIVE SUMMARY

1 MARKET DEFINITION

1.1 DEFINITION OF THE FURNITURE INDUSTRY

The furniture industry is divided into two segments, namely manufacture of furniture products and manufacturer of furniture fittings and accessories. Due to the broad coverage of different furniture products, the classification or grouping for the manufacturing of furniture products are based on type of materials used. The industry structure of the furniture industry is diagrammatically illustrated below.

Figure 1.1: Industry Structure of Furniture



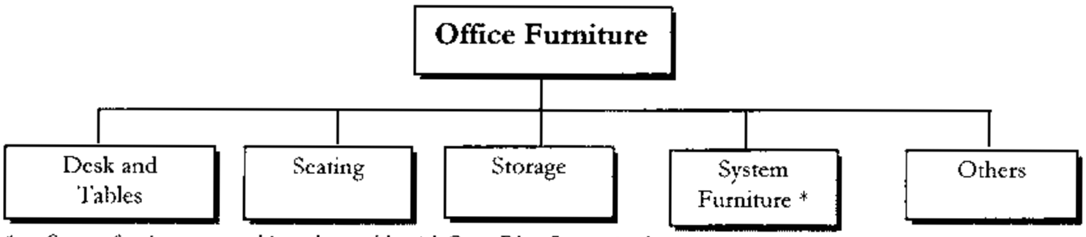
Source: Infocredit D&B

1.2 DEFINITION OF OFFICE FURNITURE

For the purpose of this report, office furniture covers all types of furniture, fixtures and accessories used by staff in a workplace, which is purpose-built to enable office personnel to carry out a variety of tasks. Generally, an office refers to a space, room or facility that contains desks, tables, seating, shelving and storage facilities that could include among others, sofas, tables for reception areas, training equipment and others, needed to complete the office structure.

Office furniture can be divided into five broad categories namely - desk and tables, seating, storage, system furniture and miscellaneous (others) that includes screens and partitions.

Figure 1.2: Types of Office Furniture



** = System furniture are used interchangeably with Open Plan System in this report*
Source: Infocredit D&B

DESK AND TABLES

Office furniture is defined within the desk and tables grouping which includes secretarial and executive desk and workstations. Most of the desk and tables are made of wood, metal and plastic whether upholstered or non-upholstered. Due to the evolving changes in the demand of office workspace, desk and tables have gone through similar evolution that led to the concept of modular desking. Modular desking incorporates the feature of flexibility in its design to assemble and disassemble into new shape and design to complement the office space. It also incorporates ergonomic features in its innovative design to portray a modern corporate image. The range of office chairs is varied and catered to every segments of the office hierarchy from secretaries to CEOs.

SEATING

Seating refers to adjustable or non-adjustable secretarial seating, executive and reception seating which range from the basic foam and fabric-covered adjustable swivel chairs to the high-backed adjustable leather or fabric covered executive chairs. They can be made from wood, metal or plastic based with upholstered seating and back rests, armrest and headrest. Design for office furniture seating will emphasis on its ergonomic structure, flexibility and spaciousness to increase productivity and efficiency. The trend is also moving towards ergonomics of office furniture to address four key risks associated with complaints of discomfort in the work environment such as awkward postures, bio-mechanical stresses, repetitions and force.

STORAGE

Storage units refer to filling cabinets used to store files and documents. Wheel storage bins, racking systems, open-shelves and pedestals are also included into this grouping. The changing environment of today's office demands has been duly incorporated in the designs of office storage furniture. Mobility, design, compactness and flexibility in assembling and reassembling according to workspace and functions are important features of storage furniture.

SYSTEM FURNITURE

System furniture or open plan system refers to office furniture that can be upgraded and configured to complement the increase in workforce and business growth. Different office furniture were designed to incorporate the concept of flexibility, mobility and adaptability within the given office space. The concept of flexibility, mobility and adaptability presents numerous possibilities in configuring the variety of work settings to achieve workspace optimisation, multi-tasking capabilities, team collaboration, knowledge sharing and also adaptation to technological advancements. The modern concept of system furniture incorporates design catered for the sharing of new technologies such as LAN, departmental servers, printers, faxing, scanning, and other forms of collaborations tools. This system will further enhance professional performance, efficiency, style and corporate image.

OTHER OFFICE FURNITURE

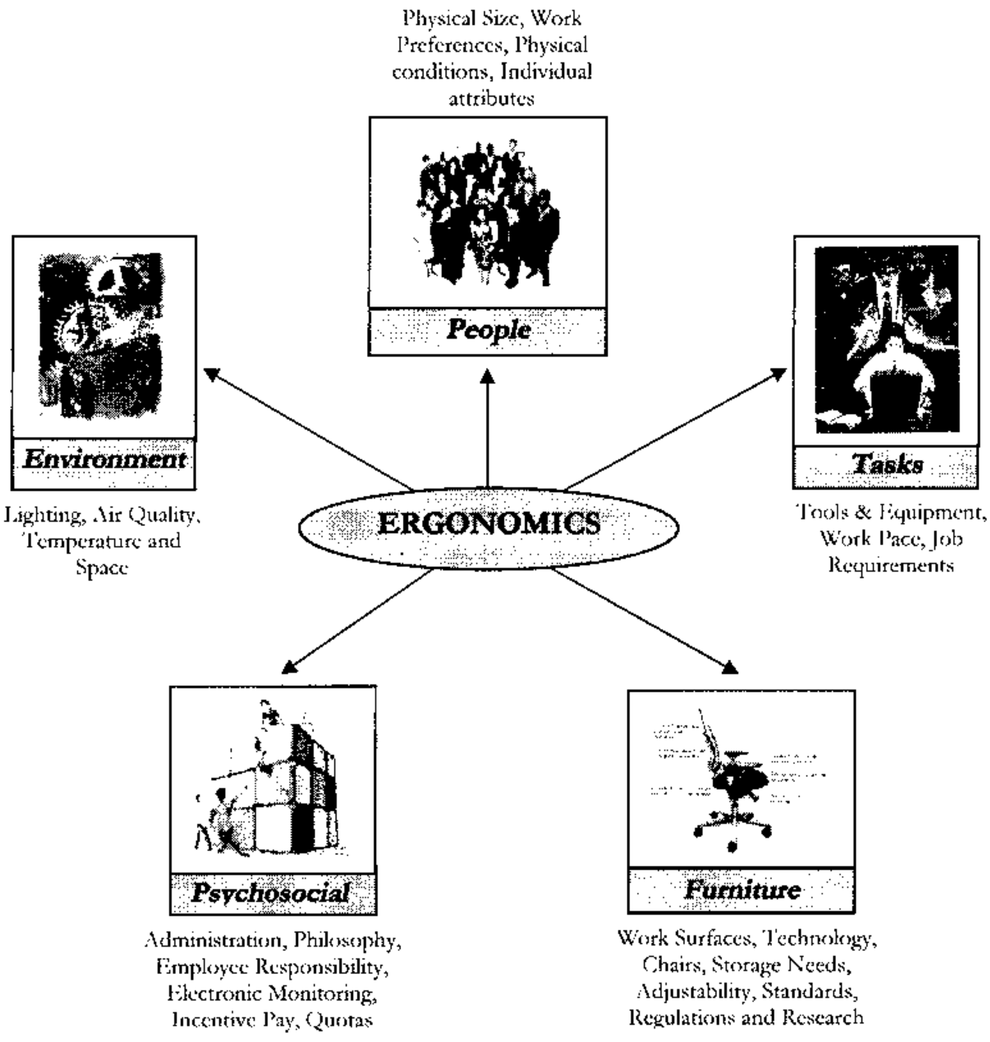
Miscellaneous or other office furniture includes partitions and screens, plastic trays, wastepaper bins, portable filling bins and notice boards. In addition, data power management system is also grouped under miscellaneous office furniture. In today's modern office workspace, emphasis on sensible data and power management is very much a standard requirement by clients.

1.3 ERGONOMICS AND OFFICE FURNITURE

Much emphasis of the modern office concept designs are placed on "ergonomics" which is defined as "an applied science concerned with designing and arranging things people use so that the people and things interact most efficiently and safely. When purchasing office furniture, most end-users especially consider the ergonomic aspects as being part of the overall quality of the product.

Medical experts have identified four key risks associated with complaints of discomfort in the work environment, which includes awkward postures, bio-mechanical stresses, repetitions (repetitive strain injuries) and force. These risk factors relate to those who use computers or sit for prolong periods. The key is to eliminate or lower these risks by providing a well-designed product/concept to address. The nerve damage that is caused by poor ergonomics is painful and difficult to treat and reverse. The influences of ergonomics in an office working environment are diagrammatically illustrated below.

Figure 1.3: The Influences of Ergonomics in an Office Working Environment



Sources: Minnesota State Department of Employee Relations, Infocredit D&B

1.4 INTEGRATED OFFICE FURNITURE MANUFACTURERS (IOFM)

The office furniture designs in Malaysia are inspired by the growing demand for user-friendly products, which are both aesthetic and functional incorporating ergonomics and durability. Today's high-tech and complex working environment reflects the modernisation of intelligent office buildings and SOHO concepts that requires furniture with effective office layout solutions as well as providing aesthetics and functional workspace.

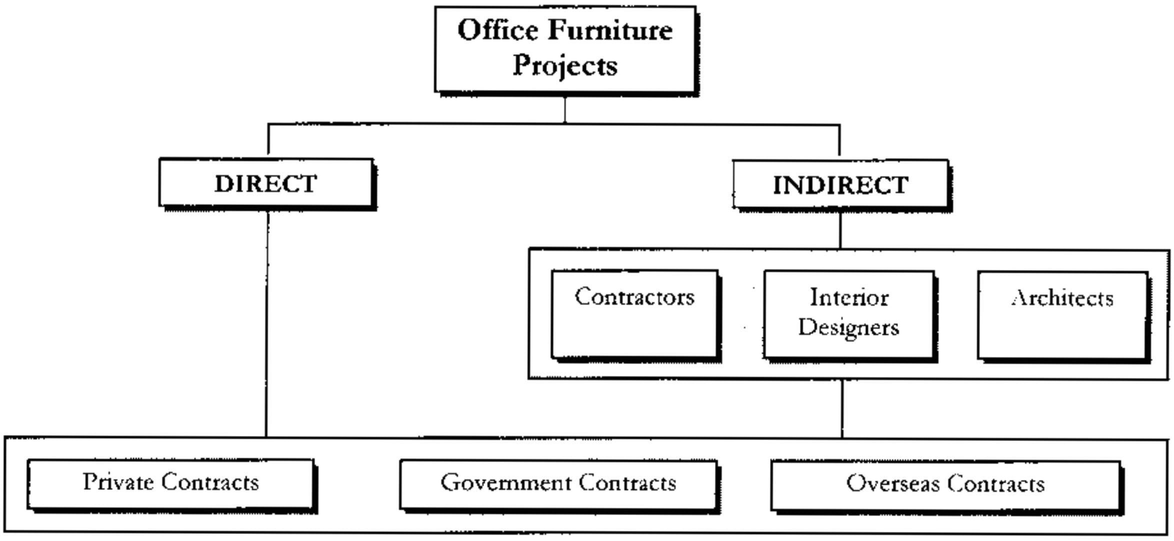
Due to its broad range of applications and end-users, few players in Malaysia have the capability to service the wide spectrum of end-users in all the segments such as desk and tables, seating, storage, system furniture and others. One main reason is that the capital required for the setup of an IOFM is high, requiring large manufacturing facilities as well as investment in machineries. Another reason is that IOFM is still very much a labour intensive industry. It faces shortage of labour as compared to other industries in the manufacturing sector.

2 INDUSTRY BACKGROUND

2.1 INDUSTRY STRUCTURE - OFFICE FURNITURE PROJECTS

Project or contract based office furniture is a sub-segment of the broad office furniture industry structure. Its main difference lies in its distribution channel that relies on private, Government and overseas contracts as opposed to the normal distribution through furniture distributors/retailers. In addition, both types of projects can be awarded by the client based on a variety of specifications. The contracts can be secured either directly from the client or indirectly through the recommendation from specifiers such as contractors, interior designers or architects. The typical distribution channels of office furniture project companies are illustrated diagrammatically below:

Figure 1.4: Distribution Channels of Office Furniture Projects



Source: Infocredit D&B

2.2 INDUSTRY LIFE CYCLE

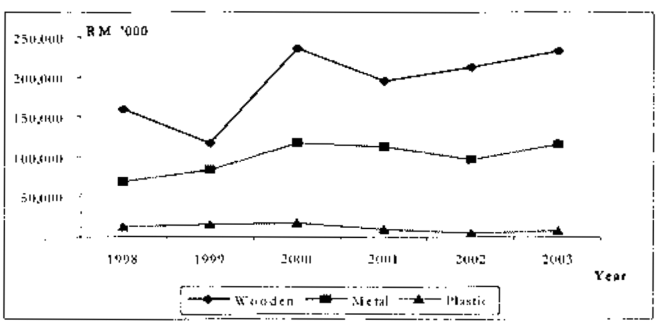
Generally, office furniture products have no specific lifecycle compared with other furniture products; as it has a multi-facet stream of revenue derived mainly from the construction, retail, housing sector in both the local as well as international markets. The growth cycle of the office furniture corresponds closely with the growth of the economy. A prosperous economy will lead to higher business activities and expansions and vice versa if the economy is slumping.

As such, the office furniture players do not depend on any single market/country. Most of the more established office furniture players have already established wide distribution networks including export markets, which allows for stability in the product life cycle of office furniture products, notwithstanding the change in consumers' preferences.

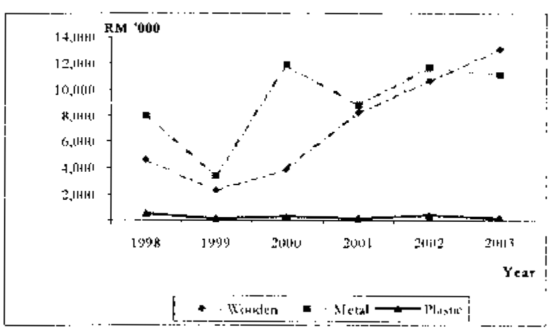
2.3 INDUSTRY DYNAMICS

2.3.1 IMPORT AND EXPORT TRENDS

Figure 1.5: Imports and Exports for Office Furniture (Malaysia), 1998 - 2003



EXPORTS



IMPORTS

Source: DOS

Total exports for the office furniture industry rebounded by 13.8% to RM355.3 million in 2003 from RM312.1 million after registering a drop of 1.3% in 2002. The Malaysian wooden office furniture export registered an increase of 9.4% or RM19.9 million to RM231.9 million in 2003 and is expected to continuously gain popularity amongst the many types of office furniture. Demand was inclined towards wooden office furniture which alone contributed an average 65.0% of the total office furniture exports over the last five years. Major export countries include the US, UK and Japan.

Total imports of office furniture increased by 7.4% to RM24.2 million in 2003 as compared to RM22.5 million in the previous year. The surge was mainly driven by higher demand for wood-based office furniture. However, a fluctuating trend is observed in office metal furniture imports. Imports of wooden office furniture accounted for approximately RM13.0 million in 2003 (2002: RM10.6 million). Although, imported office furniture constitutes a small fraction of the whole office furniture industry, there are still many foreign players in the market serving niche target markets or offering unique designs and a broad range of imported products at very competitive prices.

2.4 SUPPLY AND DEMAND DEPENDENCIES

Due to the nature of the office furniture industry, being a downstream industry and mostly relying on natural resources as input, it is dependent on the upstream resource based industries especially wood-based industry. The overall climate of the domestic economy as well as the global economy will influence the demand and supply of office furniture. The setting up of new businesses and offices in the country will lead to an increase in demand for office furniture. Additionally, the accommodative policy by the Government to encourage more investment into the country will augur well for the growth of the office furniture industry. The construction of hotels, shopping centres, department stores and high standard office buildings (including intelligent buildings) is expected to continue to provide extensive market potential for the high-end office furniture suppliers.

2.4.1 DEMAND STRUCTURE OF OFFICE FURNITURE

The two main markets are the large corporate market consists of MNCs, private large and medium scale companies and Government agencies while the other market is the SOHO market.

LARGE CORPORATIONS

This market consist of large corporations, MNCs, private large and medium scale companies and Government agencies. These are the main end-users for office furniture. Most of these end-users will spend on office workstations, office for the CEO and directors, the conference room and reception area. Some of the factors in the purchase decision of office furniture are pricing, quality, durability, delivery, after sales service, design, ergonomic features, safety features, functional flexibility and warranty.

SMALL OFFICE HOME OFFICE (SOHO)

The SOHO market segment is defined as (i) those who work from home, and (ii) small business with less than 10 workers and operates from home. This working concept is widely used in most developing countries such as the US, UK, Europe and Japan. The SOHO concept is relatively new in the Malaysian office furniture segment. The concept of SOHO was a result of the urbanisation of the modern society and technological advancement where working adults tried to balance between working and leisure time.

There have been gradual shift to small home based businesses as the world economy becomes more develop and well connected through telecommunications and the Internet. The shift is due to preference from permanent employment to contractual or freelance employment, changing attitudes of the younger workforce that prefers self-employment and the flexibility and mobility in working environment due to the advancement in modern computer and telecommunications technology.

2.5 KEY DEMAND DRIVERS

COMPANY REGISTRATION

A robust economic outlook and positive business sentiment will augur well for the demand of office furniture. One key indicator of the office furniture market is the registration of companies in Malaysia which registered 36,142 in 2003 comprising 36,083 local and 41 foreign-owned companies. The number of businesses registered is highly correlated to the economic cycle as evident by the large registered figures prior to the financial crisis in 1998.

OFFICE SPACE SUPPLY

As of 2002, the total office space supply was 12.53 million square metre, an increase of 3.8% from the previous year. From the total office supply for 2002, 9.74 million square metre are occupied which represents 77.7% occupancy rate. The lower occupancy rate is due to the uncertainties in the economy climate affecting the business sentiments in that year.

2.6 BARRIERS TO ENTRY

The IOFM and office furniture project companies are categorised as high-end niche players in the office furniture industry due to its specialisation in securing and managing projects, as well its ability supply a broader range of high quality office furniture products. As such, the barriers to entry into this market are high. Some of the prevalent factors are:

HIGH CAPITAL INVESTMENT

To compete effectively in office furniture projects and to ensure long term viability, it is advantageous that players have a broader range of products. Larger scale of operation would stand a better chance of survival than smaller manufacturers (whose product range may be restricted by the availability of automation and machinery). Furthermore, larger operations would also benefit from economies of scale and shorter lead time. As such, the initial capital expenditure required to set up an IOFM production facility is high ranging from RM10 million to RM20 million comprising cost for land and building as well as plant and machinery. Potential entrants may be deterred by the high funding constraints.

ESTABLISHED TRACK RECORD AND MARKETING NETWORK

Unlike normal office furniture companies that distribute its products through furniture distributors or retailers, the IOFM and office furniture players work closely on projects with architects, interior designers, and developers. As such, the office furniture project companies operate on the basis of a proven track record, long standing business relationships and personal contacts. Without proven track record, new players may face difficulty in penetrating into this market segment.

Good rapport with furniture dealers, contractors and interior designers will further enhance the scope of coverage of prospective customer base. Due to the lack of direct relationship with prospective clients in overseas market, most office furniture project companies will engage the services of reliable local furniture dealers / distributors / agents / representatives in the respective foreign markets to enhance its presence in the respective countries. Establishing an effective distribution network and engaging appropriate market intermediaries may pose as a barrier to entry to new players.

BRAND NAME

Brand name and reputation is also an important success factor in the office furniture projects sector. To a certain extent, brand name inspires confidence and trust amongst customers, influences perception of quality and purchasing decision, and provides an advantage over competitors by creating a point of differentiation. This is more apparent in the high-end office furniture segment where corporate image is a priority. Brand name is usually built over a long period of time. New entrants without a familiar brand name may face an arduous task of competing against established players with well-developed brands

PRODUCT INNOVATION

To remain competitive and ensure sustainability of business operations, a player would need to be innovative and flexible in its product designs, in addition to being able to offer a wide range of products in order to gain acceptance amongst customers. Product innovation is usually achieved through substantial investment, research, costs, product knowledge and experience. The above factors are often deterrent for potential entrants who lack knowledge, experience and sufficient funds in reacting quickly to the pace of product innovation.

AVAILABILITY OF SKILLED LABOUR

In general, the IOFM and office furniture project industry in Malaysia is labour intensive, relying heavily on skilled and semi-skilled workers. The reliance on manual labour is due to the nature of the industry where carpentry skills are very important. Lack of suitably qualified skilled personnel may result in production downtime, inferior product quality and failure in meeting delivery schedules which in turn will affect the competitiveness of the manufacturer. According to industry sources, it takes at least 1 to 3 years to train a semi-skilled worker and 5 years for skilled worker. Due to the reliance on manual labour, the office furniture industry suffers from shortage of skilled and unskilled labour. The shortage of skilled labour has forced most of the office furniture manufacturers to source their workforce from foreign countries.

2.7 CAPITAL AND LABOUR INTENSIVENESS

In general, the IOFM and office furniture projects industry in Malaysia is labour intensive, relying heavily on skilled and medium skilled workers. The reliance on manual labour is due to the nature of the industry where carpentry skills are very important. Skills needed in the office furniture industry include woodworking, metalworking and furniture design.

Due to the reliance on manual labour, the office furniture industry also suffers from shortage of skilled and unskilled labour as there are less and less skilled workers in the labour market and the lack of interest from the younger generation. It takes at least 1 to 3 years to produce a medium skilled worker and 5 years for skilled worker. The shortage of skilled labour has forced most of the furniture manufacturers to source their workforce from foreign countries. The hiring of foreign workers is more imminent in export oriented furniture manufacturers as the volume of furniture demand is higher.

2.8 RAW MATERIAL SOURCING/SUPPLIES

Laminated chipboards, wood, steel and plastic are the most commonly used materials for making office furniture. Textiles are extensively used for covering seating and screens. Amongst all the raw materials, laminated chipboards are the major raw materials used in the production of office furniture. The local suppliers are major trading companies for wood-based panel products and are easily accessible. Other raw materials sourced from these local trading companies include edgings, glass, carton boxes and furniture hardware and fittings. The carton boxes are used to pack the knocked-down office furniture and hardware components comprising key, lock, bolts and nuts are used as furniture fittings.

2.9 DISTRIBUTION CHANNELS

In the domestic market, distribution channels used by office furniture project companies are mostly direct approach with prospective clients, namely large corporations, conglomerates, MNCs and Government agencies. In addition to that, good rapport with furniture dealers, contractors and interior designers will further enhance the scope of coverage of prospective customer base.

However, penetration of the overseas market is much more difficult compared to the domestic market. Therefore, the right choice of distribution channels utilised will definitely be a competitive advantage. Due to the lack of direct relationship with prospective clients in overseas market, most office furniture project companies will engage the services of reliable local furniture dealers or distributor in the respective foreign markets. In addition to some manufacturers would prefer to use the service of agent or representative stationed in the target overseas market to enhance its presence in the respective countries.

Furthermore, additional promotional efforts in overseas market by Malaysia Furniture Promotional Council and MATRADE, indirectly helps to further increase its reach to prospective clients in foreign countries. Furniture trade affairs such as the internationally recognised Malaysia International Furniture Fair (MIFF) help to boost direct sale to various prospective buyers from different countries.

2.10 GOVERNMENT POLICIES AND INCENTIVES

POLICIES

The furniture industry is grouped under the wood-based industry grouping and has been identified as the "target" industry for further development under IMP2. Two new strategies are emphasised under IMP2, namely "manufacturing plus-plus strategy" and cluster-based industrial development.

The manufacturing plus-plus strategy aims to shift the value chain from assembly-based and low value-added activities towards higher value-added activities such as R&D, product design, distribution and marketing. While the cluster development industrial development programme aims to develop a competitive industry through integration of key industries, suppliers, supporting industries, critical support business services, requisite infrastructure and institutions. In addition to that, cluster based programme also aims to generate backward and forward linkages, domestic spin-offs and value added and development of domestic SMEs.

INCENTIVES

Among the investment incentives provided under the Promotions of Investment Act 1986 (PIA) and the Income Tax Act 1967 are as follows:

- **Pioneer Status, Investment Tax Allowance and Reinvestment Allowance**
  Pioneer Status companies will enjoy a 70.0% exemption from income tax for 5 years. While company that has been granted the Investment Tax Allowance will be given an allowance of 60.0% in respect of qualifying capital expenditure incurred within 5 years from the first qualifying capital expenditure incurred. The allowance can be utilised to offset against 70.0% of the statutory income in the year of assessment.
- **Double Deduction of Promotion for Exports**
  The deduction are for expenses incurred on overseas advertising, supply of free samples abroad, preparation of tenders for supply of goods overseas, supply of technical information abroad, participation trade exhibitions of fairs approved by MITI, services rendered for public relations work connected with exports, travelling expenditure to overseas and the cost of maintaining sales offices overseas for the promotion of exports.
- **Industrial Building Allowance**
  A company is eligible for Industrial Building Allowance if the buildings are used as warehouses for storing products and goods for export market. The Industrial Building Allowance consists of an initial allowance of 10.0% and annual allowance of 2.0%.
- **Incentives for research and development**
  Company that conducts its own research and development is eligible for investment tax allowance of 50.0% on qualifying capital expenditure incurred within 10 years.
- **Drawback of Custom Duty**
  Full exemption from import duty will be granted on raw materials imported for use to produce finished products for export purposes.
- **Exemption from Custom Duty on machinery**
  Machinery or equipment, materials, raw materials or component parts used which have import duty, sales tax and excise duty are eligible for exemption from duty or tax.
- **Incentives for Forest Plantation Project**
  Due to the importance of wood resources in furniture manufacturing and in order to sustain the future supply of timber, incentives are given on forest plantation project.
- **Incentives for restructuring**
  Companies that undertake approved industrial restructuring programme is eligible for incentives for restructuring purposes where they are granted industrial adjustment allowance up to 100.0% in respect of qualifying capital expenditure incurred.
- **Incentives for small scaled companies**
  Smaller-sized companies with shareholders' fund not exceeding RM500,000, incorporated in Malaysia and equity of at least 70.0% are eligible for this incentive. Successful SMEs will enjoy the same benefits granted to pioneer status companies.

3 MARKET SIZE

3.1 COMPETITIVE ENVIRONMENT

There are approximately 150 office furniture manufacturers including smaller operators operating in Malaysia. Generally, office furniture manufacturers are divided into three separate groups, namely:

(i) manufacturers producing limited range of office furniture products mainly for the local market;

(ii) manufacturers producing a wide range of office furniture products serving the local and to a certain extent, the export market; and

(iii) integrated office furniture manufacturers (IOFM) producing a wide range of office furniture products serving both the local and international markets, and are also involved in supplying its products through projects

Players in the IOFM category compete based on design, innovation, experience and product quality, as they serve mainly the project markets, which are more demanding in product specifications.

3.2 MARKET SHARE OF OFFICE FURNITURE PLAYERS

Based on the research conducted by Infocredit D&B, there are an estimated 18 key players manufacturing office furniture products in Malaysia, summarised as follows:

Table 1.1: Key Office Furniture Players in Malaysia (by Alphabetical Listing)

	Players	Project-Based	Desk & Tables	Seating	Storage	System Furniture
1	Apex Office Furniture Sdn Bhd		X	X	X	X
2	Artwright Holdings Bhd	X	X	X	X	X
3	Artak Design Sdn Bhd		X		X	X
4	Bristol Corporation Sdn Bhd	X	X	X	X	X
5	EHB Group	X	X	X	X	X
6	Freiberg Marketing Sdn Bhd		X	X	X	X
7	Intersit Industries (M) Sdn Bhd		X	X		X
8	Ilham Delta Sdn Bhd	X	X	X		X
9	Merryfair Chair System Sdn Bhd			X		X
10	MOEM Holdings Sdn Bhd		X	X		X
11	Pelly Industries Sdn Bhd	X	X	X		X
12	Safari Chairs System Sdn Bhd			X		
13	Soon Her Sing Industries (M) Sdn Bhd		X	X	X	X
14	Spring Art Industries Sdn Bhd		X		X	X
15	Taz Corporation Sdn Bhd		X	X		X
16	TA Furniture Sdn Bhd		X		X	X
17	Tomta Furniture Industries Sdn Bhd		X	X	X	X
18	U-Plan Office Furniture Sdn Bhd		X	X	X	X

Source: Infocredit D&B

Based on the latest financial results available from the Registrar of Companies, the 18 selected companies (including EHB Group) recorded an estimated revenue of RM359.5 million in 2003. Based on the research compiled by Infocredit D&B, the top three players in 2003 are EHB Group, TA Furniture Sdn Bhd and Merryfair Chair System Sdn Bhd with an estimated market share of 14.72%, 12.10% and 11.76% respectively.

4 INDUSTRY OUTLOOK

4.1 GLOBAL OFFICE FURNITURE INDUSTRY

In 2002, the global market for office furniture and accessories was estimated to be worth USD75 billion at manufacturers' selling prices, a decrease of around 9% on 2001. The collapse of several major companies in the US, overinvestment in many IT companies, low growth in the major economies and low expectations of future growth have all contributed to the falling requirements for offices in developed countries. Offices in these countries account for over 80% of the total world demand for office furniture.

In 2002, the US accounted for around 45% of world demand for office furniture, followed by Western Europe with 25%, South East Asia with 15% and the rest of the world with 15%. All countries, with the exception of China, have been affected by the general decline in economic growth and the slowdown in large office buildings construction as a result of oversupply in the market.

4.2 PROSPECTS AND OPPORTUNITIES OF THE OFFICE FURNITURE INDUSTRY

The prospect and outlook for the office furniture industry in Malaysia looks promising, as this segment has been identified as a future growth area. As the economy is expected to expand further and large corporations outsource their operations to lower-cost countries, the prospect for growth looks optimistic. This coupled with Government policies and incentives in promoting the office furniture industry augurs well for both the domestic and export market.

There will be more scope for expansion for the office furniture project companies as the business environment becomes more liberalised and open. For instance, the liberalisation of the Malaysia financial sector by 2007 will see more foreign financial institutions operating in Malaysia while the existing foreign financial institutions will expand their network of operations all over Malaysia.

The evolving trend in the corporate environment will also see more and more large corporations and NMCs outsourcing part of their operations to countries that are considered low labour cost such as India, China and Malaysia. The Government is currently aggressively trying to attract more business process outsourcing (BPO) projects to the country. Among the major players that have shifted their BPO to Malaysia are HSBC Bank, Siemens Technologies and Standard Chartered Bank. Due to the diversity in the culture and quality of education system in Malaysia, it is well positioned to be the main country for most corporations to outsource their operations.

12. DIRECTORS' REPORT

EURO Holdings Bhd (646559-T)
Lot 21 Rawang Industrial Estate
48000 Rawang, Selangor DE, Malaysia
tel +603 6092 6666 fax +603 6092 5000
www.eurochairs.com

EURO
inspiration at work

Registered Office:

Suite 1603, 16th Floor
Wisma Lim Foo Yong
86, Jalan Raja Chulan
50200 Kuala Lumpur

15 DECEMBER 2004

The Shareholders of Euro Holdings Berhad

Dear Sir / Madam,

On behalf of the Board of Euro Holdings Berhad, I report after due inquiry that during the period from 30 June 2004, being a date to which the last audited financial statements of the Company and its subsidiaries ("the Group") have been made up, to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus:

(a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Company or its subsidiaries;

(c) the current assets of the Group 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 its subsidiaries;

(e) there have been, since the last audited financial statements of the Group, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and

(f) since the last audited financial statements of the Group, save as disclosed in the Proforma Consolidated Balance Sheets and the Accountants' Report as set out in Sections 9.10 and 10 of this Prospectus respectively, there have been no material changes in published reserves nor any unusual factors affecting the profits of the Group.

Yours faithfully
For and on behalf of the Board of Directors
EURO HOLDINGS BERHAD

LEW FATT SIN
Group Managing Director