

# HeveaBoard Berhad

## HeveaBoard

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# Corporate Information



## Board Of Directors

- 01 **Tan Sri Dato' Seri Mohamed bin Rahmat**  
Non-Independent Non-Executive Chairman
- 02 **Yoong Tein Seng @ Yong Kian Seng (Tenson Yoong)**  
Group Managing Director
- 03 **Yoong Hau Chun**  
Executive Director
- 04 **Dato' Loo Swee Chew**  
Non-Independent Non-Executive Director
- 05 **Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak**  
Independent Non-Executive Director
- 06 **Lim Kah Poon**  
Independent Non-Executive Director
- 07 **Bailey Policarpio**  
Non-Independent Non-Executive Director

## AUDIT COMMITTEE

Lim Kah Poon  
*Chairman*

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak  
Bailey Policarpio

## NOMINATION COMMITTEE

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak  
*Chairman*

Tan Sri Dato' Seri Mohamed bin Rahmat  
Lim Kah Poon

## REMUNERATION COMMITTEE

Tan Sri Dato' Seri Mohamed bin Rahmat  
*Chairman*

Yoong Tein Seng @ Yong Kian Seng (Tenson Yoong)  
Lim Kah Poon

## TENDER COMMITTEE

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak  
*Chairman*

Dato' Loo Swee Chew  
Lim Kah Poon

## COMPANY SECRETARIES

Mah Li Chen (MAICSA 7022751)  
Lee Wai Kim (MAICSA 7036446)

## REGISTERED OFFICE

C15-1 Level 15 Tower C  
Megan Avenue II  
12 Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Wilayah Persekutuan  
Tel : 03.2166.2000  
Fax : 03.2166.3000

## SHARE REGISTRAR

Bina Management (M) Sdn Bhd  
(Company No. 50164-V)  
Lot 10 The Highway Centre  
Jalan 51/205  
46050 Petaling Jaya  
Selangor Darul Ehsan  
Tel : 03.7784.3922  
Fax : 03.7784.1988

## PRINCIPAL BANKERS

Malayan Banking Berhad  
(Company No. 3813-K)  
OCBC Bank (Malaysia) Berhad  
(Company No. 295400-W)  
RHB Bank Berhad  
(Company No. 6171-M)  
Ambank (M) Berhad  
(Company No. 8515-D)

## AUDITORS

Horwath (AF1018)  
Chartered Accountants  
Level 16 Tower C  
Megan Avenue II  
12 Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Tel : 03.2166.0000  
Fax : 03.2166.1000

## STOCK EXCHANGE LISTING

Main Board of  
Bursa Malaysia Securities Berhad  
Stock Short Name : HEVEA  
Stock Code : 5095  
Warrant Code : 5095WA

## Profile Of Directors



**TAN SRI DATO' SERI MOHAMED BIN RAHMAT**, a Malaysian aged 70, was appointed as Non-Independent Non-Executive Chairman of HeveaBoard Berhad on 28 July 2000. He is also the Chairman of the Remuneration Committee and a member of the Nomination Committee of HeveaBoard Berhad. His career includes holding various prominent positions in the Malaysian Government that spanned a period of 40 years. He was both the former Secretary General of the Barisan Nasional (ruling government coalition) from 1993 to 2003 and UMNO between 1988 and 1996, and was also a Member of Parliament for Pulai for 30 years up to 1999. Tan Sri Dato' Seri Mohamed bin Rahmat held the position as Minister of Information from 1978 to 1982 and from 1988 to 1999. The other significant positions held during his tenure with the Government include the Political Secretary for Transport, the Parliamentary Secretary for Health and Education, the Deputy Minister of Finance, the Deputy Minister of Public Enterprise and the ambassador of Malaysia to Indonesia. He is the father to Datuk Nur Jazlan bin Mohamed, Nur Jazman bin Mohamed and Nur Jasni bin Mohamed who are all directors and shareholders of Sanur Sdn Bhd with substantial interest in HeveaBoard Berhad.



**YOONG TEIN SENG @ YONG KIAN SENG (TENSON YOONG)**, a Malaysian aged 61, is the Group Managing Director for HeveaBoard Berhad. He was appointed to the Board on 3 September 1993. He is a member of the Remuneration Committee of HeveaBoard Berhad.

He has over 30 years experience in large scale timber logging, sawmill and timber export business. He also has been actively involved in the design, fabrication and assembling of transportation equipment, import and reconditioning of heavy equipment. He is the father of Yoong Hau Chun, an Executive Director in HeveaBoard Berhad, and father-in-law of Bailey Policarpio, a Non-Independent Non-Executive Director of HeveaBoard Berhad.



**YOONG HAU CHUN**, a Malaysian aged 32, joined HeveaBoard Berhad in 2000 and was appointed as Executive Director to HeveaBoard Berhad on 21 July 2000. He graduated from Sussex University, UK with a First Class Honours Degree in Mechanical Engineering with Business Management and a MSc in Wood Industries Technology from UPM. He is responsible for the operation of the particleboard plants. He is the son of Tenson Yoong, the Group Managing Director and substantial shareholder of HeveaBoard Berhad.



**DATO' LOO SWEE CHEW**, a Malaysian aged 60, was appointed as a Non-Independent Non-Executive Director of HeveaBoard Berhad on 21 October 1997. He is also a member of the Tender Committee. Dato' Loo has also been in the timber industry for the past 30 years. He is actively involved in timber logging, sawmill and plywood, and is one of the leading timber exporters based in Kuantan, Pahang Darul Makmur.



**TAN SRI DATO' CHAN CHOONG TACK @ CHAN CHOONG TAK**, a Malaysian aged 75, was appointed as an Independent Non-Executive Director of HeveaBoard Berhad on 1 October 2004. He is the Chairman of the Nomination Committee, the Chairman of the Tender Committee and a member of the Audit Committee of HeveaBoard Berhad. A qualified Normal Class and Kirby trained teacher as well as a Barrister-at-Law, he holds a Certificate in Teacher Training, a Teachers Trainers' Certificate, an LL.B Degree with Honours, from the University of London, a Certificate of Barrister-at-Law, Lincoln's Inn and a Corporate Masters Business Administration (CMBA) Degree from Ohio University, USA. He has served as a teacher, a headmaster, the Secretary General of Parti Gerakan Rakyat Malaysia, a senator as well as the President of the Senate in Malaysia. On the corporate side he has served as an independent non-executive director of Tenaga Nasional Berhad as well as a director of a few of its subsidiaries. Currently he is also a director of a few private limited companies. Tan Sri Dato' Chan does not have any family relationship with any other director and/or substantial shareholders of HeveaBoard Berhad.



**LIM KAH POON**, a Malaysian aged 59, was appointed as an Independent Non-Executive Director of HeveaBoard Berhad on 1 October 2004. He is the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees of HeveaBoard Berhad. He is a Fellow of the Institute of Chartered Accountants in Ireland and a member of the Malaysian Institute of Accountants (MIA).

Mr. Lim, a finance professional with a broad based business experience, spent the early part of his professional career with two of the big four accounting firms in Dublin and in Kuala Lumpur/Penang for approximately 12 years. He joined a multinational company in Kuala Lumpur in 1983, where he held various senior finance positions over a 15 year-period, with the last one and a half years involving in audit and risk assessment on the control environment within the group companies in the Asia Pacific Region. In 1997, he joined a local company, also quoted on Bursa Malaysia Securities Berhad, as its Chief Financial Officer. He left his last company in September 2001 in order to focus on his business advisory and consultancy work. Currently, he is a director of KLH Ventures Berhad. He does not have any family relationship with any other director and/or substantial shareholders of HeveaBoard Berhad.



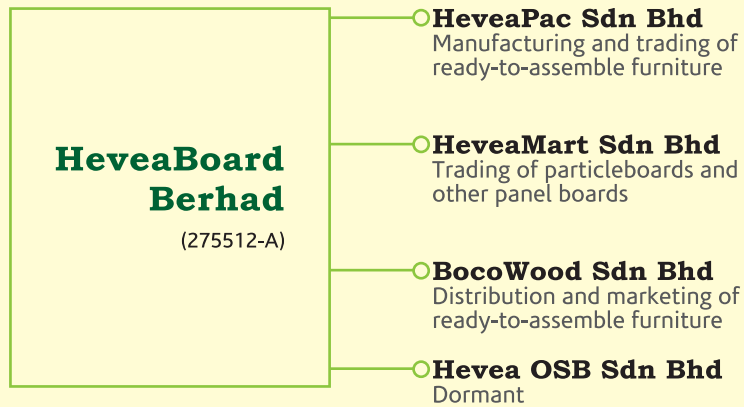
**BAILEY POLICARPIO**, a Filipino aged 37, was appointed as a Non-Independent Non-Executive Director of HeveaBoard on 8 March 2007. He is a member of the Audit Committee. He graduated from De La Salle University, Philippines with a Degree in Electronics and Communications Engineering and an MSc in Manufacturing Systems from University of Nottingham, UK. His career includes being a lecturer at De La Salle University College of Engineering; being the Marketing Director for First Philippine Scales, Inc.(FPSI) - market leader for weighing scales in the Philippines; the Founder and President of ProFence Systems Corporation - specializing in perimeter security system in the Philippines. He is also the Technical Manager and approved signatory for PAO (Philippine Accreditation Office) Accredited ISO17025 FPSI Metrology Laboratory. He is the son-in-law of Tenson Yoong, the Group Managing Director and substantial shareholder of HeveaBoard Berhad.

None of the Directors has:

- \* Any conflict of interest with HeveaBoard Berhad
- \*\* Any conviction for offences within the past 10 years other than traffic offences, if any



## Corporate Structure



SIRIM  
CERTIFIED TO MS ISO 9001 : 2000  
REGISTRATION NO. AR2045

ID No. WP MY 03 01

1st JIS Certified Particleboard  
Manufacturer In Malaysia



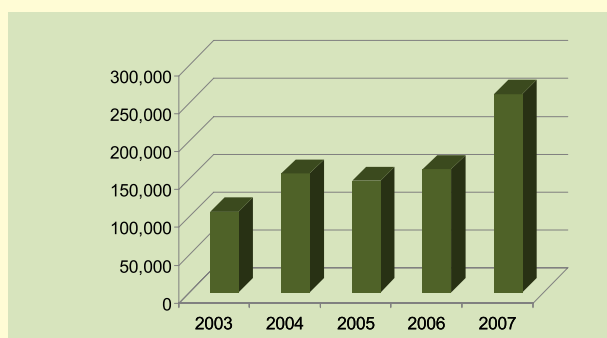
## 5-Year Financial Highlights

	2007	2006	2005	2004	2003
Turnover (RM' 000)	262,238	163,125	147,674	157,037	106,845
Profit Before Tax (RM'000)	135	9,381	9,845	21,311	17,637
Tax (RM'000)	6,682	(1,625)	(791)	(4,023)	(3,069)
Profit After Tax (RM'000)	6,817	7,756	9,054	17,288	14,568
Share Capital (RM'000)	80,000	80,000	80,000	80,000	64,960
Net Assets (RM'000)	129,888	125,991	119,293	110,278	73,677
Net Assets Per Share (RM)*	1.62	1.57	1.49	1.38	1.13
Interim Dividend (sen per ordinary share of RM1.00 each)	-	-	-	4.50	-
Special Dividend (sen per ordinary share of RM1.00 each)	-	-	-	8.00	-
Proposed Final Dividend (sen per ordinary share of RM1.00 each)	3.00	5.00	3.00	-	6.00
Net Earnings Per Share (RM)**	8.52	9.70	11.32	26.60	21.58

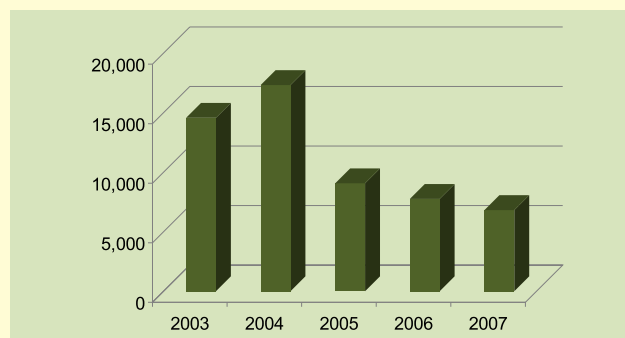
\* The net assets per share of the Group is calculated based on the net assets value at the balance sheet date divided by the number of ordinary shares in issue at the balance sheet date.<sup>9</sup>

\*\* The net earnings per share is arrived at by dividing the Group's profit attributable to shareholders by the assumed weighted average number of ordinary shares in issue during the financial year.

### Turnover (RM'000) 2007



### Profit After Tax (RM'000) 2007





## Statement from Group Managing Director

On behalf of the Board of Directors, I am pleased to present the Fourteenth Annual Report and Audited Accounts of **HeveaBoard Berhad** for the financial year ended 31 December 2007.

### ERA OF ENHANCED GROWTH, EFFICIENCY & EARNINGS

During the financial year, HeveaBoard entered into an Era of Enhanced Growth, Efficiency & Earnings by the commissioning of its second particleboard line, increasing its particleboard production capacity by four folds.

The second particleboard line, equipped with a Biomass Energy Plant, has the most up-to-date features contributing to significant energy savings, economies of scales, improved thickness tolerance, better handling and storage systems and many other on-line quality control parameters. With all the advanced features in place, the second particleboard line has achieved a cost saving of over 20% in terms of the overall production cost and this has contributed significantly to our ability to withstand the fierce competition from the local and regional manufacturers when the selling prices of the particleboard were at their lowest point from the second to fourth quarters of FY2007, coupled with higher raw material costs and unfavorable lower US Dollar exchange rate during most part of the financial year.

In spite of the improved efficiency and higher revenue recorded in the RTA furniture sector, the earnings were also greatly affected by higher cost of raw materials and the weakened US Dollars that most of the export sales were transacted in.

### PERFORMANCE REVIEW

The production output of the first and second particleboard lines achieved in FY2007 were at 59.8% and 52.4% respectively constrained mainly by the low particleboard selling prices mentioned above. During these trying circumstances, HeveaBoard had resorted to manufacture higher grade, lower formaldehyde emission and special-sized particleboard to maintain better selling prices. The increased demand for in-house supply of particleboard to the RTA furniture subsidiary has contributed greatly in mitigating the pressure of selling particleboard at lower prices.

For FY2007, the group revenue increased to RM262.2 million from RM163.1 million in the preceding year due mainly to the second particleboard line coming on stream. The downstream RTA furniture manufacturing also contributed 30% more in revenue to achieve a revenue of RM143.8 million while the total workforce was lowered by 200 to 1,300 workers following the upgrading of more automated processing lines in the furniture factories.

Higher material costs, lower selling prices and the depreciating US Dollars were the main contributing factors to operational losses incurred. These were, however, mitigated by the fuel savings from the biomass energy plant, the unrealized exchange gain derived from the US Dollar denominated loan taken to finance the second particleboard line and the reversal of deferred tax, giving rise to a profit after tax for the year of RM6.8 million as compared with RM7.8 million in FY2006.



## OUTLOOK & PROSPECTS

The market demands for particleboard have consolidated since the end of financial year 2007 with selling prices firming up by more than 25% over last year and these prices are expected to remain strong for the remaining period of the year. Particleboard output is expected to increase in tandem with the increased demand. The demands for RTA furniture are expected to grow as HeveaPac continues to successfully gain entry to become the Registered Vendors to a number of world renowned hypermarket chains. The continued rising cost of materials and weakening US currency exchange are the constant challenges to the Group's performance. Nevertheless, with the enhanced growth in productivity and improved facilities coupled with the development in new markets and additional secured anchor buyers, we believe HeveaBoard is well poised to deliver better earnings to its shareholders in the future.



## CORPORATE PROPOSALS

During the year, there were two corporate proposals undertaken: -

### *Proposed Exemption*

The Securities Commission ("SC") had, via its letter dated 29 October 2007 approved the proposed exemption to HeveaWood Industries Sdn Bhd ("HW") and parties acting-in-concert ("PAC") from the obligation to undertake a mandatory offer for the remaining ordinary shares of HeveaBoard not already owned by HW and PAC upon the exercise of Warrants at RM2.00 each ("Proposed Exemption"), subject to the compliance with certain terms and conditions. Pursuant to the approval by the SC, no take-over offer would arise on full exercise of the Warrants by HW and PAC for the period up to 31 December 2009, being the expiry date of the Warrants.

To-date, there is no exercise of Warrants by any parties.

### *Proposed Private Placement*

The Company announced on 11 December 2007 of its proposal to undertake a private placement of up to 8,000,000 new ordinary shares of RM1.00 each in HeveaBoard representing not more than ten percent (10%) of the issued and paid-up share capital of the Company, to investors to be identified assuming all of the 40,000,000 outstanding Warrants remain unexercised.

To-date, all the approvals from the regulatory authorities have been obtained.

The Company has held discussions with a number of identified potential investors who could be in positions to contribute to the business of HeveaBoard Group, and to subscribe partly or wholly the 8.0 million private placement shares.

## TAX INCENTIVES & BENEFITS

HeveaBoard was granted Investment Tax Allowance for 100% of the qualifying capital expenditure incurred / to be incurred over 5 years, amounting to over RM270 million and this allowance enables the Company to qualify for tax exemption from its statutory income. HeveaBoard's wholly owned subsidiary, HeveaPac, was also granted with Allowance for Increased Export in 2005 to qualify for tax exemption on 70% of its statutory income up to about RM43 million, an amount equivalent to the increased value of export achieved in 2004. Over RM80 million savings from taxes are expected to derive from these incentives, and these incentives will also allow tax exempt dividends to be declared in the years to come.

## DIVIDENDS

The final dividend of 5.0 sen per share less 27% income tax amounting to RM2.92 million in respect of FY2006 was paid on 28 August 2007. A final tax exempt dividend of 3.0 sen per share is proposed for FY2007.

## APPRECIATION

On behalf of the Board of Directors, I wish to express my gratitude to the employees and management staff of HeveaBoard Group for successfully improving the productivity and achieving record revenue in FY2007. Appreciation is also extended to our customers, suppliers, bankers and those who have contributed to the success of HeveaBoard.

# Highlights

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HeveaBoard was awarded the **Occupational Safety & Health Award** by Kementerian Sumber Manusia in February 2007

HeveaBoard Group number of employees crossed 2,000 in March 2007

Official opening ceremony of 2nd particleboard manufacturing line equipped with Biomass Energy Plant was graced by Dato Seri Dr. Lim Keng Yik in September 2007

Biomass Energy Plant managed to achieve annual fuel savings at over RM1.0 million per month.

HeveaBoard Group achieved sales turnover of RM262.2 million for 2007

Ready-to-assemble (RTA) furniture 2007 annual revenue reached RM143.8 million

HeveaPac was granted 1st Prize for the Award of Superior Supplier by Nitori Co. Ltd.

HeveaPac invested RM8.7million in the installation and upgrading of its automation system

HeveaBoard Group of Companies participated in the International Dubai Exhibition

HeveaBoard participated in the India Wood Exhibition



# Statement on Corporate Governance

## INTRODUCTION

The Board of Directors ("the Board") of HeveaBoard Berhad ("the Company") recognises the importance of establishing and maintaining good corporate governance practices within the Group. In this regard, the Board is committed and continues to comply with the principles and best practices set out in the Malaysian Code on Corporate Governance ("the Code") in the best interests of its stakeholders.

Set out below is a statement on the manner in which the Group has applied the principles and complied with the best practices of the Code. The extent of compliance with the Best Practices advocated therein is also in compliance with the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements ("LR").

## DIRECTORS

### I. The Board

The Board comprises members from diversified background, which brings a wide spectrum of skills, experience and knowledge relevant to directing and managing the Group's businesses, and has taken steps to adopt the specific responsibilities as listed by the Code.

#### Board Meetings

During the financial year ended 31 December 2007, the Board met five (5) times, where they deliberated and considered, amongst others, the Group's operating performance, financial statements and results of the Group, the performance of its individual business units and the Group's strategic and business direction.

All Directors have complied with the minimum 50% attendance requirement in respect of Board meetings as stipulated by the Bursa Securities LR. The attendance record for each member is as follows:

	Total Meetings Attended
Tan Sri Dato' Seri Mohamed bin Rahmat	5/5
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	5/5
Dato' Loo Swee Chew	4/5
Mr Lim Kah Poon	5/5
Mr Yoong Hau Chun	5/5
Mr Bailey Policarpio (Appointed on 8 March 2007)	4/5
Mr Yoong Tein Seng @ Yong Kian Seng	5/5

#### Board Committes

The Board recognises its duties and responsibilities to the shareholders of the Company and has delegated specific duties to four (4) subcommittees (Audit Committee, Nomination Committee, Remuneration Committee and Tender Board Committee). These Committees have the authority to examine particular issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

## Statement on Corporate Governance

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a) Audit Committee ("AC")

The report of the AC is set out on pages 25 to 28 of this Annual Report.

b) Nomination Committee ("NC")

The NC is responsible for proposing candidates for directorship and assessing the directors on an on-going basis.

The NC comprises entirely of Non-Executive Directors, a majority of whom are independent. The members of the NC are as follows:

- Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak - Chairman
- Tan Sri Dato' Seri Mohamed bin Rahmat - Member
- Mr Lim Kah Poon - Member

The duties and functions of the NC are to:

- recommend to the Board, candidates for directorships; .
- recommend to the Board, Directors to sit on respective Board Committees;
- administer the annual assessment of Directors, including a review of the skill, qualification and competencies of the Board as a whole; and
- ensure that all Directors receive appropriate continuous training programmes in order to keep abreast with developments in the industry and with changes in the relevant statutory and regulatory requirements.

Meetings of the NC are held at least once a year. During the financial year ended 31 December 2007, two (2) meetings were held i.e. on 27 February 2007 and 23 November 2007 and were attended by all members of the NC.

c) Remuneration Committee ("RC")

The RC comprises a majority of Non-Executive Directors. The members of the RC are as follows:

- Tan Sri Dato' Seri Mohamed bin Rahmat - Chairman
- Mr Lim Kah Poon - Member
- Mr Yoong Tein Seng @ Yong Kian Seng - Member

The RC is responsible for recommending the remuneration of Executive Directors, with advice from external consultants where necessary. It is the ultimate responsibility of the entire Board to approve the remuneration of the Directors. None of the Executive Directors participate in any way in determining their individual remuneration packages. The remuneration of the Non-Executive Directors is determined by the Board as a whole with individual Directors concerned abstaining from discussing and deciding their own remuneration.

Meetings of the RC are held at least once a year. During the financial year ended 31 December 2007, two (2) meetings were held i.e. on 27 February 2007 and 23 November 2007 and were attended by all members of the RC.

d) Tender Board Committee ("TBC")

The TBC comprises entirely of Non-Executive Directors. The members of the TBC are as follows:

- Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak - Chairman
- Dato' Loo Swee Chew - Member

## Statement on Corporate Governance

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The TBC is responsible for reviewing, deliberating and considering shortlisted tenders put forward by Management and no meeting was held in the year 2007

### Directors' Training

As part of their continuous education programmes, the Board members have attended the following training programmes during the financial year:

Updates on the Companies (Amendment) Act 2007 (A1299)

The Directors will continue to undergo relevant training programmes to further enhance their skills and knowledge so as to keep abreast with relevant changes in laws, regulations and the business environment.

## II. Board Balance

The Board currently comprises seven (7) members, of which two (2) are Executive Directors, three (3) Non-Executive Directors and two (2) Independent Non-Executive Directors. Together, the Directors bring wide business, regulatory, industry and financial experience to complement the Management and direction of the Group. The profile of each Director is presented on pages 4 to 6 of this Annual Report.

The presence of Independent Non-Executive Directors on the Board provides objectivity and they are of the calibre necessary to advise the Board on its decisions. The current composition of the Board is in compliance with the Bursa Securities LR.

There is a clear division of responsibilities between the Chairman and Group Managing Director to ensure that there is a balance of power and authority. In ensuring this balance, the positions of the Chairman and Group Managing Director are held by separate members of the Board. The Chairman is responsible for the orderly conduct and working of the Board and for ensuring that members have access to relevant information on a timely manner, whilst the Group Managing Director is responsible for overseeing the day to day management of the Group's business operations and implementation of Board decisions.

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak is the Senior Independent Non-Executive Director to whom concerns may be conveyed.

## III. Supply of Information

The Directors have full and unrestricted access to all information pertaining to the Group's business and affairs, and information necessary for the discharge of their responsibilities. The agenda together with most of the Board papers are circulated on a timely manner prior to Board meetings to enable the Directors to review and consider matters to be deliberated at board meetings.

All Directors, whether as a full Board or in their individual capacity, have access to the advice and services of company secretaries, auditors and consultants and, if deemed necessary, other independent professionals at the expense of the Company in the furtherance of their duties.

## IV. Re-election of Directors

In accordance with the Company's Articles of Association, one-third (1/3) of the directors, or if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3) shall be subject to retirement by rotation from office at each Annual General Meeting. The Directors retiring from office shall be eligible for re-election by the shareholders.



## Statement on Corporate Governance

### DIRECTORS' REMUNERATION

The remuneration policy of the Group is tailored to support its overall objective in attracting and retaining Directors needed to run the Group effectively. The remuneration policy for Directors is designed to support the Group's aspiration of delivering long-term value to its shareholders.

Details of Directors' Remuneration for the financial year ended 31 December 2007, distinguishing between Executive and Non-Executive Directors, are as follows: -

a) Aggregate remuneration of Directors:

Categories of Remuneration	Executive Directors (RM)	Non-Executive Directors (RM)
Salary & Other Emoluments	916,805	-
Fee & Allowance	-	227,473
Benefits-in-kind	34,000	25,000
<b>Total</b>	<b>950,805</b>	<b>252,473</b>

b) The number of Directors whose total remuneration for the financial year ended 31 December 2007 falls within the required disclosure bands are set out below:

Remuneration Band	Number of Directors		
	Executive	Non-Executive	Total
RM50,000 and below	-	4	4
RM50,001 to RM100,000	-	1	1
RM250,001 to RM300,000	1	-	1
RM550,001 to RM600,000	1	-	1
<b>Total</b>	<b>2</b>	<b>5</b>	<b>7</b>

### SHAREHOLDERS

#### I. Dialogue between Company and Investors

The Board recognises the importance of accountability to shareholders on all major developments affecting the Group. Information is disseminated to shareholders and investors through various disclosures and announcements to Bursa Securities which include quarterly financial results, annual reports as well as, where appropriate, circulars and press releases. On an ad-hoc basis, the Company also holds dialogues with financial analysts and investors on the corporate objectives and the performances of the Group.

## Statement on Corporate Governance

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The Board will regularly review the information disseminated to ensure that consistent and accurate information is provided to shareholders of the Group.

### II. Annual General Meeting

The Annual General Meeting ("AGM") is the principal forum for dialogue with shareholders and investors. Shareholders have direct access to the Directors and are provided with sufficient opportunity and time to participate in the question and answer session on the prospects, performance of the Group and other matters of concern. Members of the Board are available to respond to shareholders' queries during the meeting.

## ACCOUNTABILITY AND AUDIT

### I. Audit Committee

The AC comprises two (2) Independent Non-Executive Directors and a Non-Executive Director. The composition and primary responsibilities of the AC are set out in the Audit Committee's Report on pages 25 to 28 of this Annual Report.

The AC met five (5) times during the financial year ended 31 December 2007. The activities carried out by the AC during this period are set out in the abovementioned Audit Committee Report.

### II. Financial Reporting

The Board strives to provide and present a clear, balanced and meaningful assessment of the Group's financial performance and prospects, primarily through the quarterly results and annual financial statements to shareholders. The AC assists the Board in overseeing the Group's financial reporting processes as well as on the accuracy, adequacy and completeness of its financial reporting.

### III. Internal Control

During the financial year under review, the outsourced internal audit function assisted the AC in the review of the adequacy and integrity of the Group's internal control system.

The Statement on Internal Control as set out on pages 19 to 20 of this Annual Report provides an overview of the Group's approach in maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets.

### IV. Relationship with Auditors

The Board through the AC maintains a formal and transparent professional relationship with the Group's auditors, both internal and external. The role of the AC in relation to the auditors is described in the Audit Committee Report set out on pages 25 to 28 of this Annual Report.

# Statement On Internal Control

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## INTRODUCTION

Pursuant to Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Board of Directors ("the Board") of HeveaBoard Berhad ("HeveaBoard") Group is pleased to provide the following Statement on Internal Control prepared in accordance with the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("the Guidance") which outlines the nature and state of internal controls of the Group during the financial year under review.

## BOARD RESPONSIBILITY

The Board acknowledges that it is ultimately responsible for the Group's system of internal control and for reviewing the adequacy and integrity of the internal control system to ensure that shareholders' interests and the Group's assets are safeguarded. In this respect, the responsibility of reviewing the adequacy and integrity of internal control system has been delegated to the Audit Committee, which is empowered by its terms of reference to seek the assurance on the adequacy and integrity of the internal control system through reports it receives from independent reviews conducted by the internal audit function, the external auditors and Management.

As there are inherent limitations in any system on internal controls, such internal control system put into effect by Management can only manage rather than eliminate all the risks that may impede the achievement of the Group's business objectives or goals. Therefore, the internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, in devising internal control procedures, due consideration is given to the cost of implementation as compared to the expected benefits to be derived from the implementation of the internal controls.

## RISK MANAGEMENT

The Board acknowledges that the Group's business activities involve some degree of risk and key management staff and Heads of Departments are delegated with the responsibility to manage identified risks within defined parameters and standards. Managing the significant risks faced by the Group is an ongoing process which is undertaken by each subsidiary. During the year under review, this process was exercised through periodic management meetings held to communicate and deliberate on key risks amongst management team members and where appropriate, controls were devised and implemented to manage these risks. Significant risks identified together with the corresponding controls implemented to manage them were escalated to the Audit Committee and Board for their attention at their scheduled meetings.

The abovementioned risk management practices of the Group serve as the on-going process used to identify, evaluate and manage significant risks.

## INTERNAL AUDIT FUNCTION

During the financial year ended 31 December 2007, the outsourced internal audit function conducted reviews in accordance with the internal audit plan approved by the Audit Committee. The results of internal audit reviews together with recommendations for improvement are presented to the Audit Committee at their quarterly meetings. Although internal control weaknesses were identified during the audit reviews, none of the weaknesses have resulted in material losses, contingencies or uncertainties that would require separate disclosure in this annual report.

## Statement On Internal Control

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### OTHER KEY ELEMENTS OF INTERNAL CONTROLS

The other key elements of the Group's internal control system are:

- The Company has clearly defined organization structure with clear lines of responsibility and delegation of authority;
- Scheduled operational and management meetings were held on a periodical basis;
- Active participation by executive members of the Board in the day-to-day running of operations;
- Regular dialogues on operational matters are conducted by Executive Directors;
- Quarterly reviews on the performance of the Group by the Board;
- Monthly monitoring of actual performances against budgets with major variances identified and followed-up as and when necessary; and
- The outsourced internal audit function provides objectives and independent reviews on the adequacy and effectiveness of the Group's internal control system.

### ASSURANCE

The Board is conscious of the fact that the system of internal control and risk management practices must continuously evolve to support the Company's operations and changing business environment. As such, reviews of control procedures will continuously be carried out to ensure the existing system of internal control remains effective and relevant.

The Statement on Internal Control is made in accordance with the resolution adopted by the Board at its meeting held on 22 April 2008.

## Statement on Directors' Responsibilities

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The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the income statement and cash flows of the Company and the Group for the financial year.

The Directors consider that, in preparing the financial statements of the Company and the Group for the year ended 31 December 2007, the Company has consistently applied appropriate accounting policies, and has made judgments and estimates that are reasonable and prudent. The Directors confirm that all applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for ensuring that the Company maintains adequate accounting records which disclose with reasonable accuracy the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the requirements of the Companies Act, 1965.

The Directors have also general responsibilities for taking reasonable steps to safeguard the assets of the Company and the Group.

# Corporate Social Responsibility

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The Group recognizes and places great emphasis on corporate social responsibility in respect of employees' health and safety, human resource development, environment, community at large and stakeholders.

## EMPLOYEES HEALTH AND SAFETY

A key consideration in our workplace is "Safety is our Priority". To maintain a safe and healthy workplace, the Group conducts regular training sessions with the Fire Department, including fire drills involving the police and health department. The Group has its own Emergency Response Team trained by the Fire Department's Search and Rescue team.

Frequent cleanliness and safety competitions and 'gotong royong' are held to create teamwork and healthy work habits. Audits are conducted to maintain the Group's high standards in safety and cleanliness. The Group has in the past won numerous national safety awards which are testimonies of its commitment to safety in the workplace.

## HUMAN RESOURCE DEVELOPMENT

To develop the human capital which is the mainstay of the Group's success, monthly in-house and external trainings are conducted. Team building, leadership, motivation, management and specialized technical courses are the main focus to develop the "knowledge worker" which is essential for our hi-tech plant.

## ENVIRONMENT

The Group has successfully implemented a Biomass Energy Plant for its Second Particleboard Line contributing to over RM10 million savings yearly substituting the use of fossil fuel for its heating and drying systems. The Biomass Energy Plant utilizes sanding dust and wood bark generated from the manufacturing process which generates cleaner energy and reduces emissions.

## COMMUNITY

The Group shows its appreciation towards the local communities by supporting and sponsoring annual charity events, school and sports events. The Group has donated to education funds and local schools.

It also provides training opportunities for college and university students as part of their industrial training requirements

The Group organized a 1 day blood donation drive among its employees for Seremban General Hospital and the response was overwhelming.

## STAKEHOLDERS

The Group is committed to holding regular dialogue sessions with stakeholders, including shareholders, customers, employees, suppliers, regulators and others.

# Additional Compliance Information

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The information set out below is disclosed in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad:

## 1. NON AUDIT FEES

The non-audit fees incurred for services rendered to the Group for the financial year ended 31 December 2007 by the external auditors or a firm or company affiliated to the external auditors firm amounted to RM29,448.00.

## 2. MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts outside the ordinary course of business entered into by the Company and its subsidiaries involving directors' and major shareholders' interests entered into since the previous financial year:

The Company had on 29 June 2007 entered into a Sale and Purchase Agreement with HeveaWood Industries Sdn Bhd, a substantial shareholder of the Company, for the purchase of 3 parcels of industrial land held under Title HS(D)10468 (PT4184), HS(D)10469 (PT4185) and HS(D)10470 (PT4186), all in the Town of Gemas, District of Tampin, State of Negeri Sembilan Darul Khusus measuring a total of approximately 39,193.6m<sup>2</sup> for a total cash purchase consideration of RM2,740,000. The Land will be used as additional storage yard for raw materials, such as logs and wood slabs, for Plant 1 and Plant 2 of the Company.

## 3. REVALUATION POLICY

The Company does not have a policy on revaluation of landed properties.

## 4. STATUS OF CORPORATE PROPOSAL

Proposed Exemption

On 30 October 2007, OSK Investment Bank Berhad (formerly known as OSK Securities Berhad) announced on behalf of HeveaBoard, that the Securities Commission ("SC") had, via its letter dated 29 October 2007 approved the proposed exemption to HeveaWood Industries Sdn Bhd ("HW") and parties acting-in-concert ("PAC") from the obligation to undertake a mandatory offer for the remaining ordinary shares of HeveaBoard not already owned by HW and PAC upon the exercise of Warrants owned by HW and PAC ("Proposed Exemption"), subject to the compliance with certain terms and conditions. Pursuant to the approval by the SC, no take-over offer would arise on full exercise of the Warrants by HW and PAC for the period up to 31 December 2009, being the expiry date of the Warrants.

The shareholdings of HW and PAC in HeveaBoard assuming before and after the full exercise of the Warrants by HW and PAC are set out below:-

## Additional Compliance Information

	As at 12 May 2008					Assuming only HW and PAC exercise their Warrants in full				
	Direct		Indirect		No. of Warrants	Direct		Indirect		
	No. of Shares	%	No. of Shares	%		No. of Shares	%	No. of Shares	%	
HW	27,075,000	33.84	2,729,500 <sup>(a)</sup>	3.41	13,537,500	40,612,500	39.38	2,779,500 <sup>(a)</sup>	2.70	
<u>PAC</u>										
Gemas Ria Sdn Bhd ("Gemas Ria")	2,729,500	3.41	-	-	50,000	2,779,500	2.69	-	-	
Dato' Seri Yong Tu Sang	150,000	0.19	29,804,500 <sup>(b)</sup>	37.26	75,000	225,000	0.22	43,392,000 <sup>(b)</sup>	42.08	
Dato' Loo Swee Chew	150,000	0.19	29,804,500 <sup>(c)</sup>	37.26	75,000	225,000	0.22	43,392,000 <sup>(c)</sup>	42.08	
Yoong Tein Seng @ Yong Kian Seng	150,000	0.19	34,989,500 <sup>(d)</sup>	43.74	75,000	225,000	0.22	54,002,000 <sup>(d)</sup>	52.37	
Liang Chong Wai	188,600	0.24	29,804,500 <sup>(c)</sup>	37.26	3,858,900	4,047,500	3.93	43,392,000 <sup>(c)</sup>	42.08	
Yoong Hau Chun	150,000	0.19	34,989,500 <sup>(e)</sup>	43.74	75,000	225,000	0.22	54,002,000 <sup>(e)</sup>	52.37	
Yong Hin Siong	-	-	-	-	-	-	-	-	-	
Yoong Li Yen	56,000	0.07	-	-	25,000	81,000	0.08	-	-	
Yoong Li Mian	26,500	0.03	-	-	12,500	39,000	0.04	-	-	
Tenson Holdings Sdn Bhd ("Tenson Holdings")	-	-	34,783,500 <sup>(f)</sup>	43.48	-	-	-	53,696,000 <sup>(f)</sup>	52.08	
Firama Holdings Sdn Bhd ("Firama")	4,979,000	6.22	29,804,500 <sup>(c)</sup>	37.26	5,325,000	10,304,000	9.99	43,392,000 <sup>(c)</sup>	42.08	
Sung Lee Timber Trading Sdn Bhd ("Sung Lee")	-	-	29,804,500 <sup>(c)</sup>	37.26	-	-	-	43,392,000 <sup>(c)</sup>	42.08	
<b>Total</b>	<b>35,654,600</b>	<b>44.57</b>	<b>-</b>	<b>-</b>	<b>23,108,900</b>	<b>58,763,500</b>	<b>56.99</b>	<b>-</b>	<b>-</b>	

## Additional Compliance Information

**Notes:-**

- (a) Deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (b) Deemed interested by virtue of Section 6A of the Act (shareholdings held through Sung Lee, a substantial shareholder of HW) and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (c) Deemed interested by virtue of their substantial shareholdings in HW pursuant to Section 6A of the Act and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria
- (d) Deemed interested by virtue of Section 6A of the Act (shareholdings held through Tenson Holdings, a substantial shareholder of HW) and by virtue of his relationship with Yoong Hau Chun, his son and Yoong Li Yen, his daughter and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria.
- (e) Deemed interested by virtue of his relationship with Yoong Tein Seng @ Yong Kian Seng, his father and Yoong Li Yen, his sister and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria.
- (f) Deemed interested by virtue of its substantial shareholdings in HW and Firama pursuant to Section 6A of the Act and deemed interested by virtue of HW being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria  
The percentage shareholding of HW and PAC are calculated based on the following issued and paid-up share capital of HeveaBoard:-

Issued and paid-up share capital	No. of Shares
As at 12 May 2008	80,000,000
Issuance of new Shares pursuant to the exercise of Warrants by HW and PAC	23,108,900
	103,108,900



# Audit Committee Report

The Board is pleased to present the Audit Committee Report for the financial year ended 31 December 2007. The Audit Committee ("the AC") met five (5) times during the year. Composition of the AC and the details of the attendance of the AC members are set out as follows:

## COMPOSITION OF THE AUDIT COMMITTEE

Name	Attendance
Mr Lim Kah Poon (Chairman) Independent Non-Executive Director	5/5
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak Independent Non-Executive Director	5/5
Mr Yoong Tein Seng @ Yong Kian Seng (Resigned on 23 November 2007) Group Managing Director	5/5
Mr Bailey Policarpio (Appointed on 23 November 2007)	-

## TERMS OF REFERENCE

The AC is governed by the following terms of reference which has been adopted by the Board of Directors on 22 February 2008:

### 1. Composition

The AC shall be appointed from amongst the Board and shall comprise no fewer than three (3) members. All the AC members must be non-executive directors with a majority of whom shall be independent directors and at least one (1) member must be a member of the Malaysian Institute of Accountants or possess such other qualifications and/or experience as approved by the Bursa Malaysia Securities Berhad ("Bursa Securities").

In the event of any vacancy with the result that the number of members is reduced to below three (3), the vacancy shall be filled within two (2) months but in any case not later than three (3) months. Therefore a member of the AC who wishes to retire or resign should provide sufficient written notice to the Company so that a replacement may be appointed before he leaves.

### 2. Chairman

The Chairman who shall be elected by the AC, shall be an independent director.

### 3. Secretary

The Company Secretary shall be the Secretary of the AC and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it prior to each meeting.

## Audit Committee Report

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The Secretary shall also be responsible for keeping the minutes of meetings of the AC and circulating them to the AC Members. The AC Members may inspect the minutes of the AC meetings at the Registered Office or such other place as may be determined by the AC.

### 4. Meetings

The AC shall meet at least four (4) times in each financial year. The quorum for a meeting shall be two (2) members, provided that the majority of members present at the meeting shall be independent.

The AC may call for a meeting as and when required with reasonable notice as the AC Members deem fit.

All decisions at such meeting shall be decided on a show of hands on a majority of votes.

The internal auditors and external auditors may appear at any meeting at the invitation of the AC and shall appear before the AC when required to do so by the AC. The internal auditors and external auditors may also request a meeting if they consider it necessary.

### 5. Rights

The AC shall:

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Group;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- (e) have the right to obtain independent professional or other advice at the Company's expense;
- (f) have the right to convene meetings with the internal auditors and external auditors, excluding the attendance of the other directors or employees of the Group, whenever deemed necessary;
- (g) promptly report to the Bursa Securities, or such other name(s) as may be adopted by Bursa Securities, matters which have not been satisfactorily resolved by the Board of Directors resulting in a breach of the Listing Requirements;
- (h) have the right to pass resolutions by a simple majority vote from the AC and that the Chairman shall have the casting vote should a tie arise;
- (i) meet as and when required on a reasonable notice; and
- (j) have the Chairman call for a meeting upon the request of the internal auditors and external auditors.

### 6. Duties

- (a) To review with the external auditors on:
  - the audit plan, its scope and nature;
  - the audit report;
  - the results of their evaluation of the accounting policies and system of internal accounting controls within the Group; and
  - the assistance given by the officers of the Company to external auditors, including any difficulties or disputes with Management encountered during the audit.

## Audit Committee Report

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- (b) To review the adequacy of the scope, functions, competency, resources and set the standards of the internal audit function.
- (c) To provide assurance to the Board of Directors on the effectiveness of the system of internal control and risk management practices of the Group.
- (d) To review the internal audit programme and results of the internal audit, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function.
- (e) To review with management:
  - audit reports and management letters issued by the external auditors and the implementation of audit recommendations;
  - interim financial information; and
  - the assistance given by the officers of the Company to external auditors.
- (f) To monitor related party transactions entered into by the Company or the Group and to determine if such transactions are undertaken on an arm's length basis and normal commercial terms and on terms not more favourable to the related parties than those generally available to the public, and to ensure that the Directors report such transactions annually to shareholders via the annual report, and to review conflicts of interest that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- (g) To review the quarterly reports on consolidated results and annual financial statements prior to submission to the Board of Directors, focusing particularly on:
  - changes in or implementation of major accounting policy and practices;
  - significant and / or unusual matters arising from the audit;
  - the going concern assumption;
  - compliance with accounting standards and other legal requirements; and
  - major areas.
- (h) To consider the appointment and / or re-appointment of auditors, the audit fee and any questions of resignation or dismissal including recommending the nomination of person or persons as auditors.

### SUMMARY OF ACTIVITIES OF THE AC

During the financial year under review, the activities undertaken by the AC include:-

- (a) Reviewed and recommended the unaudited quarterly and annual audited consolidated results of the Group to the Board of Directors for approval prior to release to the Bursa Securities;
- (b) Reviewed the audit plan of the external auditors;
- (c) Reviewed the external auditors' reports and their audit findings;
- (d) Reviewed the key risk profile identified and ensured that these are updated by Management in the process and where appropriate new risks are identified and incorporated for deliberation;

## Audit Committee Report

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- (e) Reviewed and ensured the adequacy of the scope and coverage of the audit plan proposed by the internal auditors and approved the audit plan for audit execution;
- (f) Reviewed the internal audit reports and the results and recommendations arising from the reviews conducted by the outsourced internal audit function;
- (g) Reviewed related party transactions and conflict of interest that may arise within the Company or the Group; and
- (h) Considered the appointment (or re-appointment) of the external auditors and internal auditors, the audit fee and any question of resignation or dismissal.

### INTERNAL AUDIT FUNCTION

The internal audit function of the Company is outsourced to external service provider, namely, Audex Governance Sdn Bhd.

During the financial year, the outsourced internal audit function assisted the AC in discharging its duties and responsibilities by executing independent reviews to ensure the adequacy and effectiveness of the internal control system of the Group.

The activities of the internal audit function for the year include:-

- (a) Conducting internal audit reviews in accordance with the internal audit plan approved by the AC;
- (b) Reporting the results of internal audits and making recommendations for improvements to the AC on a periodic basis; and
- (c) Performing follow up visits to ensure that recommendations for improvement to the internal control system are satisfactorily implemented.

The internal audits conducted did not reveal any weaknesses which would result in material losses, contingencies or uncertainties that would require separate disclosure in the Group's annual report.

The cost incurred for the internal audit function in respect of the financial year ended 31 December 2007 is RM64,434.00.