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## Cover Rationale

The portrayal of a *Giant Hevea Brasiliensis*, commonly known as **Rubber Tree**, is truly a reflection of our commitment to be the Leader in Particleboard Manufacturing using rubberwood residues. With the state-of-the-art manufacturing plant, **HeveaBoard** is poised to be the manufacturer of high quality eco-friendly rubberwood-based products. The *Giant Hevea Brasiliensis* symbolizes strength and commitment of **HeveaBoard** in its continuous growth.

# CORPORATE INFORMATION



## BOARD OF DIRECTORS

(Sitting, from left) **Tan Sri Dato' Seri Mohamed bin Rahmat** Non-Independent Non-Executive Chairman, **Yoong Tein Seng @ Yong Kian Seng (Tenson Yoong)** Group Managing Director

(Standing, from left) **Yoong Hau Chun** Executive Director, **Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak** Independent Non-Executive Director, **Dato' Loo Swee Chew** Non-Independent Non-Executive Director, **Lim Kah Poon** Independent Non-Executive Director

## AUDIT COMMITTEE

Lim Kah Poon *Chairman*  
Yoong Tein Seng @ Yong Kian Seng (Tenson Yoong)  
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak

## 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 BOARD 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)  
Kim Yi Hwa (MAICSA 7029686)

## REGISTERED OFFICE

C15-1 Level 15 Tower C  
Megan Avenue II  
12 Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
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)  
Citibank Berhad (Company No. 297089-M)

## 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 the 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 68, was appointed as Non-Independent Non-Executive Chairman of HeveaBoard on 28 July 2000. He is also the Chairman of the Remuneration Committee and a member of the Nomination Committee of HeveaBoard. 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.

**YOONG TEIN SENG @ YONG KIAN SENG (TENSION YOONG)**, a Malaysian aged 59, is the Group Managing Director for HeveaBoard Group and was appointed to the Board on 3 September 1993. He is a member of the Audit Committee and the Remuneration Committee of HeveaBoard. He had worked in a financial institution before

undertaking training in FRIM to qualify as a registered Timber Grader for Malaysian hardwood. In 1969 he returned to assist in his family owned pre-war sawmill business by extending the sawmill with modern machinery and started timber export. He has been actively involved in large scale logging operations and engineering businesses, including heavy equipment import and reconditioning, fabrication and assembling of transport vehicles, buses and coaches, and the design of particleboard manufacturing plants. He is the father of Yoong Hau Chun, an Executive Director in HeveaBoard.

**YOONG HAU CHUN**, a Malaysian aged 30, was appointed as Executive Director to HeveaBoard on 21 July 2000. He obtained a First Class Honours Degree in Mechanical Engineering with Business Management from Sussex University, UK and a MSc in Wood Industries Technology from UPM. He has attended various training programmes in Germany, in relation to the latest technology and process systems in particleboard manufacturing and related industries. He is directly involved in managing the operation of the plant, leading the engineering team and overseeing the installation of the second manufacturing line. He is the son of Yoong Tein Seng @ Yong Kian Seng (Tension Yoong) who is the Group Managing Director for HeveaBoard Group.

**DATO' LOO SWEE CHEW**, a Malaysian aged 58, is another founding member of HeveaBoard and was appointed as a Non-Independent Non-

Executive Director of HeveaBoard on 21 October 1997. He is also a member of Tender Board Committee. He has 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 73, was appointed as an Independent Non-Executive Director of HeveaBoard on 1 October 2004. He is a member of the Audit Committee, Chairman of the Nomination Committee and Tender Board Committee of HeveaBoard. 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.

**LIM KAH POON**, a Malaysian aged 57, was appointed as an Independent Non-Executive Director of HeveaBoard on 1 October 2004. He is the Chairman of the Audit Committee and a

member of the Nomination Committee, Remuneration Committee and Tender Board Committee of HeveaBoard. He is a Fellow of the Institute of Chartered Accountants in Ireland and a member of the Malaysian Institute of Accountants (MIA).

Mr. Lim spent the early part of his career with Ernst and Whinney (now known as Ernst and Young) and PriceWaterhouse (now known as PriceWaterhouseCoopers) in Dublin and in Kuala Lumpur/Penang respectively, for approximately 12 years. He joined Malaysian Tobacco Company Berhad (now known as British American Tobacco (M) Berhad) 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 vis-à-vis 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.

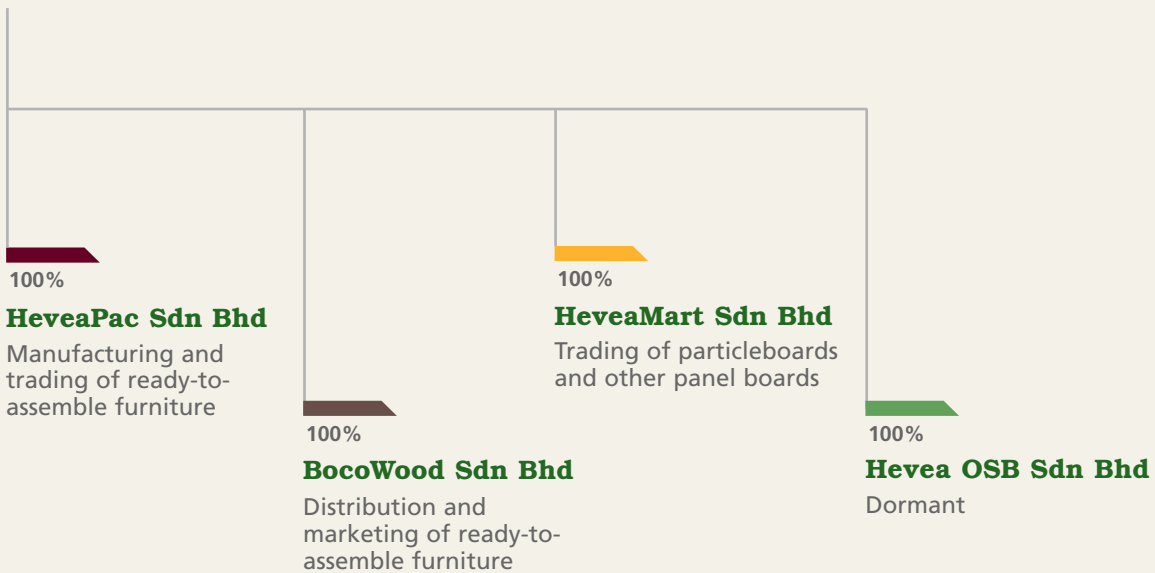
None of the Directors has:

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

# CORPORATE STRUCTURE



## HeveaBoard Berhad (275512-A)



1st JIS Certified Particleboard Manufacturer In Malaysia

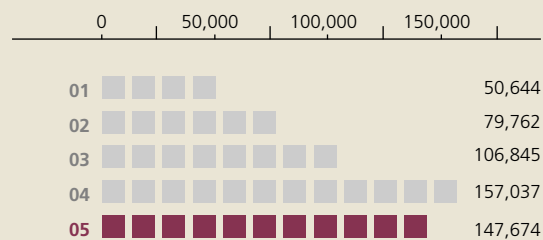
## 5-YEAR FINANCIAL HIGHLIGHTS

	2005	2004	2003	2002	2001
Turnover (RM'000)	147,674	157,037	106,845	79,762	50,644
Profit Before Tax (RM'000)	9,845	21,311	17,637	15,858	9,031
Tax (RM'000)	(791)	(4,023)	(3,069)	(3,143)	(3,244)
Profit After Tax (RM'000)	9,054	17,288	14,568	12,715	5,787
Share Capital (RM'000)	80,000	80,000	64,960	50,833	50,833
Net Assets (RM'000)	119,293	110,278	73,677	63,868	55,044
Net Assets Per Share (RM)*	1.49	1.38	1.13	1.26	1.08
Interim Dividend (sen per ordinary share of RM1.00 each)	-	4.50	-	6.25	8.00
Special Dividend (sen per ordinary share of RM1.00 each)	-	8.00	-	20.00	-
Proposed Final Dividend (sen per ordinary share of RM1.00 each)	3.00	-	6.00	-	-
Net Earnings Per Share (RM)**	11.32	26.60	21.58	19.68	9.27

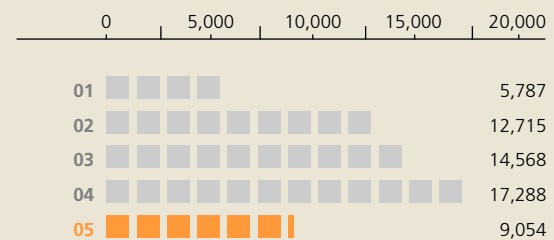
\* The net assets per share of the Group is calculated based on the net assets value at the balance sheet date divided by the number of ordinary shares in issue at the balance sheet date.

\*\* 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.

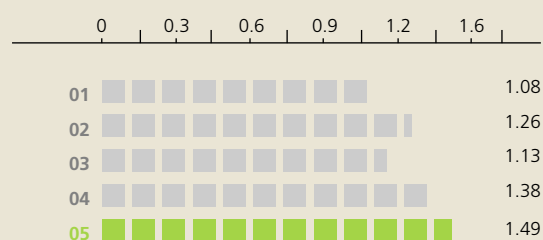
### TURNOVER (RM'000)



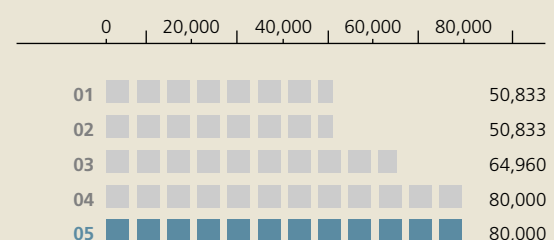
### PROFIT AFTER TAX (RM'000)



### NET ASSETS PER SHARE



### SHARE CAPITAL (RM'000)



# STATEMENT FROM GROUP MANAGING DIRECTOR



**Tenson Yoong**  
Group Managing Director

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of HeveaBoard Berhad and the Group for the financial year ended 31 December 2005.

## CORPORATE DEVELOPMENT

HeveaBoard was successfully listed on the Main Board of Bursa Malaysia Securities Berhad on 12 January 2005. On its first trading day, HeveaBoard shares were traded and peaked at RM2.90 per share against its IPO price of RM2.00, giving a premium of RM0.90 per share. In conjunction with the share issue, HeveaBoard allotted warrants at no consideration to all entitled shareholders on the basis of one (1) warrant for every two (2) ordinary shares. Upon the initial listing, HeveaBoard shares were actively traded at a premium with a number of local and foreign institutions buying but softened thereafter due to heavy profit taking. HeveaBoard share prices slipped after April 2005 contributed in part by drastic fall in prices of certain speculative shares, which had dampened market sentiment significantly.

## OPERATIONAL AND FINANCIAL REVIEW

The Group registered a turnover of RM147.7 million for the financial year ended 31 December 2005, a decrease of RM9.3 million as compared with the previous year. On the profitability level, the Group achieved a Profit After Tax ("PAT") of RM9.05 million for the financial year ended 31 December 2005, falling short of its profit forecast of RM18.09 million as stated in its

Prospectus during its initial public offerings ("IPO"). The PAT for the year showed a decrease of RM8.24 million as compared with 2004 and RM9.04 million as compared with the profit forecast.

The reduction in PAT was attributed mainly to lower revenue, margin erosion due to competition and higher cost of production, which was the result of higher cost of raw materials due to the increase in oil prices.

Margins were further eroded as a result of lower particleboard selling prices during the year by some particleboard manufacturers with newly increased capacities.

HeveaBoard was able to maintain above average selling prices for its normal and Super E0 products from its long-term customers established over years of satisfactory business relationship. With the commissioning and start-up of the Second Particleboard Line in the second half of 2006, HeveaBoard expects to lower the unit cost of particleboard production from the state-of-the-art manufacturing plant operating on improved efficiency thus contributing to better margins.

The Ready-To-Assemble ("RTA") furniture sector under HeveaPac had also been affected due to stiff



competition leading to erosion of margin and the expanded manufacturing facilities not being fully utilized during the year. However, HeveaPac had succeeded in increasing its sales to Australia, and securing a direct supply contract from a new major buyer in the USA with shipments commencing in February 2006.

In March 2005, HeveaPac was awarded The Export Excellence Award 2004 (Merchandise) ("the Award") by the Ministry of Trade and Industry ("MITI"), based on the substantial increase in its export sales in 2004 as compared to 2003. The Award allows HeveaPac to claim approximately RM 43 million tax benefits in the form of tax allowance on the increased export value (Allowance for Increased Export or "AIE"). HeveaPac has applied to MITI surrendering the unexpired Pioneer Status in favour of the AIE as AIE provides greater tax benefits. This application is pending approval from MITI.

BocoWood, as the distributor of RTA furniture in the domestic market for HeveaPac, is making its presence through the local retail chain stores and retailers, and has won a number of awards for product quality and services to its customers.

### **FUTURE PROSPECTS**

The Second Particleboard Line under construction by HeveaBoard is targeted to be ready for commissioning and commercial production in the second half of 2006. With the establishment of HeveaMart representative offices in Korea and the Philippines over a year ago, and the continued expansion of HeveaPac in 2006 and beyond, HeveaBoard is well geared to market the anticipated 3.75 times additional production volume available after the start-up of the Second Particleboard Line.

HeveaPac, the RTA furniture sector had undergone a year of consolidation and challenge in 2005. After

a year long stringent factory audit, design consultation, product quality tests and negotiation, HeveaPac had successfully obtained the "Registered Vendor" status and secured a direct supply contract with a top hypermarket chain store in the USA, with the maiden shipment beginning in early 2006.

Barring unforeseen circumstances, the Group expects business conditions in 2006 to improve but profit margin is still a concern.

### **DIVIDENDS**

The Board of Directors declared a final dividend of 3 sen per ordinary share less 28% tax for the financial year ended 31 December 2005.

### **WORDS OF THANKS AND APPRECIATION**

On behalf of the Board, I wish to extend our sincere thanks and appreciation to the management and staff for their contribution, dedication and commitment. The numerous awards received including the Export Excellence Award are indeed encouraging and vital to the continuous growth of the Group.

Our appreciation is also extended to our valued customers, suppliers, bankers, Government authorities and other business associates for their support and assistance.

I would also like to extend my appreciation to our shareholders for their continuous trust and support.

I wish to thank my fellow Board members, especially Dato' Seri Yong Tu Sang who resigned in April 2006, for their invaluable contributions and services rendered.

**Tenson Yoong**  
Group Managing Director



# MILESTONES



January 2005	HeveaBoard shares and warrants were officially listed on the Main Board of Bursa Malaysia Securities Berhad under the category of Industrial Product
January 2005	HeveaPac successfully obtained the ISO 9001:2000 Quality Management System certification under the scope of Marketing, Design and Development, and Manufacturing of Ready-To-Assemble (RTA) furniture
March 2005	HeveaPac received Export Excellence Award (Merchandise) at the Industry Excellence Awards organized by the Ministry of International Trade and Industry (MITI)
May 2005	BocoWood was granted The Supplier of The Year 2005 award by Giant Hypermarket
June 2005	HeveaBoard received approval from Malaysian Industrial Development Authority (MIDA) on its application for a pre-packaged scheme for its second particleboard line. Tax incentive granted was Investment Tax Allowance (ITA) on all its qualifying capital expenditure incurred within a 5-year period
July 2005	HeveaBoard signed loan agreements with Kreditanstalt fur Wiederaufbau of Frankfurt (KfW) and Malayan Banking Berhad (MBB) to finance construction of the second particleboard line with a capacity of 1,350m <sup>3</sup> a day (405,000m <sup>3</sup> per annum) - 3.75 times the capacity of existing output
August 2005	HeveaBoard commissioned the Wood Waste Thermal Oil Heater under the United Nations Development Program - Government of Malaysia (UNDP - GOM) sponsored by the Malaysian Industrial Energy Efficiency Improvement Project (MIEEIP) Demonstration Project. The project would result in significant fuel savings
October 2005	First shipment of machinery from Germany for the second particleboard manufacturing line arrived at Plant 2 (P2) site
October 2005	HeveaPac acquired a 5.2-acre land and building adjacent to the existing premises for the purpose of constructing a warehouse and workers' dormitories
November 2005	Mechanical and electrical installation of P2 commenced after completion of major civil foundation works

# STATEMENT ON CORPORATE GOVERNANCE

## INTRODUCTION

The Board of Directors is pleased to report that the Board is committed towards ensuring appropriate standards of corporate governance are maintained throughout the Group.

The Board recognises that good corporate governance practices are pivotal to enhancing shareholders' value. In this regard, the Board is fully dedicated to continuously evaluate the Group's corporate governance practices and procedures with a view to ensure the principles and best practices in corporate governance as promulgated by the Malaysian Code on Corporate Governance ("the Code") is applied and adhered to in the best interests of the stakeholders.

The following disclosure statement sets out the manner in which the Group has applied the Principles of the Code and the extent of compliance with Best Practices advocated therein pursuant to the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements ("LR").

## DIRECTORS

### I. The Board

HeveaBoard Berhad is led and controlled by an effective Board comprising members who have a diverse range of skills, experience and knowledge relevant to directing and managing the Group's businesses. The Board recognises the key role in charting the strategic direction, development and control of the Group and has taken steps to adopt the specific responsibilities as listed by the Code, which facilitate the discharge of the Board's stewardship responsibilities.

Furtherance to this, the Board has delegated specific responsibilities to Board Committees as well as various sub-committees to assist the Board in the running of the Group. The functions and terms of reference of the Board Committees as well as authority delegated by the Board to these Committees, have been clearly defined by the Board. There are four (4) Board Committees namely the Audit Committee, Nomination Committee, Remuneration Committee and Tender Board Committee. These Committees will deliberate and discuss issues within their terms of reference and report to the Board with their recommendations. However, the ultimate responsibility for decision-making still lies with the Board.

### Board Meetings

All Directors have complied with the minimum 50% attendance requirement in respect of Board meetings as stipulated by the Bursa Securities LR. During the financial year under review, the Board met six (6) times and the attendance record for each Director is as follows:

	<b>Total Meetings Attended</b>
Tan Sri Dato' Seri Mohamed bin Rahmat	5/6
Mr Yoong Tein Seng @ Yong Kian Seng	6/6
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	6/6
Dato' Loo Swee Chew	5/6
Mr Lim Kah Poon	6/6
Mr Yoong Hau Chun	6/6
Dato' Seri Yong Tu Sang (Resigned w.e.f. 8/4/2006)	5/6

To ensure the Group is managed effectively, additional meetings are convened by the Board, when necessary. Agenda and most of the Board papers are circulated to the Board prior to the Board meetings so as to give the Directors time to consider and deliberate on the issues to be raised at Board meetings.

**Directors' Training**

All the members of the Board have attended and successfully completed the Mandatory Accreditation Programme ("MAP") as prescribed by Bursa Securities.

During the year, some of the Board members have also attended the following training programmes as part of their continuing education programmes:

- (i) Risk Management Briefing;
- (ii) Forum on Financial Reporting Standards;
- (iii) Financial Reporting Standards 132 and 139;
- (iv) Boardroom Briefing for Directors/CEO's;
- (v) Seminar on Management Anti-Fraud Programmes & Control-Guidance to Help Prevent and Deter Fraud;
- (vi) Annual Returns, Accounts, Audit & Auditors;
- (vii) Best Practice of Risk Management Awareness Seminar; and
- (viii) CEP-Listed Issuers How to Avoid Poorly Prepared Circular.

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

**II. Board Balance**

The Board currently has six (6) members, comprising Two (2) Executive Directors, Two (2) Non-Executive Directors and Two (2) Independent Non-Executive Directors. Together, the Directors bring wide business, regulatory, industry and financial experience to complement the direction of the Group. The profile of each Director is presented on pages 2 and 3 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 its 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 the 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. Nomination Committee**

The Code endorses as a good practice, a formal procedure for appointments to the Board with a Nomination Committee ("NC") making recommendations to the Board and assessing Directors on an on-going basis. The NC comprises exclusively of non-executive directors, a majority of whom are independent. The members of the NC are as follows:

- i. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak - *Chairman/Independent Non-Executive Director*
- ii. Tan Sri Dato' Seri Mohamed bin Rahmat - *Non-Independent Non-Executive Chairman*
- iii. Mr Lim Kah Poon - *Independent Non-Executive Director*

The NC is responsible for proposing candidates for directorship and to fill the seats on committees of the Board. In addition, the NC assesses the effectiveness of the Board, the Committees of the Board and the contribution of each individual Director. The Board, through the NC, reviews annually its required mix of skills, expertise, attributes and core competencies of its Directors and succession plans for members of the Board.

Meetings of the NC are held as and when required, and at least once a year. During the financial year ended 31 December 2005, one (1) meeting was held on 25 October 2005 which was attended by all members of the NC.

**V. Tender Board Committee**

The Tender Board Committee ("TBC") was established on 25 October 2005 and comprises exclusively of Non-Executive Directors. The members of the TBC are as follows: -

- i. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak - *Chairman/Independent Non-Executive Director*
- ii. Dato' Loo Swee Chew - *Non-Independent Non-Executive Director*
- iii. Mr Lim Kah Poon - *Independent Non-Executive Director*

The TBC is responsible for reviewing, deliberating and considering the shortlisted tenders put forward by the Management Tender Committee. During the financial year ended 31 December 2005, one (1) meeting was held on 10 November 2005. Details of attendance of the members at the TBC meeting are as follows:

	<b>Total Meetings Attended</b>
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	1/1
Dato' Loo Swee Chew	1/1
Mr Lim Kah Poon	0/1

**VI. Re-election of Directors**

The Articles provide that 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. However, the retiring director shall be eligible for re-election.

**DIRECTORS' REMUNERATION****I. The Level and Make-up of Remuneration**

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



## II. Remuneration Procedures

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

The RC with the majority being Non-Executive Directors comprises the following Members:

- i. Tan Sri Dato' Seri Mohamed bin Rahmat - *Chairman/Non-Independent Non-Executive Chairman*
- ii. Mr Yoong Tein Seng @ Yong Kian Seng - *Group Managing Director*
- iii. Dato' Seri Yong Tu Sang (Resigned w.e.f. 8/4/2006)
- iv. Mr Lim Kah Poon - *Independent Non-Executive Director* (w.e.f. 26/4/2006)

Meetings of the RC are held as and when required and at least once a year. During the financial year ended 31 December 2005, two (2) meetings were held and the details of attendance of the members at the RC meetings are as follows:

	<b>Total Meetings Attended</b>
Tan Sri Dato' Seri Mohamed bin Rahmat	2/2
Mr Yoong Tein Seng @ Yong Kian Seng	2/2
Dato' Seri Yong Tu Sang (Resigned w.e.f. 8/4/2006)	2/2

## III. Directors' Remuneration

Details of Directors' Remuneration for the financial year ended 31 December 2005, distinguishing between Executive and Non-Executive Directors, are as follows: -

<b>Categories of Remuneration</b>	<b>Executive Directors (RM)</b>	<b>Non-Executive Directors (RM)</b>
Salary & Other Emoluments	765,450	-
Fee & Allowance	-	200,000
Benefits-in-kind	28,500	25,000
<b>Total</b>	<b>793,950</b>	<b>235,000</b>

The number of Directors whose total remuneration for the financial year ended 31 December 2005 falls within the required disclosure bands are set out below:

<b>Remuneration Band</b>	<b>Number of Directors</b>		
	<b>Executive</b>	<b>Non-Executive</b>	<b>Total</b>
RM50,000 and below	-	4	4
RM50,001 to RM100,000	-	1	1
RM250,001 to RM300,000	1	-	1
RM450,001 to RM500,000	1	-	1
<b>Total</b>	<b>2</b>	<b>5</b>	<b>7</b>

Details of individual directors' remuneration are not disclosed as the Board is of the opinion that the above disclosures are sufficient to cater to the transparency and accountability aspects of the Code.

**SHAREHOLDERS****I. Dialogue between Company and Investors**

The Board recognises the importance for shareholders to be informed of 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 a periodic basis, the Company also holds dialogues with financial analysts and investors on the corporate objectives and the performances of the Group.

The Board will regularly review the information disseminated to ensure that consistent and accurate information is provided to the 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 Audit Committee ("AC") of the Board comprises two (2) Independent Non-Executive Directors and an Executive Director. The composition and primary responsibilities of the AC are set out in the Audit Committee Report on pages 17 to 19 of the Annual Report.

The AC met six (6) times during the financial year ended 31 December 2005. 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 14 and 15 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 via 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 17 to 19 of this Annual Report.

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# STATEMENT ON INTERNAL CONTROL

## **INTRODUCTION**

The Board of Directors remains committed towards ensuring that a sound system of internal control exists in order to safeguard shareholders' investments and the Group's assets. As such, the Board is pleased to provide below a statement on the state of the internal control of the Group prepared in accordance with paragraph 15.27(b) of the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements and the Statement on Internal Control - Guidance for Directors of Public Listed Companies.

## **BOARD RESPONSIBILITY**

The Board affirms its responsibility for establishing and maintaining a sound system of internal control and risk management practices as well as for reviewing the adequacy and integrity of such an internal control system and practices. The Board has delegated the abovementioned responsibility to the Audit Committee. Through the Audit Committee, the Board is kept informed of all significant control issues brought to the attention of the Audit Committee by the Management, the internal audit function and the external auditors.

As there are inherent limitations in any system of internal control, such a system can only manage, rather than eliminate all risks that may impede the achievement of the Group's corporate objectives. Therefore, the system of internal control can only provide reasonable assurance rather than absolute assurance against material misstatement or loss.

## **RISK MANAGEMENT FRAMEWORK**

The Board acknowledges that effective monitoring and reviewing of the Group's risk management framework on a continuous basis is essential to the achievement of the Group's business objectives. On a day-to-day basis, the respective Heads of Departments are responsible for managing the risks of their departments and fortnightly management meetings are held to ensure that significant issues and risks faced by the Group are closely monitored and appropriately addressed. At these meetings, key issues and risks are communicated and deliberated amongst the Management team members and where appropriate, measures and controls are identified and implemented.

During the financial year ended 31 December 2005, the Management with the assistance of external consultants completed the development of the Group's key risk profile. The key risk profile was then presented to the Audit Committee on 24 May 2005. Risks identified were prioritised in terms of likelihood of their occurrence and the impact on the Group's business objectives / goals. The key risk profile shall be updated on a regular basis to ensure that all key risks are identified and adequate responses are devised in mitigating these risks. In addition, the Group's risk management structure was formalised with the adoption of the risk management policies and procedures by the Board on 29 August 2005.

The abovementioned practices / initiatives performed by Management serves as the on-going process used to identify, evaluate and manage significant risks.

## **INTERNAL CONTROL MECHANISM**

The responsibility for reviewing the adequacy and integrity of the internal control system has been delegated by the Board to the Audit Committee. In turn, the Audit Committee assesses the adequacy and integrity of the internal control system through independent reviews conducted on reports it receives from external auditors, the outsourced internal audit function and the Management.

During the financial year under review, the outsourced internal audit function conducted internal audit reviews in accordance with the internal audit plan approved by the Audit Committee. The results of the reviews and recommendations for improvement were formally tabled at the quarterly Audit Committee meetings. Based on the internal audit reviews conducted, no significant weaknesses were identified which have resulted in material losses, contingencies or uncertainties requiring separate disclosure in the annual report.

The external auditors provide assurance in the form of their annual statutory audit of the financial statements of the Group. Significant areas of audit and areas for improvement identified during the course of the statutory audit were highlighted to the Audit Committee's attention through Audit Review Memorandum, or were articulated at Audit Committee meetings.

#### **OTHER KEY ELEMENTS OF INTERNAL CONTROL**

Other key elements of the Group's internal control system are as follows:

- Clear organisation structure with delineated reporting lines;
- Scheduled operational and management meetings;
- Employment of qualified and capable work force;
- Active participation by certain members of the Board in the day-to-day running of operations;
- Regular dialogues on operational matters are conducted by the Executive Directors;
- Quarterly reviews of 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;
- The outsourced internal audit function provides objective and independent reviews on the adequacy and effectiveness of the Group's internal control system.

#### **CONCLUSION**

As mentioned, the Board is committed towards operating a sound system of internal control and maintaining effective risk management practices throughout the Group. The Board also recognises the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the Group's increasing size of operations and the changing business environment. As such, reviews of controls and risk management practices will continuously be carried out and whenever necessary appropriate action plans will be put in place to ensure the Group's system of internal controls and risk management practices continue to be adequate and effective.

This Statement on Internal Control is made in accordance with the Board of Directors resolution dated 26 April 2006.



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## STATEMENT ON DIRECTORS' RESPONSIBILITY

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 2005, 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.

# AUDIT COMMITTEE REPORT

The Board is pleased to present the Audit Committee Report for the financial year ended 31 December 2005. The Audit Committee ("the Committee") met six (6) times during the year. Composition of the Committee and the details of the attendance of the Committee members are set out as follows:

## COMPOSITION OF THE COMMITTEE

	<b>Total Meetings Attended</b>
Mr Lim Kah Poon (Chairman) <i>Independent Non-Executive Director</i>	6/6
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak <i>Independent Non-Executive Director</i>	6/6
Mr Yoong Tein Seng @ Yong Kian Seng <i>Group Managing Director</i>	6/6

Details of the members of the Committee are contained in the "Profile of Directors" as set out on pages 2 and 3 of this Annual Report.

## TERMS OF REFERENCE

The Committee is governed by the following terms of reference:

### 1. Composition

The Committee shall be appointed from amongst the Board and shall comprise no fewer than three (3) members, 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 Committee 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 Committee, shall be an independent director.

### 3. Secretary

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

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

### 4. Meetings

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

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

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

## 5. Rights

The Committee 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 external auditors, excluding the attendance of the executive members of the audit committee, 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 Committee and that the Chairman shall have the casting vote should a tie arise;
- (i) meet as and when required on a reasonable notice;
- (j) have the Chairman call for a meeting upon the request of the 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.
- (b) To review the adequacy of the scope, functions and 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 COMMITTEE**

During the financial year under review, the activities undertaken by the Committee 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 risk management report and proposed risk management policies and procedures presented by the external consultant;
- (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; and
- (f) Reviewed the internal audit reports and the results and recommendations arising from the reviews conducted by the outsourced internal audit function.

#### **INTERNAL AUDIT FUNCTION**

During the financial year, the outsourced internal audit function assisted the Committee 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 Committee;
- (b) Reporting the results of internal audits and making recommendations for improvements to the Committee on a periodic basis; and
- (c) Follow-up on the implementation of audit recommendations and agreed upon Management action plans.

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





# FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

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# DIRECTORS' REPORT

The directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of manufacturing and trading of particleboards and wood-related products and investment holding. The principal activities of the subsidiaries are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

## RESULTS

	<u>THE GROUP</u> RM'000	<u>THE COMPANY</u> RM'000
Profit after taxation for the financial year	9,054	7,477

## DIVIDENDS

Since the end of the previous financial year, the Company, in the current financial year paid the following dividends amounting to RM8,051,112:

- (a) part of the interim dividend of 6 sen per ordinary share less 28% tax in respect of the financial year ended 31 December 2003 amounting to RM2,204,712;
- (b) the interim dividend of 4.5 sen per ordinary share less 28% tax in respect of the financial year ended 31 December 2004 amounting to RM2,104,704; and
- (c) the special dividend of 8 sen per ordinary share less 28% tax in respect of the financial year ended 31 December 2004 amounting to RM3,741,696.

The directors propose a final dividend of 3 sen per ordinary share less 28% tax amounting to RM1,728,000 in respect of the current financial year. The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting.

## RESERVES AND PROVISIONS

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

## ISSUES OF SHARES AND DEBENTURES

During the financial year,

- (a) there was no increase in the authorised and issued and paid-up share capital of the Company; and
- (b) there were no issues of debentures by the Company.

## WARRANTS

The Company issued 40,000,000 Warrants for no consideration to all entitled shareholders of the Company in conjunction with the listing of the Company. The Warrants were issued on the basis of 1 Warrant for every 2 ordinary shares held on 31 December 2004, being the entitlement date. The Warrants are constituted under a Deed Poll executed on 10 December 2004, and each Warrant entitles the registered holder the right at any time during the exercise period from 31 December 2006 to 31 December 2009 to subscribe in cash for one new ordinary share at the exercise price of RM2 each.

No Warrants were exercised during the financial year as the Warrants are not entitled to be exercised prior to 31 December 2006.

### **OPTIONS GRANTED OVER UNISSUED SHARES**

During the financial year, no options were granted by the Company to any person to take up any unissued shares in the Company, save for the Warrants issued pursuant to the listing of the Company.

### **BAD AND DOUBTFUL DEBTS**

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstance that would further require the writing off of bad debts, or additional allowance for doubtful debts in the financial statements of the Group and of the Company.

### **CURRENT ASSETS**

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and of the Company, have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstance which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

### **VALUATION METHODS**

At the date of this report, the directors are not aware of any circumstance which has arisen which renders adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

### **CONTINGENT AND OTHER LIABILITIES**

The contingent liability is disclosed in Note 35 to the financial statements. At the date of this report, there does not exist:-

- (i) any charge on the assets of the Group and of the Company that has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations when they fall due.

### **CHANGE OF CIRCUMSTANCES**

At the date of this report, the directors are not aware of any circumstance not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

### **ITEMS OF AN UNUSUAL NATURE**

The results of the operations of the Group and of the Company during the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year.

**DIRECTORS**

The directors who have been serving since the date of the last report are as follows:-

Y. BHG. TAN SRI DATO' SERI MOHAMED BIN RAHMAT  
 YOONG TEIN SENG @ YONG KIAN SENG  
 Y. BHG. DATO' LOO SWEE CHEW  
 YOONG HAU CHUN  
 Y. BHG. TAN SRI DATO' CHAN CHOONG TACK @ CHAN CHOONG TAK  
 LIM KAH POON  
 Y. BHG. DATO' SERI YONG TU SANG (Resigned on 8 April 2006)

Pursuant to Article 124 of the Articles of Association of the Company, Y. Bhg. Tan Sri Dato' Seri Mohamed Bin Rahmat and Y. Bhg. Dato' Loo Swee Chew retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Y. Bhg. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak, who is over the age of seventy years old, retires at the forthcoming annual general meeting and offers himself for re-election.

**DIRECTORS' INTERESTS**

According to the register of directors' shareholdings, the interests of directors holding office at the end of the financial year in shares and warrants in the Company and its related corporations during the financial year are as follows:-

THE COMPANY	NUMBER OF ORDINARY SHARES OF RM1 EACH			
	AT 1.1.2005	BOUGHT	SOLD	AT 31.12.2005
<b>DIRECT INTERESTS</b>				
Y. BHG. TAN SRI DATO' SERI MOHAMED BIN RAHMAT	950,000	-	-	950,000
YOONG TEIN SENG @ YONG KIAN SENG	150,000	-	-	150,000
Y. BHG. DATO' LOO SWEE CHEW	150,000	-	-	150,000
Y. BHG. DATO' SERI YONG TU SANG	150,000	-	-	150,000
YOONG HAU CHUN	150,000	-	-	150,000
LIM KAH POON	50,000	-	-	50,000
<b>INDIRECT INTERESTS</b>				
YOONG TEIN SENG @ YONG KIAN SENG	30,655,000	1,599,000	-	32,254,000
Y. BHG. DATO' LOO SWEE CHEW	27,075,000	-	-	27,075,000
Y. BHG. DATO' SERI YONG TU SANG	27,075,000	-	-	27,075,000
YOONG HAU CHUN	30,655,000	1,599,000	-	32,254,000
<b>NUMBER OF WARRANTS</b>				
	AT 1.1.2005	BOUGHT	SOLD	AT 31.12.2005
<b>DIRECT INTERESTS</b>				
Y. BHG. TAN SRI DATO' SERI MOHAMED BIN RAHMAT	475,000	-	(475,000)	-
YOONG TEIN SENG @ YONG KIAN SENG	75,000	-	-	75,000
Y. BHG. DATO' LOO SWEE CHEW	75,000	-	-	75,000
Y. BHG. DATO' SERI YONG TU SANG	75,000	-	-	75,000
YOONG HAU CHUN	75,000	-	-	75,000
LIM KAH POON	25,000	-	-	25,000
<b>INDIRECT INTERESTS</b>				
YOONG TEIN SENG @ YONG KIAN SENG	15,327,500	3,635,000	-	18,962,500
Y. BHG. DATO' LOO SWEE CHEW	13,537,500	-	-	13,537,500
Y. BHG. DATO' SERI YONG TU SANG	13,537,500	-	-	13,537,500
YOONG HAU CHUN	15,327,500	3,635,000	-	18,962,500

The other director holding office at the end of the financial year did not have any interest in the shares or warrants of the Company and its related corporations during the financial year.

By virtue of their shareholdings in the Company, Yoong Tein Seng @ Yong Kian Seng, Y. Bhg. Dato' Seri Yong Tu Sang, Y. Bhg. Dato' Loo Swee Chew and Yoong Hau Chun are deemed to have interests in shares in the subsidiaries to the extent of the Company's interest, in accordance with Section 6A of the Companies Act, 1965.

#### **DIRECTORS' BENEFITS**

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with a company in which a director has a substantial financial interest as disclosed in Note 37 to the financial statements.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

#### **SIGNIFICANT EVENT DURING THE FINANCIAL YEAR**

The significant event during the financial year is disclosed in Note 43 to the financial statements.

#### **AUDITORS**

The auditors, Messrs. Horwath, have expressed their willingness to continue in office.

#### **SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS DATED 26 APRIL 2006**

**Yoong Tein Seng @ Yong Kian Seng**

**Dato' Loo Swee Chew**



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## STATEMENT BY DIRECTORS

We, Yoong Tein Seng @ Yong Kian Seng and Dato' Loo Swee Chew, being two of the directors of HeveaBoard Berhad, state that, in the opinion of the directors, the financial statements set out on pages 28 to 55 are drawn up in accordance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2005 and of their results and cash flows for the financial year ended on that date.

**SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS DATED 26 APRIL 2006**

**Yoong Tein Seng @ Yong Kian Seng**

**Dato' Loo Swee Chew**

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## STATUTORY DECLARATION

I, Yoong Tein Seng @ Yong Kian Seng, I/C No. 470602-05-5065, being the director primarily responsible for the financial management of HeveaBoard Berhad, do solemnly and sincerely declare that the financial statements set out on pages 28 to 55 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by  
Yoong Tein Seng @ Yong Kian Seng  
I/C No. 470602-05-5065,  
at Kuala Lumpur in the Federal Territory  
on this 26 April 2006

**Yoong Tein Seng @ Yong Kian Seng**

Before me

Mohd Radzi Bin Yasin (No. 10327)  
Commissioner For Oaths  
26 April 2006

# REPORT OF THE AUDITORS

TO THE MEMBERS OF HEVEABOARD BERHAD

We have audited the financial statements set out on pages 28 to 55. The preparation of the financial statements is the responsibility of the Company's directors.

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

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit also included an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
  - (i) the state of affairs of the Group and of the Company at 31 December 2005 and their results and cash flows for the financial year ended on that date; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports of the subsidiaries of which we have not acted as auditors, as indicated in Note 6 to the financial statements.

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

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under Subsection 3 of Section 174 of the Companies Act, 1965.

**Horwath**  
Firm No: AF 1018  
Chartered Accountants

**Onn Kien Hoe**  
Approval No: 1772/11/06 (J/PH)  
Partner

Kuala Lumpur  
26 April 2006

# BALANCE SHEETS

AT 31 DECEMBER 2005

	NOTE	THE GROUP		THE COMPANY	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>NON-CURRENT ASSETS</b>					
Investment in subsidiaries	6	-	-	40,960	40,960
Property, plant and equipment	7	233,985	122,355	178,222	66,705
Other investment	8	15	15	15	15
Goodwill on consolidation	9	2,276	2,844	-	-
		236,276	125,214	219,197	107,680
<b>CURRENT ASSETS</b>					
Inventories	10	25,428	27,254	9,140	8,659
Trade receivables	11	24,937	20,201	9,106	6,432
Other receivables, deposits and prepayments	12	3,063	33,029	4,001	30,331
Amount owing by subsidiaries	13	-	-	4,137	8,153
Tax refundable		381	47	208	-
Cash and bank balances		888	1,125	162	113
		54,697	81,656	26,754	53,688
<b>CURRENT LIABILITIES</b>					
Trade payables	14	15,411	14,803	7,255	7,417
Other payables and accruals		9,873	9,104	5,898	3,857
Amount owing to subsidiaries	13	-	-	5,266	397
Amount owing to related parties	15	10,195	11,159	7,792	7,856
Short term borrowings	16	25,148	17,288	14,531	9,641
Bank overdrafts	17	5,262	14,170	4,576	13,249
Provision for taxation		42	778	-	768
Dividend payable		-	8,051	-	8,051
		65,931	75,353	45,318	51,236
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		(11,234)	6,303	(18,564)	2,452
		225,042	131,517	200,633	110,132
<b>FINANCED BY:-</b>					
Share capital	18	80,000	80,000	80,000	80,000
Share premium	19	12,886	12,925	12,886	12,925
Retained profits	20	24,679	17,353	11,338	5,589
Dividend proposed		1,728	-	1,728	-
<b>SHAREHOLDERS' EQUITY</b>		119,293	110,278	105,952	98,514
<b>NON-CURRENT LIABILITIES</b>	21	94,281	8,807	84,531	504
<b>DEFERRED TAXATION</b>	22	11,468	12,432	10,150	11,114
		225,042	131,517	200,633	110,132
<b>NET ASSETS PER SHARE (RM)</b>	23	1.49	1.38		

The annexed notes form an integral part of these financial statements.

# INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	NOTE	THE GROUP		THE COMPANY	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
REVENUE	24	147,674	157,037	55,925	59,976
COST OF SALES		(122,847)	(123,817)	(45,400)	(43,028)
GROSS PROFIT		24,827	33,220	10,525	16,948
OTHER OPERATING INCOME		382	1,335	3,217	2,278
		25,209	34,555	13,742	19,226
SELLING EXPENSES		(1,690)	(1,097)	(746)	(458)
ADMINISTRATIVE EXPENSES		(9,288)	(9,002)	(3,396)	(4,258)
OTHER OPERATING EXPENSES		(1,933)	(1,145)	(698)	(159)
PROFIT FROM OPERATIONS		12,298	23,311	8,902	14,351
FINANCE COSTS		(2,453)	(2,000)	(1,119)	(1,248)
PROFIT BEFORE TAXATION	25	9,845	21,311	7,783	13,103
TAXATION	26	(791)	(4,023)	(306)	(2,581)
PROFIT AFTER TAXATION		9,054	17,288	7,477	10,522
EARNINGS PER SHARE					
- BASIC	27	11.3 sen	26.6 sen		
- FULLY DILUTED	27	N/A	26.6 sen		

The annexed notes form an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

THE GROUP	NOTE	SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	RETAINED PROFITS RM'000	DIVIDEND PROPOSED RM'000	TOTAL RM'000
Balance at 1.1.2004		64,960	-	5,911	2,806	73,677
Profit after taxation		-	-	17,288	-	17,288
Dividend paid		-	-	-	(2,806)	(2,806)
Dividends	28	-	-	(5,846)	-	(5,846)
Issuance of shares		15,040	15,040	-	-	30,080
Listing expenses set off against share premium		-	(2,115)	-	-	(2,115)
Balance at 31.12.2004/1.1.2005		80,000	12,925	17,353	-	110,278
Profit after taxation		-	-	9,054	-	9,054
Dividends	28	-	-	(1,728)	1,728	-
Listing expenses set off against share premium		-	(39)	-	-	(39)
Balance at 31.12.2005		80,000	12,886	24,679	1,728	119,293
<b>THE COMPANY</b>						
Balance at 1.1.2004		64,960	-	913	2,806	68,679
Profit after taxation		-	-	10,522	-	10,522
Dividend paid		-	-	-	(2,806)	(2,806)
Dividends	28	-	-	(5,846)	-	(5,846)
Issuance of shares		15,040	15,040	-	-	30,080
Listing expenses set off against share premium		-	(2,115)	-	-	(2,115)
Balance at 31.12.2004/1.1.2005		80,000	12,925	5,589	-	98,514
Profit after taxation		-	-	7,477	-	7,477
Dividends	28	-	-	(1,728)	1,728	-
Listing expenses set off against share premium		-	(39)	-	-	(39)
Balance at 31.12.2005		80,000	12,886	11,338	1,728	105,952

The annexed notes form an integral part of these financial statements.

# CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	NOTE	THE GROUP		THE COMPANY	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation		9,845	21,311	7,783	13,103
Adjustments for:-					
Allowance for doubtful debts		33	147	-	147
Amortisation of goodwill		568	568	-	-
Bad debts written off		34	23	-	7
Depreciation of property, plant and equipment		8,360	7,047	4,296	4,247
Dividend income		-	(7)	(2,980)	(1,007)
Waiver of outstanding amount by a financial institution		-	(1,000)	-	(1,000)
Interest expense		1,982	1,432	995	1,131
Interest income		(44)	(5)	(29)	(4)
Provision for retirement benefits		161	469	88	340
Loss on disposal of investment		-	5	-	5
Operating profit before working capital changes		20,939	29,990	10,153	16,969
Decrease/(Increase) in inventories		1,826	(13,403)	(481)	(2,060)
Increase in trade and other receivables *		(4,956)	(5,302)	(3,483)	(2,443)
(Decrease)/Increase in trade and other payables		(327)	8,327	175	3,428
Decrease/(Increase) in amount owing by subsidiaries		-	-	3,993	(1,369)
<b>CASH FROM OPERATIONS</b>		17,482	19,612	10,357	14,525
Income tax paid		(2,824)	(5,148)	(2,246)	(4,022)
Interest paid		(1,982)	(1,432)	(995)	(1,131)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		12,676	13,032	7,116	9,372
<b>CASH FLOWS FOR INVESTING ACTIVITIES</b>					
Dividend received		-	7	-	727
Interest received		44	5	29	4
Proceeds from disposal of equipment		1	-	-	-
Proceeds from disposal of investment		-	76	-	76
Purchase of additional shares in a subsidiary		-	-	-	(19,900)
Purchase of property, plant and equipment	29	(117,795)	(36,075)	(115,636)	(10,575)
<b>NET CASH FOR INVESTING ACTIVITIES</b>		(117,750)	(35,987)	(115,607)	(29,668)
<b>BALANCE CARRIED FORWARD</b>		(105,074)	(22,955)	(108,491)	(20,296)

The annexed notes form an integral part of these financial statements.



	NOTE	THE GROUP		THE COMPANY	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>BALANCE BROUGHT FORWARD</b>		(105,074)	(22,955)	(108,491)	(20,296)
<b>CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES</b>					
Dividend paid		(6,347)	(601)	(6,347)	(601)
Net (repayment to)/advances from related parties		(964)	6,373	(64)	3,549
Net advances from subsidiaries		-	-	4,891	6,625
Net drawdown of bankers' acceptances		6,959	7,661	4,925	3,786
Proceeds from issuance of shares *		30,080	-	30,080	-
Repayment of hire purchase obligations		(4,436)	(2,749)	(278)	(336)
Drawdown of term loans		89,006	3,000	84,006	-
Repayment of term loans		(553)	(7,039)	-	(7,000)
<b>NET CASH (FOR)/FROM FINANCING ACTIVITIES</b>		113,745	6,645	117,213	6,023
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		8,671	(16,310)	8,722	(14,273)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		(13,045)	3,265	(13,136)	1,137
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	30	(4,374)	(13,045)	(4,414)	(13,136)

\* In the previous financial year, the proceeds of RM30,080,000 from the Public Issue were included in other receivables as the amounts were received by the issuing house. During the current financial year, the amount has been remitted to the Company by the issuing house and has been reflected in the current financial year's cash flow.

The annexed notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

## 1. GENERAL INFORMATION

The Company is a public company limited by shares and is incorporated under the Malaysian Companies Act, 1965. The domicile of the Company is Malaysia. The registered office and the principal place of business are as follows:-

Registered office : C15-1, Level 15, Tower C, Megan Avenue II, 12 Jalan Yap Kwan Seng,  
50450 Kuala Lumpur.

Principal place of business : Lot 1941 & 1942, Batu 3, Jalan Tampin,  
73400 Gemas, Negeri Sembilan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 26 April 2006.

## 2. PRINCIPAL ACTIVITIES

The Company is principally engaged in the business of manufacturing and trading of particleboards and wood-related products and investment holding. The principal activities of the subsidiaries are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

## 3. RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, market, credit, liquidity and cash flow risks. The policies in respect of the major areas of treasury activity are as follows:

### (a) Foreign Currency Risk

The Group is exposed to foreign exchange risk on sales, purchases and purchases of plant that are denominated in foreign currencies.

The Group's primary exposure is in United States Dollar. Foreign currency risk is managed to an acceptable level.

### (b) Interest Rate Risk

The Group's exposure to interest rate risk arises mainly from bank borrowings and hire purchase. Its policy is to obtain the most favourable interest rates available.

Any surplus funds of the Group will be placed with reputable financial institutions at the most favourable interest rates to generate interest income.

### (c) Market Risk

The Group's principal exposure to market risks arises mainly from changes in quoted equity prices. The Group does not use derivative instruments to manage equity risk.

### (d) Credit Risk

The Group's exposure to credit risks, or the risk of counterparties defaulting, arises mainly from receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet reduced by the effects of any netting arrangements with counterparties.

The Group does not have any major concentration of credit risk related to any individual customer or counterparty.

The Group manages its exposure to credit risk by investing its cash assets safely and profitably, and by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis.

### 3. RISK MANAGEMENT POLICIES (CONT'D)

#### (e) Liquidity and Cash Flow Risk

The Group's exposure to liquidity and cash flow risks arises mainly from general funding and business activities.

It practises prudent liquidity risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

### 4. BASIS OF PREPARATION

The financial statements of the Group and of the Company are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The Malaysian Accounting Standards Board standards nomenclature has been changed to Financial Reporting Standards ("FRS") nomenclature for financial periods beginning on or after 1 January 2005. This change to the new nomenclature did not result in any significant change in the accounting policies adopted by the Company and has no financial effects on the financial statements for the financial year ended 31 December 2005.

### 5. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2005.

A subsidiary is defined as a company in which the Group has the power directly or indirectly to exercise control over the financial and operating policies so as to obtain benefits from its activities.

All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair value of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

#### (b) Goodwill On Consolidation

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the identifiable net assets of the subsidiaries at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the identifiable net assets of the subsidiaries at the date of acquisition over the fair value of the purchase consideration.

Goodwill on consolidation is stated net of negative goodwill, and the net carrying amount of goodwill is amortised on a straight-line basis to write off the amount of the net goodwill over the period of 10 to 20 years.

The carrying amount of goodwill is reviewed annually, and is written down for impairment where it is considered necessary. The impairment value of goodwill written off is taken to the income statement.

#### (c) Investments

- (i) Investments in shares in corporations, other than subsidiaries, associates and joint ventures, held for long-term purposes are stated at cost less allowance for permanent diminution in value.
- (ii) Investments in subsidiaries, associates and joint ventures are stated at cost in the balance sheet of the Company, and are reviewed for impairment at the end of the financial year if events or changes in circumstances indicate that their carrying values may not be recoverable.

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (d) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group or the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group or the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

### (e) Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation or amortisation and impairment losses, if any.

Freehold land is stated at cost less impairment losses, if any, and is not depreciated. Depreciation or amortisation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives.

The principal annual rates used for this purpose are:-

Long leasehold land	over the remaining lease period of 90 to 92 years
Short leasehold land	over the remaining lease period of 42 years
Buildings	2% to 5%
Plant, machinery and equipment	5% to 10%
Furniture and fittings	10%
Motor vehicles	20%

Capital work-in-progress represents assets under construction which are not ready for commercial use at the balance sheet date. Capital work-in-progress is stated at cost, and will be transferred to the relevant category of long term assets and depreciated accordingly when the assets are completed and ready for commercial use. Cost of capital work-in-progress includes direct costs, related expenditure and interest cost on borrowings taken specifically to finance the construction or acquisition of the assets.

### (f) Capitalisation of Borrowing Costs

Interest incurred on borrowings specifically taken to finance the capital work-in-progress is capitalised and included as part of the cost of the capital assets until they are ready for their intended use, after which such expense is charged to the income statement.

### (g) Impairment of Assets

The carrying amounts of assets, other than those to which FRS 136 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

**5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and comprises the cost of materials and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods includes cost of materials, labour and an appropriate proportion of production overheads.

In arriving at net realisable value, due allowance is made for obsolete, slow-moving and defective inventories.

**(i) Receivables**

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

**(j) Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**(k) Assets under Hire Purchase**

Equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 5(e) above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the periods of the respective hire purchase agreements.

**(l) Interest-bearing Borrowings**

Interest-bearing bank borrowings and hire purchase are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale.

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

**(m) Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.

**(n) Taxation**

Taxation for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or 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.

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (n) Taxation

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits 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 credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

### (o) Employee Benefits

#### (i) Short-term Benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and of the Company.

#### (ii) Defined Contribution Plans

The Group's and the Company's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group and the Company have no further liability in respect of the defined contribution plans.

#### (iii) Unfunded Defined Benefits Scheme

The Group and the Company operate an unfunded defined benefits scheme in respect of key personnel.

The Group and the Company's obligations under the scheme are calculated using the Projected Unit Credit Method. The benefit is discounted in order to determine its present value. Actuarial gains and losses are recognised as income and expense over the expected average remaining working lives of the participating employees when the cumulative actuarial gains or losses for the scheme exceeded 10% of the unfunded defined benefit obligation. Past service costs are recognised immediately to the extent that the benefits are already vested, or otherwise are amortised on a straight-line basis over the average period until the amended benefits become vested. The Group and the Company's obligations under the scheme will be reviewed on a regular basis.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, if any.

### (p) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (q) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling as of that date. All exchange differences are taken to the income statement.



**5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(r) Revenue Recognition**

(i) *Sale of Goods*

Revenue is recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

(ii) *Interest Income*

Interest income is recognised on an accrual basis, based on the effective yield on the investment.

(iii) *Dividend Income*

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

**6. INVESTMENT IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares, at cost:-		
At 1 January	40,960	21,060
Additions during the financial year	-	19,900
At 31 December	40,960	40,960

The details of subsidiaries, which are all incorporated in Malaysia, are as follows:-

<b>Name of Company</b>	<b>Effective Equity Interest</b>		<b>Principal Activities</b>
	<b>2005</b>	<b>2004</b>	
HeveaPac Sdn. Bhd.	100%	100%	Manufacturing and trading of ready-to-assemble furniture.
HeveaMart Sdn. Bhd.*	100%	100%	Trading of particleboards and other panel boards.
BocoWood Sdn. Bhd.*	100%	100%	Distribution and marketing of ready-to-assemble furniture.
Hevea OSB Sdn. Bhd.*	100%	100%	Dormant.

\* Not audited by Horwath

**7. PROPERTY, PLANT AND EQUIPMENT**

	<b>AT</b>	<b>RECLASSIFICATION</b>	<b>ADDITIONS</b>	<b>DEPRECIATION</b>	<b>AT</b>
	<b>1.1.2005</b>			<b>CHARGE</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>THE GROUP</b>					
<b>NET BOOK VALUE</b>					
Freehold land	4,694	-	11	-	4,705
Long leasehold land	4,737	-	-	(44)	4,693
Short leasehold land	6,798	-	-	(162)	6,636
Buildings	20,848	-	3,389	(581)	23,656
Plant, machinery and equipment	65,518	9	3,470	(6,585)	62,412
Furniture and fittings	1,182	-	385	(169)	1,398
Motor vehicles	2,445	-	199	(819)	1,825
Capital work-in-progress	16,133	(9)	112,536	-	128,660
	122,355	-	119,990	(8,360)	233,985

**7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	AT COST RM'000	ACCUMULATED DEPRECIATION RM'000	TOTAL RM'000
<b>AT 31.12.2005</b>			
Freehold land	4,705	-	4,705
Long leasehold land	4,781	(88)	4,693
Short leasehold land	6,810	(174)	6,636
Buildings	26,366	(2,710)	23,656
Plant, machinery and equipment	103,923	(41,511)	62,412
Furniture and fittings	2,030	(632)	1,398
Motor vehicles	4,427	(2,602)	1,825
Capital work-in-progress	128,660	-	128,660
	281,702	(47,717)	233,985

**AT 31.12.2004**

Freehold land	4,694	-	4,694
Long leasehold land	4,781	(44)	4,737
Short leasehold land	6,810	(12)	6,798
Buildings	22,977	(2,129)	20,848
Plant, machinery and equipment	100,444	(34,926)	65,518
Furniture and fittings	1,645	(463)	1,182
Motor vehicles	4,228	(1,783)	2,445
Capital work-in-progress	16,133	-	16,133
	161,712	(39,357)	122,355

	AT 1.1.2005 RM'000	RECLASSIFICATION RM'000	ADDITIONS RM'000	DEPRECIATION CHARGE RM'000	AT 31.12.2005 RM'000
<b>THE COMPANY</b>					
NET BOOK VALUE					
Freehold land	3,294	-	-	-	3,294
Long leasehold land	4,017	-	-	(44)	3,973
Buildings	9,312	-	-	(222)	9,090
Plant, machinery and equipment	39,156	9	393	(3,586)	35,972
Furniture and fittings	243	-	22	(47)	218
Motor vehicles	1,153	-	192	(397)	948
Capital work-in-progress	9,530	(9)	115,206	-	124,727
	66,705	-	115,813	(4,296)	178,222

	AT COST RM'000	ACCUMULATED DEPRECIATION RM'000	TOTAL RM'000
<b>AT 31.12.2005</b>			
Freehold land	3,294	-	3,294
Long leasehold land	4,061	(88)	3,973
Buildings	11,124	(2,034)	9,090
Plant, machinery and equipment	67,945	(31,973)	35,972
Furniture and fittings	476	(258)	218
Motor vehicles	2,215	(1,267)	948
Capital work-in-progress	124,727	-	124,727
	213,842	(35,620)	178,222

**7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	AT COST RM'000	ACCUMULATED DEPRECIATION RM'000	TOTAL RM'000
<b>AT 31.12.2004</b>			
Freehold land	3,294	-	3,294
Long leasehold land	4,061	(44)	4,017
Buildings	11,124	(1,812)	9,312
Plant, machinery and equipment	67,543	(28,387)	39,156
Furniture and fittings	454	(211)	243
Motor vehicles	2,023	(870)	1,153
Capital work-in-progress	9,530	-	9,530
	98,029	(31,324)	66,705

Included in the carrying value of capital work-in progress are as follows:-

	THE GROUP/ THE COMPANY	
	2005 RM'000	2004 RM'000
Interest expenses capitalised	954	285
Directors' remuneration	176	-
Staff costs	512	-
	1,642	285

The net book value of property, plant and equipment of the Group and of the Company which have been pledged as security to financial institutions for bank borrowings granted to the Group and the Company are as follows:-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Freehold land	4,705	4,694	3,294	3,294
Long leasehold land	4,693	4,649	3,973	4,017
Short leasehold land	6,636	6,798	-	-
Buildings	23,654	20,432	9,090	9,312
Property, plant and equipment	35,972	-	35,972	-
Furniture and fittings	178	183	178	183
Capital work-in-progress	124,727	-	124,727	-
	200,565	36,756	177,234	16,806

Included in the net book value of property, plant and equipment are the following plant and equipment acquired under hire purchase terms:-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Plant and machinery	12,251	12,440	-	-
Motor vehicles	1,390	1,938	597	792
	13,641	14,378	597	792

**8. OTHER INVESTMENT**

	THE GROUP/ THE COMPANY	
	2005	2004
	RM'000	RM'000
At cost:-		
Club membership	15	15

**9. GOODWILL ON CONSOLIDATION**

	THE GROUP	
	2005	2004
	RM'000	RM'000
Negative goodwill	(670)	(670)
Goodwill on consolidation	5,855	5,855
	5,185	5,185
Accumulated amortisation		
At 1 January	(2,341)	(1,773)
Amortisation during the financial year	(568)	(568)
	(2,909)	(2,341)
At 31 December	2,276	2,844

**10. INVENTORIES**

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
AT COST:-				
Raw materials	7,694	9,178	1,258	1,316
Work-in-progress	1,192	1,771	-	-
Finished goods	13,879	13,653	5,219	4,691
Spare parts and consumables	2,663	2,652	2,663	2,652
	25,428	27,254	9,140	8,659

None of the inventories is carried at net realisable value.

**11. TRADE RECEIVABLES**

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Trade receivables	24,970	20,201	9,106	6,432
Allowance for doubtful debts:-				
At 1 January	-	(375)	-	(375)
Additions	(33)	(147)	-	(147)
Written off	-	522	-	522
At 31 December	(33)	-	-	-
	24,937	20,201	9,106	6,432

The Group and the Company's normal trade credit terms for trade receivables range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

**11. TRADE RECEIVABLES (CONT'D)**

The foreign currency exposure profile of trade receivables is as follows:-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
United States Dollar	10,251	9,141	6,252	3,925

**12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

The foreign currency exposure profile of other receivables is as follows:-

	THE GROUP/ THE COMPANY	
	2005 RM'000	2004 RM'000
United States Dollar	206	-
Euro	24	-

Included in other receivables, deposits and prepayments in the previous financial year was an amount of RM30,080,000 receivable from an issuing house in respect of the proceeds from the Public Issue of 15,040,000 new ordinary shares of RM1 each at an issue price of RM2 per share. The amount was received by the Company during the current financial year.

The utilisation of proceeds as at 26 April 2006 is as follows:-

	PROPOSED UTILISATION RM'000	UTILISATION AS AT 26 APRIL 2006 RM'000	BALANCE RM'000
Repayment of bank borrowings	10,000	10,000	-
Balance of 15% downpayment for the second particleboard line	17,080	17,080	-
Listing expenses	3,000	2,154	846
	30,080	29,234	846

The balance of the proceeds not utilised has been included in cash and bank balances.

**13. AMOUNT OWING BY/(TO) SUBSIDIARIES**

	THE COMPANY	
	2005 RM'000	2004 RM'000
Amount owing by subsidiaries		
- Trade	4,137	8,130
- Non-trade	-	23
	4,137	8,153
Amount owing to subsidiaries		
- Non-trade	(5,266)	(397)

The normal trade credit term is 90 days.

The non-trade amounts owing are unsecured, interest-free and not subject to fixed terms of repayment.

**14. TRADE PAYABLES**

The normal trade credit terms granted to the Group and the Company range from 30 to 90 days.

The foreign currency exposure profile of trade payables is as follows:-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
United States Dollar	772	1,170	-	411

**15. AMOUNT OWING TO RELATED PARTIES**

These amounts owing are unsecured, interest-free and not subject to fixed terms of repayment.

The nature of the related party relationship and details of the transactions involved are disclosed in Note 37 to the financial statements.

**16. SHORT TERM BORROWINGS**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Bankers' acceptances	20,217	13,258	14,308	9,383
Hire purchase payables (Note 31)	4,313	3,879	223	258
Term loans (Note 32)	618	151	-	-
	25,148	17,288	14,531	9,641

The weighted average interest rates at the balance sheet date for the short term borrowings were as follows:-

	THE GROUP		THE COMPANY	
	2005 %	2004 %	2005 %	2004 %
Bankers' acceptances	4.7	4.9	4.7	5.0
Term loans	6.8	6.8	5.0	-

The bankers' acceptances and term loans are secured by way of:-

- (i) fixed charges over certain property, plant and equipment of the Group and of the Company;
- (ii) fixed charges over certain properties of a substantial corporate shareholder; and
- (iii) a corporate guarantee from a substantial corporate shareholder.

**17. BANK OVERDRAFTS**

The bank overdrafts of the Group and of the Company bear interest at 7.82% and 7.88% (2004 - 6.87% and 6.84%) per annum and are secured in the same manner as the bankers' acceptances and term loans as disclosed in Note 16 to the financial statements.



**18. SHARE CAPITAL**

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	NUMBER OF SHARES ('000)		RM'000	RM'000
AUTHORISED ORDINARY SHARES OF RM1 EACH:-				
At 1 January	500,000	450,000	500,000	450,000
Reclassification	-	50,000	-	50,000
At 31 December	500,000	500,000	500,000	500,000
ISSUED AND FULLY PAID-UP ORDINARY SHARES OF RM1 EACH:-				
At 1 January	80,000	64,960	80,000	64,960
Issuance of shares	-	15,040	-	15,040
At 31 December	80,000	80,000	80,000	80,000

The Company issued 40,000,000 Warrants for no consideration to all entitled shareholders of the Company in conjunction with the listing of the Company. The Warrants were issued on the basis of 1 Warrant for every 2 ordinary shares held on 31 December 2004, being the entitlement date. The Warrants are constituted under a Deed Poll executed on 10 December 2004, and each Warrant entitles the registered holder the right at any time during the exercise period from 31 December 2006 to 31 December 2009 to subscribe in cash for one new ordinary share at the exercise price of RM2 each.

As at 31 December 2005, none of the 40,000,000 Warrants was exercised. Details of the Warrants as at 31 December 2005 are as follows:-

Exercise Period	Exercise Price	Number of Warrants
31 December 2006 to 31 December 2009	RM2	40,000,000

**19. SHARE PREMIUM**

	THE GROUP/ THE COMPANY	
	2005	2004
	RM'000	RM'000
At 1 January	12,925	-
Premium arising from Public Issue	-	15,040
Listing expenses set off against share premium	(39)	(2,115)
At 31 December	12,886	12,925

The share premium is not distributable by way of cash dividends and may be utilised in the manner as set out in Section 60(3) of the Companies Act, 1965.

**20. RETAINED PROFITS**

Subject to agreement with the tax authorities, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax-exempt income to frank the payment of dividends out of its entire retained profits at the balance sheet date without incurring additional tax liabilities.

**21. NON-CURRENT LIABILITIES**

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Hire purchase payables (Note 31)	2,851	5,526	98	164
Term loans (Note 32)	90,799	2,812	84,006	-
Provision for retirement benefits (Note 33)	631	469	427	340
	94,281	8,807	84,531	504

**22. DEFERRED TAXATION**

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
At 1 January	12,432	12,556	11,114	12,111
Transfer from/(to) income statement	(801)	89	(801)	(651)
	11,631	12,645	10,313	11,460
Overprovision in previous financial year	(163)	(213)	(163)	(346)
	11,468	12,432	10,150	11,114

The components of the deferred tax asset and liability are as follows:-

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Deferred tax liability:-				
Accelerated capital allowances	12,125	13,138	10,270	11,283
Deferred tax assets:-				
Provision for retirement benefits	(153)	(202)	(120)	(169)
Unutilised tax losses	(504)	(504)	-	-
	11,468	12,432	10,150	11,114

**23. NET ASSETS PER SHARE**

The net assets per share of the Group is calculated based on the net assets value at the balance sheet date of RM119,293,000 (2004 - RM110,278,000) divided by the number of ordinary shares in issue at the balance sheet date of 80,000,000 (2004 - 80,000,000).

**24. REVENUE**

Revenue of the Group and of the Company represent the invoiced value of goods sold less trade discounts and returns.

**25. PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging/(crediting):-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Allowance for doubtful debts	33	147	-	147
Amortisation of goodwill	568	568	-	-
Audit fee				
- for the financial year	54	62	22	18
- overprovision in previous financial year	(2)	-	-	-
Bad debts written off	34	23	-	7
Depreciation of property, plant and equipment	8,360	7,047	4,296	4,247
Directors' fees	200	105	200	105
Directors' non-fee emoluments	592	682	592	682
Interest expense:				
- bankers' acceptances	885	400	663	400
- hire purchase	460	312	39	43
- overdrafts	323	376	293	376
- term loans	313	339	-	307
- trade bills	-	5	-	5
Loss on foreign exchange - realised	181	17	95	17
Loss on disposal of investment	-	5	-	5
Provision for retirement benefits				
- directors	56	238	56	238
- others	105	231	32	102
Rental of factory	-	162	-	-
Rental of premises	230	112	-	-
Staff costs	20,937	22,458	5,544	6,116
Bad debts recovered	-	(3)	-	-
Dividend income (gross)	(1)	(7)	(2,980)	(1,007)
Gain on foreign exchange - realised	-	(10)	-	-
Interest income	(44)	(5)	(29)	(4)
Waiver of outstanding amount by a financial institution	-	(1,000)	-	(1,000)

The benefits-in-kind received by the directors of the Group and of the Company was RM53,000 (2004 - RM56,000).

**26. TAXATION**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current taxation	2,305	4,485	1,812	3,953
Deferred taxation	(801)	89	(801)	(651)
	1,504	4,574	1,011	3,302
Overprovision in previous financial years				
- current taxation	(550)	(338)	(542)	(375)
- deferred taxation	(163)	(213)	(163)	(346)
	791	4,023	306	2,581

**26. TAXATION (CONT'D)**

A reconciliation of the income tax expense applicable to the profit before taxation at the statutory tax rate to the income tax expense at the effective tax rates of the Group and of the Company is as follows:-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Profit before taxation	9,845	21,311	7,783	13,103
Tax at the corporate tax rate of 28%	2,757	5,967	2,179	3,669
Tax effects of:				
Non-deductible expenses	424	446	219	190
Non-taxable income	-	(2)	(834)	(2)
Double deductions	(555)	(485)	(555)	(485)
Pioneer status tax-exempt income	(586)	(1,237)	-	-
Utilisation of previously unrecognised deferred tax assets	(487)	-	-	-
Utilisation of reinvestment allowance	-	(90)	-	(90)
Overprovision in previous financial years				
- current taxation	(550)	(338)	(542)	(375)
- deferred taxation	(163)	(213)	(163)	(346)
Others	(49)	(25)	2	20
	791	4,023	306	2,581

Subject to agreement with the tax authorities, the Group has unutilised tax losses and unutilised reinvestment allowances available at the balance sheet date to be carried forward for offset against future taxable business income as follows:-

	THE GROUP	
	2005 RM'000	2004 RM'000
Unutilised tax losses	840	1,801
Unutilised reinvestment allowance	2,063	2,063
	2,903	3,864

The unutilised tax losses have not been recognised as deferred tax assets in the financial statements of the Group.

**27. EARNINGS PER SHARE**

The basic earnings per share is arrived at by dividing the Group's profit after taxation of RM9,054,000 (2004 - RM17,288,000) by the number of ordinary shares in issue during the financial year of 80,000,000 (2004 - weighted average number of ordinary share in issue of 65,001,205).

The fully diluted earnings per share in respect of the previous financial year was arrived at by dividing the Group's profit after taxation of RM17,288,000 by the assumed weighted average number of ordinary shares in issue during the previous financial year of approximately 65,001,205 adjusted for all the unissued shares upon exercise of outstanding warrants at year end.

There is no dilutive effect arising from the Company's warrants which are not exercised as the exercise price is above the average market price of the Company's shares during the current financial year.

**28. DIVIDENDS**

	THE GROUP/ THE COMPANY	
	2005 RM'000	2004 RM'000
Payable:-		
(i) Interim dividend of 4.5 sen per ordinary share less 28% tax to the registered shareholders as at 30 June 2004	-	2,105
(ii) Special dividend of 8 sen per ordinary share less 28% tax to the registered shareholders as at 15 September 2004	-	3,741
Proposed:-		
(i) Final dividend of 3 sen per ordinary share less 28% tax	1,728	-
	1,728	5,846

The directors propose a final dividend of 3 sen per ordinary share less 28% tax amounting to RM1,728,000 in respect of the current financial year. The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting.

**29. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cost of property, plant and equipment purchased	119,990	44,392	115,813	10,575
Amount financed through hire purchase	(2,195)	(8,317)	(177)	-
Cash disbursed for the purchase of property, plant and equipment	117,795	36,075	115,636	10,575

**30. CASH AND CASH EQUIVALENTS**

For the purpose of the cash flow statements, cash and cash equivalents comprise the following:-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and bank balances	888	1,125	162	113
Bank overdrafts	(5,262)	(14,170)	(4,576)	(13,249)
	(4,374)	(13,045)	(4,414)	(13,136)

**31. HIRE PURCHASE PAYABLES**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Future minimum hire purchase payments:				
- not later than one year	4,748	4,508	251	295
- later than one year and not later than five years	3,122	5,866	107	187
Future finance charges	7,870 (706)	10,374 (969)	358 (37)	482 (60)
Present value of hire purchase payables	7,164	9,405	321	422

**31. HIRE PURCHASE PAYABLES (CONT'D)**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current:				
- not later than one year (Note 16)	4,313	3,879	223	258
Non-current:				
- later than one year and not later than five years (Note 21)	2,851	5,526	98	164
	7,164	9,405	321	422

The effective interest rates per annum at the balance sheet date were as follows:-

	THE GROUP		THE COMPANY	
	2005 %	2004 %	2005 %	2004 %
Hire purchase payables	5.4 to 10.7	5.9 to 10.7	5.5 to 8.7	6.2 to 8.7

**32. TERM LOANS**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current portion:				
- repayable within one year (Note 16)	618	151	-	-
Non-current portion (Note 21):				
- repayable between one and two years	8,211	154	7,667	-
- repayable between two and five years	64,656	437	62,736	-
- repayable after five years	17,932	2,221	13,603	-
	90,799	2,812	84,006	-
	91,417	2,963	84,006	-

The term loans of the Group and of the Company were secured in the same manner as the short term borrowings as disclosed in Note 16 to the financial statements.

Details of the repayment terms are as follows:-

TERM LOAN	NUMBER OF MONTHLY INSTALMENT	MONTHLY INSTALMENT AMOUNTS	COMMENCEMENT DATE OF REPAYMENT RM'000	AMOUNT OUTSTANDING			
				THE GROUP		THE COMPANY	
				2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
1	180	22 to 26	26 October 2004	2,820	2,963	-	-
2	120	120	1 March 2005	4,591	-	-	-
3	36	36	18 August 2007	6,843	-	6,843	-
4	28 (quarterly)	4,889 (quarterly)	1 October 2007	77,163	-	77,163	-
				91,417	2,963	84,006	-

Term loan 4 is denominated in United States Dollar.

**33. PROVISION FOR RETIREMENT BENEFITS**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At 1 January	469	-	340	-
Charge for the financial year	162	469	87	340
At 31 December	631	469	427	340
The retirement benefit obligations are expected to be settled as follows:-				
Non-current (Note 21):				
- later than 2 years and not later than 5 years	218	196	218	196
- later than 5 years	413	273	209	144
	631	469	427	340

The amounts recognised in the income statements are as follows:-

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current service costs	100	117	45	73
Interest costs	14	11	12	9
Past service costs	517	341	370	258
	631	469	427	340

The Group and the Company established an unfunded defined benefit plan for key personnel during the financial year ended 31 December 2004. Under the scheme, eligible employees are entitled to retirement benefits of one month salary for every completed year of service, calculated from the date of probationary appointment until the date of resignation, termination, retrenchment, retirement, death or incapability of personnel.

Retirement benefits charged for the financial year have been included in administrative expenses. Of this amount, approximately RM56,000 (2004 - RM238,000) was in respect of retirement benefits for executive directors.

The principal actuarial assumptions used are as follows:

	THE GROUP/ THE COMPANY	
	2005 RM'000	2004 RM'000
Discount rate	5	5
Expected rate of salary increases	3 to 5	3 to 5

**34. FOREIGN EXCHANGE RATES**

The principal closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent) for the translation of the foreign currency balances at the balance sheet date are as follows:-

	THE GROUP/ THE COMPANY	
	2005 RM'000	2004 RM'000
United States Dollar	3.78	3.80
Euro	4.48	5.17

**35. CONTINGENT LIABILITY - UNSECURED**

	THE COMPANY	
	2005	2004
	RM'000	RM'000
Corporate guarantee given to financial institutions for banking facilities granted to a subsidiary	28,179	27,497

**36. SIGNIFICANT RELATED COMPANY TRANSACTIONS**

	THE COMPANY	
	2005	2004
	RM'000	RM'000
Sales to subsidiaries:		
- HeveaPac Sdn. Bhd.	9,894	12,090
- HeveaMart Sdn. Bhd.	6,818	7,437
Dividend income from subsidiaries:		
- HeveaMart Sdn. Bhd.	-	1,000
- HeveaPac Sdn. Bhd.	2,980	-
Purchase of plant from a subsidiary:		
- Hevea OSB Sdn. Bhd.	4,796	-

**37. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<u>Nature of transactions</u>				
Purchase of short leasehold land from a related party:				
- NuBoard-Mah Fah JV Sdn. Bhd.	-	7,500	-	-
Rental paid/payable to a related party:				
- NuBoard-Mah Fah JV Sdn. Bhd.	-	162	-	-
Construction cost of property charged by a related party:				
- Fizwah Pembinaan Sdn. Bhd.	9,185	5,892	7,059	-

	NOTE	THE GROUP		THE COMPANY	
		2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000
<u>Balances as at balance sheet date</u>					
Amount owing to:					
(i) HeveaWood Industries Sdn. Bhd.	(a)	3,166	867	2,655	356
(ii) NuBoard-Mah Fah JV Sdn. Bhd.	(b)	3,115	7,500	2,992	7,500
(iii) Fizwah Pembinaan Sdn. Bhd.	(c)	3,723	2,792	1,954	-
(iv) Fırma Holdings Sdn. Bhd.	(d)	146	-	146	-
(v) Sanur Sdn. Bhd.	(e)	45	-	45	-
		10,195	11,159	7,792	7,856



**37. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)**

- (a) HeveaWood Industries Sdn. Bhd. is a substantial shareholder of the Company. Certain directors of HeveaWood Industries Sdn. Bhd. namely Yoong Tein Seng @ Yong Kian Seng, Y. Bhg. Dato' Loo Swee Chew, Y. Bhg. Dato' Seri Yong Tu Sang and Yoong Hau Chun are also directors of the Company and the amount owing is mainly due to dividend payable.
- (b) NuBoard-Mah Fah JV Sdn. Bhd. is a subsidiary of HeveaWood Industries Sdn. Bhd. A director of NuBoard-Mah Fah JV Sdn. Bhd. namely Yoong Tein Seng @ Yong Kian Seng is also a director of the Company and the amount owing is due to purchase of short leasehold land.
- (c) Wan Hassan Bin Wan Abdul Rahman, who was also a substantial shareholder of the Company, is also a substantial shareholder and director of Fizwah Pembinaan Sdn. Bhd. In addition, Yoong Tein Seng @ Yong Kian Seng, a shareholder and director of the Company is also deemed interested in Fizwah Pembinaan Sdn. Bhd. by virtue of his relationship with his brother-in-law, who is a substantial shareholder and director of Fizwah Pembinaan Sdn. Bhd. The amount owing is due to the construction cost of property.
- (d) Firama Holdings Sdn.Bhd. is a substantial shareholder of the Company. A director of Firama Holdings Sdn.Bhd. namely Yoong Tein Seng @ Yong Kian Seng is also a director of the Company and the amount owing is mainly due to dividend payable.
- (e) Sanur Sdn. Bhd. is a substantial shareholder of the Company and the directors of Sanur Sdn. Bhd. are sons of a director of the Company, namely Tan Sri Dato' Seri Mohamed Bin Rahmat and the amount owing is mainly due to dividend payable.

The directors are of the opinion that the above transactions have been entered into in the ordinary course of business and have been established under terms that were mutually agreed between the parties.

**38. CAPITAL COMMITMENTS**

	THE GROUP		THE COMPANY	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Approved but not contracted for	22,403	34,707	20,285	33,000
Approved and contracted for	78,490 *	185,000 *	77,990 *	185,000 *

\* The Group has commenced on an expansion plan involving the establishment of a second particleboard line located adjacent to its current existing particleboard plant in Gemas. The second particleboard line entails a total investment cost of approximately RM225 million and is expected to be completed in the year 2006. The contract for the design, supply, installation and commissioning of the particleboard plant was entered into on 6 October 2004 between the Company and a third party. The contract is valued at Euro 37.8 million, of which a total of RM117 million has been paid at the balance sheet date.

**39. DIRECTORS' REMUNERATION**

The aggregate amount of emoluments received and receivable by the directors of the Group and of the Company during the financial year were as follows:-

	<b>THE GROUP/ THE COMPANY</b>	
	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>
Directors of the Company:-		
Executive directors:-		
- salaries, bonus and EPF	768	682
Non-Executive directors:-		
- fees	200	105
	968	787
Retirement benefits for executive directors	56	238

The details of director's emoluments received/receivable for the financial year in bands of RM50,000 are as follows:-

	<b>THE GROUP/ THE COMPANY</b>	
	<b>2005</b>	<b>2004</b>
Executive directors		
RM200,001 - RM250,000	-	1
RM250,001 - RM300,000	1	-
RM450,001 - RM500,000	1	1
	2	2
Non-Executive directors:-		
Below RM50,000	4	5
RM50,001 - RM100,000	1	-
	7	7

**40. NUMBER OF EMPLOYEES**

The number of employees of the Group and of the Company at the balance sheet date were 1,486 (2004 - 1,447) and 296 (2004 - 212) respectively.

41. SEGMENTAL INFORMATION

	MANUFACTURING		TRADING		OTHERS		ELIMINATIONS		GROUP	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	145,896	157,517	33,797	30,028	-	-	(32,019)	(30,508)	147,674	157,037
Results:										
Segment results	14,804	23,669	984	1,138	(3)	(5)	(3,487)	(1,491)	12,298	23,311
Finance costs	(2,438)	(1,998)	(15)	(2)	-	-	-	-	(2,453)	(2,000)
Profit before taxation									9,845	21,311
Taxation									(791)	(4,023)
Profit after taxation									9,054	17,288
Other information										
Segment assets	331,003	243,131	7,772	5,758	6,171	6,196	(53,974)	(48,215)	290,972	206,870
Segment liabilities	179,693	103,588	4,811	3,536	21	43	(12,846)	(10,575)	171,679	96,592
Capital expenditure	119,977	44,352	2	3	11	37	-	-	119,990	44,392
Depreciation and amortisation	8,322	7,009	38	38	-	-	-	-	8,360	7,047
Goodwill written off	-	-	-	-	-	-	568	568	568	568

The Group operates wholly in Malaysia.

**42. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

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

**(a) Other Investments**

The fair values of quoted investments are estimated based on quoted market prices for these investments.

For unquoted investments, it is not practicable to estimate the fair values because of the lack of quoted market prices and the inability to estimate the fair value without incurring excessive costs. However, the Group believes that the carrying amount represents the recoverable amount.

**(b) Hire Purchase Payables**

The fair value of hire purchase payables is determined by discounting the relevant cash flows using current interest rates for similar instruments at the balance sheet date.

**(c) Amounts Owning By/To Subsidiaries/Related Parties**

It is not practicable to determine the fair values of amounts owing by/to the subsidiaries/the related parties due principally to a lack of fixed repayment terms. However, the Company does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

**(d) Long Term Borrowings**

The carrying amounts approximated the fair values as these instruments bear interest at variable rates.

**(e) Contingent Liabilities**

It is not practicable to estimate the fair value of contingent liabilities reliably due to the uncertainties of timing, costs and eventual outcome.

**(f) Bank Balances, Short Term Borrowings and Other Short Term Receivables/Payables**

The carrying amounts approximated the fair values due to the relatively short term maturity of these instruments.

**43. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR**

During the financial year, the Group commenced on an expansion plan involving the establishment of a second particleboard line located adjacent to its current existing particleboard plant in Gemas. The second particleboard line entails a total investment cost of approximately RM225 million and is expected to be completed in the year 2006. The contract for the design, supply, installation and commissioning of the particleboard plant was entered into on 6 October 2004, between the Company and a third party. The contract is valued at Euro 37.8 million.

**44. COMPARATIVE FIGURES**

The following comparative figures have been reclassified to conform with the current financial year's presentation: -

	THE GROUP		THE COMPANY	
	AS RESTATED	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED
	RM'000	RM'000	RM'000	RM'000
BALANCE SHEET (EXTRACT):-				
Dividends payable	8,051	-	8,051	-
Other payables and accruals	9,104	17,155	3,857	11,908

# ADDITIONAL COMPLIANCE INFORMATION

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

## 1. NON AUDIT FEES

	THE GROUP		THE COMPANY	
	2005 (RM'000)	2004 (RM'000)	2005 (RM'000)	2004 (RM'000)
Horwath				
- review of quarterly results	12	-	12	-
- review of consolidation results	5	4	5	4
- reporting accountants	30	130	30	130
- special audit	-	22	-	12
	47	156	47	146

## 2. VARIATION IN RESULTS

The Group achieved a profit after tax and minority interests for the financial year ended 31 December 2005 of RM9.05 million. The Group had in its prospectus issued in relation to its initial public offerings ("IPO Prospectus") dated 17 December 2004 forecast a profit after tax and minority interests of RM18.09 million for the year ended 31 December 2005. Therefore, the results achieved by the Group for the financial year ended 31 December 2005 showed a deviation of RM9.04 million or 49.95% from the profit forecast stated in the IPO Prospectus.

	AS PER IPO FORECAST 31.12.2005 (RM'000)	AS PER AUDITED ACCOUNTS 31.12.2005 (RM'000)	VARIANCE (RM'000)	VARIANCE (%)
Turnover	194,645	147,674	(46,971)	(24.13)
Gross Profit	36,908	24,827	(12,081)	(32.73)
Profit Before Tax	23,546	9,845	(13,701)	(58.19)
Taxation	(5,456)	(791)	4,665	(85.50)
Profit After Tax	18,090	9,054	(9,036)	(49.95)

The shortfall of the Profit Forecast is primarily due to the following factors:-

### 1) Group turnover lower by RM46.97 million or 24.13% compared to IPO turnover forecast

The Group registered a turnover of RM147.47 million as compared to the profit forecast of RM194.65 million, a decrease of RM46.97 million or 24.13%.

In the profit forecast, it was assumed that HeveaBoard would increase its turnover by RM4.7 million or 10.4% over 2004 but it was 7.6% lower compared to 2004 and 16.4% lower compared to the profit forecast. The general poor market business environment was caused by lower selling prices by some particleboard producers with new manufacturing capacities coming from Thailand and Malaysia. The lower turnover was also a result of lower production quantity due to constraints of more mixed-size production to maintain selling prices.

HeveaPac, our 100% owned subsidiary and a RTA furniture manufacturer, after doubling its factory premises and manufacturing facilities by the end of 2004, had not been able to fully attain its optimum production level in 2005. HeveaPac was expected to generate an increase in turnover of above 25% but was actually 7.8% lower than 2004 and 36% lower compared to the profit forecast. This negative variance in the turnover was attributed to immense competition leading to margin erosion.

HeveaPac had also discontinued supply to a major customer in the USA, which contributed to RM15 to 20 million in revenue yearly in the past three consecutive years before 2005.

The turnover growth of HeveaPac was 65.4% in FY2003, 68.9% in FY2004 and set at 32.2% when preparing the profit forecast.

**2) Gross Profit**

The Group registered a lower gross profit. It was RM12.08 million or 32.7% lower against the profit forecast due largely to lower revenue and higher cost of production attributed to the increased costs of raw materials and fuel cost.

**a) Particleboard Raw Materials & Energy Cost (per m3)**

In 2005 the cost of raw materials mainly rubber wood and glue, increased by 10% as compared to the profit forecast and 48% over a 4-year period from 2001 to 2004. The unexpected significant increase during the year was due mainly to the cost of rubber wood increased substantially as most replanting were postponed due to record high latex prices and the cost of fuel hitting over USD60 per barrel thus affecting the cost of glue. Similarly, the other key component of production cost relates to energy cost which in our forecast we incorporated the saving arising from energy efficiency project in 2nd quarter of 2005 but this saving was eroded by the high fuel price. Hence, our energy cost increased by 62% as compared with the profit forecast.

**b) RTA furniture**

The revenue and profit contribution from RTA furniture sector were lower as the expanded facilities had not been fully utilized and margin was significantly lower caused by stiff competition.

**c) Others**

The performances of particleboard and Medium Density Fibreboard trading, and RTA furniture sectors under HeveaMart Sdn Bhd and BocoWood Sdn Bhd respectively, are within satisfactory variances.

**3) Operating Expenses**

Operating expenses had gone up by RM1.8 million or 14.3% as compared to IPO profit forecast due largely from HeveaPac, as its increased manufacturing facilities had not been fully utilized resulting in higher fixed overheads in terms of headcounts and administration expenses.

**4) Finance Costs**

The finance costs of the Group comprised interest paid on borrowings as well as hire purchase interest. Finance costs were lower by RM0.3 million or 10.6% as compared to profit forecast.

**5) Taxation**

The reduction in taxation for the year ended 31 December 2005 was mainly due to the drop in the profit from operations as explained in earlier notes. In addition, the Company had obtained approval for its application for the double deduction on research expenditure incurred for the year of assessment 2003 amounting to RM1.94 million which resulted in a tax credit of RM542,417.00.

**6) Profit after Taxation**

The profit after tax and minority interests achieved for the year was RM9.0 million lower compared to the profit forecast shown in IPO prospectus, due largely to reasons mentioned above.

**3. MATERIAL CONTRACTS**

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 which were subsisting as at 31 December 2005.

# LIST OF PROPERTIES

Registered Owner	Location	Description/ Existing Use	Tenure of Land	Land Area (sq. m)	Approximate Age of Building/ Year of Acquisition	Audited Net Book Value as at 31st December 2005 (RM'000)
HeveaBoard	Lot 1941 & 1942, Batu Tiga, Jalan Tampin, 73400 Gemas, Negeri Sembilan Darul Khusus	Factory, Office and Warehouse	Freehold	47,255	10 years/ 1994	<b>12,383</b>
	Lot 4577/8, Batu Tiga, Jalan Tampin, 73400 Gemas, Negeri Sembilan Darul Khusus	Vacant Land	Leasehold (Expires on 13-8-2095)	81,824	N/A / 1996	<b>3,973</b>
	PT 2584/2585/ 2586/2587 Mukim of Gemas, Daerah Tampin, Negeri Sembilan Darul Khusus	Staff Quarters	Leasehold (Expires on 21-2-2090)	1,104	10 years/ 1994	<b>276</b>
Hevea OSB	Lot 1943, Batu Tiga Jalan Tampin, 73400 Gemas, Negeri Sembilan Darul Khusus	Vacant Land	Freehold	20,283	N/A / 1999	<b>1,412</b>
HeveaPac	PT 414, Kawasan Perindustrian Sg. Gadut, KM 11, Jalan Tampin, 71450 Seremban, Negeri Sembilan Darul Khusus	Factory Buildings and Office Blocks	Leasehold (Expires on 22-1-2047)	39,659	2 to 16 years/ 2004	<b>12,278</b>
	PT 406, Kawasan Perindustrian, Sg. Gadut, KM 11, Jalan Tampin, 71450 Seremban, Negeri Sembilan Darul Khusus	Factory Buildings and Office Blocks	Leasehold (Expires on 24-3-2046)	40,468	1 to 16 years/ 2004	<b>8,511</b>

# ANALYSIS OF SHAREHOLDINGS

<b>A. Authorised Share Capital</b>	:	RM500,000,000.00
Issued and fully paid up Capital	:	RM80,000,000.00
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	Every member of the Company, present in person or by proxy, shall have on a show of hands, one (1) vote or on a poll, one (1) vote for each share held

## B. DISTRIBUTION OF SHAREHOLDINGS AS AT 19 APRIL 2006

Size of Shareholdings	No. of Holders	%	No. of Shares	%
Less than 100	1	0.09	50	0.00
100 - 1,000	621	53.95	260,350	0.32
1,001 - 10,000	376	32.67	1,636,000	2.05
10,001 - 100,000	99	8.60	3,258,300	4.07
100,001 - 3,999,999 (less than 5% of issued shares)	50	4.34	36,624,300	45.78
4,000,000 (5% of issued shares) and above	4	0.35	38,221,000	47.78
<b>Total</b>	<b>1,151</b>	<b>100.00</b>	<b>80,000,000</b>	<b>100.00</b>

## C. SUBSTANTIAL SHAREHOLDERS AS AT 19 APRIL 2006

Name	No. of Shares	Direct		Indirect		
		No. of Shares	%	No. of Shares	%	
1. HeveaWood Industries Sdn Bhd	27,075,000		33.84	1,593,500	1.99	@
2. Sanur Sdn Bhd	7,852,000		9.82	-	-	
3. Fیرama Holdings Sdn Bhd	4,979,000		6.22	28,668,500	35.84	*
4. Liang Chong Wai	188,600		0.24	28,668,500	35.84	*
5. Yoong Tein Seng @ Yong Kian Seng	150,000		0.19	33,853,500	42.32	***
6. Yoong Hau Chun	150,000		0.19	33,853,500	42.32	#
7. Dato' Seri Yong Tu Sang	150,000		0.19	28,668,500	35.84	@@
8. Dato' Loo Swee Chew	150,000		0.19	28,668,500	35.84	*
9. Nur Jazman bin Mohamed	50,000		0.06	7,852,000	9.82	##
10. Tenson Holdings Sdn Bhd	-		-	33,647,500	42.06	**
11. Mah Fah Victor Group Sdn Bhd	-		-	33,647,500	42.06	~
12. Sung Lee Timber Trading Sdn Bhd	-		-	28,668,500	35.84	*
13. Datuk Nur Jazlan bin Mohamed	-		-	7,902,000	9.88	###
14. Nur Jasni bin Mohamed	-		-	7,902,000	9.88	###

@ Deemed interested by virtue of HeveaWood Industries Sdn Bhd being entitled to control the exercise of 100 percent of the votes attached to the voting shares in Gemas Ria Sdn Bhd.

@@ Deemed interested by virtue of Section 6A of the Companies Act, 1965 (shareholdings held through Sung Lee Timber Trading Sdn Bhd, a substantial shareholder of HeveaWood Industries Sdn Bhd).

\* Deemed interested by virtue of substantial shareholdings in HeveaWood Industries Sdn Bhd pursuant to Section 6A of Companies Act, 1965.



**C. SUBSTANTIAL SHAREHOLDERS AS AT 19 APRIL 2006 (CONT'D)**

- \*\* Deemed interested by virtue of its substantial shareholdings in HeveaWood Industries Sdn Bhd and Firlama Holdings Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.
- \*\*\* Deemed interested by virtue of Section 6A of the Companies Act, 1965 (shareholdings held through Tenson Holdings Sdn Bhd, a substantial shareholder of HeveaWood Industries Sdn Bhd) and by virtue of his relationship with Yoong Hau Chun, his son and Yoong Li Yen, his daughter.
- # Deemed interested by virtue of his relationships with Yoong Tein Seng @ Yong Kian Seng, his father and Yoong Li Yen, his sister.
- ## Deemed interested by virtue of his shareholdings in Sanur Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.
- ### Deemed interested by virtue of his shareholdings in Sanur Sdn Bhd pursuant to Section 6A of the Companies Act, 1965 and by virtue of his relationship with Nur Jazman bin Mohamed, his brother.
- ~ Deemed interested by virtue of its substantial shareholdings in Firlama Holdings Sdn Bhd.

**D. DIRECTORS' SHAREHOLDINGS AS AT 19 APRIL 2006**

Name	Direct		Indirect		
	No. of Shares	%	No. of Shares	%	
1. Tan Sri Dato' Seri Mohamed bin Rahmat	950,000	1.19	-	-	
2. Yoong Tein Seng @ Yong Kian Seng	150,000	0.19	33,853,500	42.32	*
3. Yoong Hau Chun	150,000	0.19	33,853,500	42.32	#
4. Dato' Loo Swee Chew	150,000	0.19	28,668,500	35.84	~
5. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	-	-	-	-	
6. Lim Kah Poon	50,000	0.06	-	-	

- \* Deemed interested by virtue of Section 6A of the Companies Act, 1965 (shareholdings held through Tenson Holdings Sdn Bhd, a substantial shareholder of HeveaWood Industries Sdn Bhd) and by virtue of his relationship with Yoong Hau Chun, his son and Yoong Li Yen, his daughter.
- # Deemed interested by virtue of his relationships with Yoong Tein Seng @ Yong Kian Seng, his father and Yoong Li Yen, his sister.
- ~ Deemed interested by virtue of his substantial shareholdings in HeveaWood Industries Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

**E. LIST OF THIRTY (30) LARGEST SHAREHOLDERS AS AT 19 APRIL 2006**

<b>Name</b>	<b>No. of Shares Held</b>	<b>%</b>
1. HeveaWood Industries Sdn Bhd	18,075,000	22.59
2. Cimsec Nominess (Tempatan) Sdn Bhd - CIMB for HeveaWood Industries Sdn Bhd (Retail Banking)	9,000,000	11.25
3. OSK Nominees (Tempatan) Sdn Berhad - OSK Capital Sdn Bhd for Sanur Sdn Bhd	6,167,000	7.71
4. TA Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Firama Holdings Sdn Bhd	4,979,000	6.22
5. Media Zone Sdn Bhd	3,990,000	4.99
6. TCL Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Yap Kiew @ Yap Chin Fook	3,033,500	3.79
7. HSBC Nominees (Asing) Sdn Bhd - MSCO NY for Tiedemann Global Emerging Markets L.P.	2,204,100	2.76
8. HDM Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Wan Hassan bin Wan Abdul Rahman (M02)	1,813,400	2.27
9. Sanur Sdn Bhd	1,685,000	2.11
10. Gemas Ria Sdn Bhd	1,593,000	1.99
11. MIDF Sisma Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Wan Hassan Bin Wan Abdul Rahman (MGN-WHW0003M)	1,450,000	1.81
12. Yee Kong Yin	1,296,900	1.62
13. Liau Choon Hwa & Sons Sdn Bhd	1,252,000	1.57
14. Mak Sze Ling	1,084,000	1.36
15. Amanah Raya Nominees (Tempatan) Sdn Bhd - Public Smallcap Fund	1,054,900	1.32
16. Ah Kayu Moy @ Lee Kay Moy	1,000,000	1.25
17. Amanah Raya Nominees (Tempatan) Sdn Bhd - Amanah Saham Malaysia	1,000,000	1.25
18. Multi-Purpose Insurans Bhd	1,000,000	1.25
19. OSK Nominees (Tempatan) Sdn Berhad - OSK Capital Sdn Bhd for Mohamed Bin Rahmat	950,000	1.19
20. A.A. Anthony Securities Sdn Bhd - IVT (CT001)	948,000	1.19
21. Amanah Raya Nominees (Tempatan) Sdn Bhd - Public Islamic Balanced Fund	850,000	1.06
22. Amanah Raya Nominees (Tempatan) Sdn Bhd - Public Islamic Opportunities Fund	800,000	1.00
23. Fizwah Pembinaan Sdn Bhd	720,000	0.90
24. Peh Ju Chai	648,000	0.81
25. Malaysia Nominees (Tempatan) Sendirian Berhad - Pledged Securities Account for Liau Thai Min (40-00088-000)	600,000	0.75
26. Y.A.M Tunku Imran Ibni Tuanku Ja'afar	580,000	0.73
27. HSBC Nominees (Asing) Sdn Bhd - MSCO NY for Tiedemann Global Emerging Market QP L.P	528,200	0.66
28. Amanah Raya Nominees (Tempatan) Sdn Bhd - Amanah Saham Wawasan 2020	500,000	0.63
29. BIMB Musyarakah Satu Sdn Bhd	500,000	0.63
30. Mak Sze Ling	436,300	0.55
	<b>69,738,800</b>	<b>87.17</b>

# ANALYSIS OF WARRANTHOLDINGS

## A. DISTRIBUTION OF WARRANTHOLDINGS AS AT 19 APRIL 2006

Size of Warrantholdings	No. of Holders	%	No. of Warrants	%
Less than 100	21	5.16	1,050	0.00
100 - 1,000	185	45.46	128,300	0.32
1,001 - 10,000	123	30.22	477,700	1.19
10,001 - 100,000	53	13.02	1,729,094	4.32
100,001 - 1,999,999 (less than 5% of issued warrants)	19	4.67	7,361,356	18.41
2,000,000 (5% of issued warrants) and above	6	1.47	30,302,500	75.76
<b>Total</b>	<b>407</b>	<b>100.00</b>	<b>40,000,000</b>	<b>100.00</b>

## B. LIST OF THIRTY (30) LARGEST WARRANTHOLDERS AS AT 19 APRIL 2006

Name	No. of Warrants Held	%
1. HeveaWood Industries Sdn Bhd	13,537,500	33.84
2. TA Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Firama Holdings Sdn Bhd	5,325,000	13.31
3. Liang Chong Wai	3,858,900	9.65
4. Mak Sze Ling	2,927,600	7.32
5. TCL Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Yap Kiew @ Yap Chin Fook	2,570,000	6.43
6. OSK Nominees (Tempatan) Sdn Berhad - OSK Capital Sdn Bhd for Sanur Sdn Bhd	2,083,500	5.21
7. KPF Equities Holdings Sdn Bhd	1,750,400	4.38
8. Yap Kiew @ Yap Chin Fook	813,500	2.03
9. Liau Choon Hwa & Sons Sdn Bhd	625,000	1.56
10. Y.A.M. Tunku Imran Ibni Tuanku Ja'afar	540,000	1.35
11. Ah Kayu Moy @ Lee Kay Moy	500,000	1.25
12. Mak Sze Ling	500,000	1.25
13. Fizwah Pembinaan Sdn Bhd	355,000	0.89
14. Yee Kong Yin	352,800	0.88
15. Liau Thai Min	335,150	0.84
16. HSBC Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Yap Kiew @ Yap Chin Fook	259,300	0.65
17. Keyo Hun Eng	215,000	0.54
18. Wan Mahyumi Binti Wan Mohd Fizi	150,006	0.38
19. Firama Engineering Bhd	150,000	0.38
20. Mak Meow Hoo	150,000	0.38
21. Wan Hassan Bin Wan Abdul Rahman	150,000	0.38
22. Yap Kiew @ Yap Chin Fook	142,200	0.36
23. Mak Chee Weng	140,000	0.35
24. Loo Chin Ming (Lu ZhenMing)	128,000	0.32
25. Radin Corporation Sdn Bhd	105,000	0.26
26. Ng Wen Li	100,000	0.25
27. EB Nominees (Tempatan) Sendirian Berhad - Pledged Securities Account for Yong Kian Seng @ Yoong Tein Seng (SMB-SFC)	75,000	0.19
28. EB Nominees (Tempatan) Sendirian Berhad - Pledged Securities Account for Loo Swee Chew (SMB-SFC)	75,000	0.19
29. EB Nominees (Tempatan) Sendirian Berhad - Pledged Securities Account for Yong Tu Sang (SMB-SFC)	75,000	0.19
30. Yoong Kee Sin	67,500	0.17
	<b>38,056,356</b>	<b>95.14</b>

**C. DIRECTORS' WARRANTHOLDINGS AS AT 19 APRIL 2006**

Name	Direct		Indirect		
	No. of Warrants	%	No. of Warrants	%	
1. Tan Sri Dato' Seri Mohamed bin Rahmat	-	-	-	-	
2. Yoong Tein Seng @ Yong Kian Seng	75,000	0.19	18,962,500	47.41	*
3. Yoong Hau Chun	75,000	0.19	18,962,500	47.41	#
4. Dato' Loo Swee Chew	75,000	0.19	13,537,500	33.84	~
5. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	-	-	-	-	
6. Lim Kah Poon	25,000	0.06	-	-	

\* Deemed interested by virtue of Section 6A of the Companies Act, 1965 (shareholdings held through Tenson Holdings Sdn Bhd, a substantial shareholder of HeveaWood Industries Sdn Bhd) and by virtue of his relationship with Yoong Hau Chun, his son and Yoong Li Yen, his daughter.

# Deemed interested by virtue of his relationships with Yoong Tein Seng @ Yong Kian Seng, his father and Yoong Li Yen, his sister.

~ Deemed interested by virtue of his substantial shareholdings in HeveaWood Industries Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Twelfth (12th) Annual General Meeting of HeveaBoard Berhad will be held at Hotel Equatorial, Cempaka Room, Mezzanine Level, Jalan Sultan Ismail, 50250 Kuala Lumpur on Monday, 29 May 2006 at 10.00 a.m., for the purpose of considering the following businesses:

## AGENDA

### ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2005 together with the Reports of the Directors and the Auditors thereon. Ordinary Resolution 1
2. To declare a final dividend of 3 sen per ordinary share less 28% tax for the financial year ended 31 December 2005. Ordinary Resolution 2
3. To approve the payment of Directors' fees of RM200,000 for the financial year ended 31 December 2005. Ordinary Resolution 3
4. To re-elect the following Directors who are retiring by rotation pursuant to Article 124 of the Company's Articles of Association, and being eligible, offering themselves for re-election:
  - (i) Tan Sri Dato' Seri Mohamed bin Rahmat Ordinary Resolution 4
  - (ii) Dato' Loo Swee Chew Ordinary Resolution 5
5. To re-appoint Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak, the Director who, being over the age of seventy (70) years, is retiring pursuant to Section 129 (6) of the Companies Act, 1965, and being eligible, offering himself for re-appointment. Ordinary Resolution 6
6. To re-appoint Messrs Horwath as Auditors of the Company and to authorise the Directors to fix their remuneration. Ordinary Resolution 7

### SPECIAL BUSINESS

To consider and if thought fit, pass the following resolution:

7. **Ordinary Resolution** Ordinary Resolution 8  
**Authority to Issue and Allot Shares Pursuant to Section 132D of the Companies Act, 1965**

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue and allot shares in the Company, at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued does not exceed 10% of the issued capital of the Company at the time of issue and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued, subject to the Companies Act, 1965, the Articles of Association of the Company and approval from the Bursa Malaysia Securities Berhad and other relevant bodies where such approval is necessary."

### NOTICE OF DIVIDEND ENTITLEMENT

**NOTICE IS ALSO HEREBY GIVEN THAT** subject to the approval of the shareholders at the Twelfth (12th) Annual General Meeting of the Company, a final dividend of 3 sen per ordinary share less 28% tax for the financial year ended 31 December 2005 will be paid on 14 July 2006 to Depositors whose names appear in the Record of Depositors on 30 June 2006.

A depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred into the Depositor's Securities Account before 4.00 p.m. on 30 June 2006 in respect of transfers; and
- (b) Securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

MAH LI CHEN (MAICSA 7022751)  
KIM YI HWA (MAICSA 7029686)  
*Company Secretaries*

Kuala Lumpur  
5 May 2006

#### Notes:

1. Every member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him/her. A proxy may but need not be a member of the Company. If the proxy is not a member, the proxy need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies.
2. The instrument appointing a proxy shall be in writing executed by or on behalf of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at C15-1, Level 15, Tower C, Megan Avenue II, 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur at least forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.
4. Explanatory Note on Special Business

*Authority to Issue and Allot Shares pursuant to Section 132D of the Companies Act, 1965*

The proposed Ordinary Resolution 8, if passed, will give flexibility to the Directors of the Company to issue shares and allot upto a maximum of ten percentum (10%) of the issued share capital of the Company at the time of such allotment and issuance of shares and for such purposes as they consider would be in the best interest of the Company without having to convene separate general meetings. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

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# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. Directors who are standing for re-election or re-appointment at the Twelfth (12th) Annual General Meeting of the Company to be held at Hotel Equatorial, Cempaka Room, Mezzanine Level, Jalan Sultan Ismail, 50250 Kuala Lumpur on Monday, 29 May 2006 at 10.00 a.m. are as follows:
  - (i) Tan Sri Dato' Seri Mohamed bin Rahmat
  - (ii) Dato' Loo Swee Chew
  - (iii) Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak

Further details of the Directors standing for re-election or re-appointment are set out in the Directors' Profile appearing on pages 2 and 3 of the Annual Report.

2. During the financial year ended 31 December 2005, six (6) Board meetings were held. Details of attendance of each Director are set out in the Statement on Corporate Governance appearing on page 9 of the Annual Report.

# PROXY FORM

Number of Shares Held

## HeveaBoard Berhad (275512-A) (Incorporated in Malaysia)

I/We, \_\_\_\_\_  
(full name in block letters)

of (full address) \_\_\_\_\_

\_\_\_\_\_ being a member of HeveaBoard Berhad, hereby appoint

(full name) \_\_\_\_\_

of (full address) \_\_\_\_\_

or failing which, the Chairman of the Meeting as my/our proxy to attend and vote for me/us and on my/our behalf at the Twelfth Annual General Meeting of the Company to be held at Hotel Equatorial, Cempaka Room, Mezzanine Level, Jalan Sultan Ismail, 50250 Kuala Lumpur on Monday, 29 May 2006 at 10.00 a.m. or at any adjournment thereof and to vote as indicated below:

Resolutions	For	Against
1. Adoption of Audited Financial Statements for the financial year ended 31 December 2005		
2. A Final Dividend of 3 sen per ordinary share less 28% tax		
3. Approval of Directors' Fees		
4. Re-election of Tan Sri Dato' Seri Mohamed bin Rahmat as Director		
5. Re-election of Dato' Loo Swee Chew as Director		
6. Re-appointment of Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak as Director		
7. Re-appointment of Messrs Horwath as Auditors		
8. Special Business Authority to Issue and Allot Shares Pursuant to Section 132D of the Companies Act, 1965		

\* if you wish to appoint any person other than the Chairman of the Meeting to be your proxy, kindly delete the words "the Chairman of the Meeting" and insert the name of the person desired.

(Please indicate with a cross (X) in the space provided, how you wish your vote to be cast in respect of the above resolutions. If you do not do so, the proxy may vote or abstain at his/her discretion.)

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2006

\_\_\_\_\_  
Signature/Common Seal of Shareholder

### Notes:

1. Every member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him/her. A proxy may but need not be a member of the Company. If the proxy is not a member, the proxy need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies.
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Fold this flap for sealing

Then fold here

AFFIX  
STAMP

**HeveaBoard Berhad** (275512-A)

C15-1 Level 15 Tower C

Megan Avenue II

12 Jalan Yap Kwan Seng

50450 Kuala Lumpur

Malaysia

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