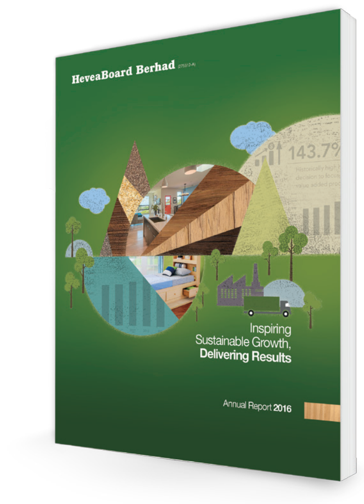
HeveaBoard Berhad (275512-A)

Inspiring Sustainable Growth, **Delivering Results**

Annual Report **2016**

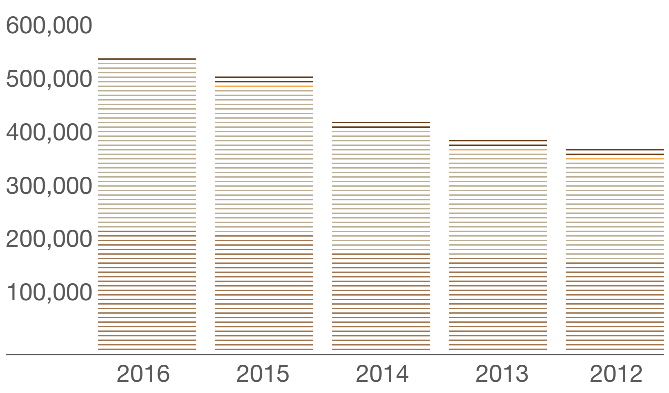
INSPIRING SUSTAINABLE GROWTH, DELIVERING RESULTS

This abstract cover design visualises an idyllic world of a sustainable future to symbolise **HeveaBoard**'s socially responsible operations that minimises our carbon footprint while delivering results to shareholders through prudent management and a diversified range of quality products.

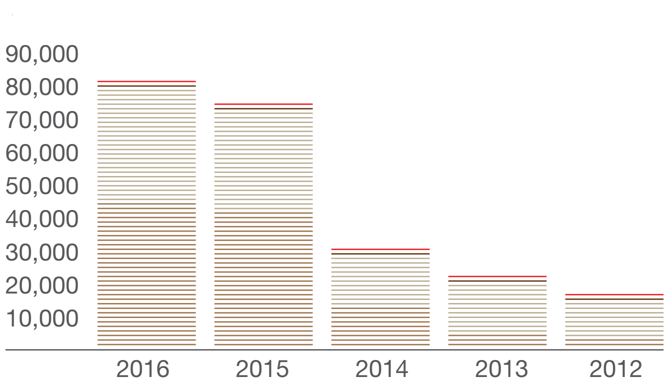


WHAT'S INSIDE

Turnover (RM'000)



Profit After Tax (RM'000)



HeveaBoard HeveaPac BocoWood HeveaMart Hevea OSB

5-YEAR FINANCIAL HIGHLIGHTS

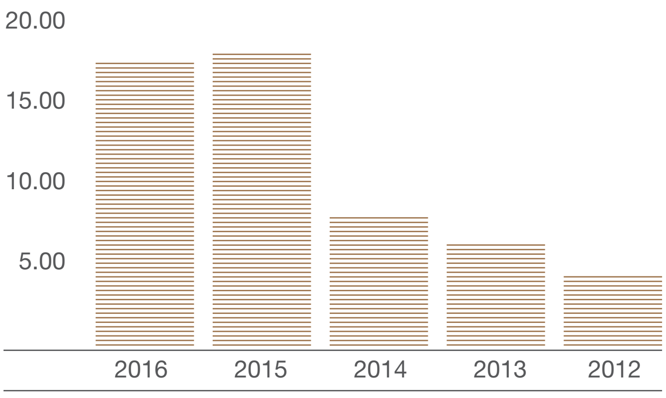
	2016	2015	2014	2013	2012
Turnover (RM'000)	**540,045**	503,309	422,355	389,507	372,597
Profit Before Tax (RM'000)	**90,296**	82,834	32,081	23,952	13,977
Tax (RM'000)	**(9,627)**	(9,263)	(1,905)	(1,493)	1,500
Profit After Tax (RM'000)	**80,669**	73,571	30,176	22,459	15,477
Share Capital (RM'000)	**125,288**	109,082	99,449	90,400	90,400
Net Assets (RM'000)	**421,075**	345,615	270,679	231,054	208,595
Net Assets Per Share (RM)*	**0.84**	0.79	0.68	0.64	0.58
Interim Dividend (sen per ordinary share of RM0.25 each)**	**4.60**	1.75	0.38	–	–
Proposed Final Dividend (sen per ordinary share of RM0.25 each)**	**2.50**	1.00	0.63	0.50	–
Net Earnings Per Share (sen)***	**17.27**	17.94	7.93	6.21	4.28

* 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.

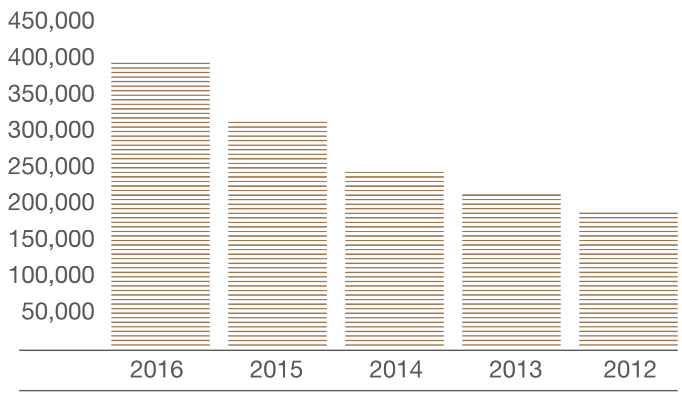
** The comparatives have been restated to account for the subdivision of every one (1) ordinary share of RM1.00 each into four (4) ordinary shares of RM0.25 each (share split) which was completed on 24 July 2015.

*** 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 (share split) in issue during the financial year. In accordance to MFRS 133 Earnings Per Share, the comparatives have been restated to account for the subdivision of every one (1) ordinary share of RM1.00 into four (4) ordinary share of RM0.25 each (share split) which was completed on 24 July 2015.

Earnings Per Share (sen)



Net Assets (RM'000)



MANAGEMENT DISCUSSION & ANALYSIS

Dear Shareholders,

I have the pleasure in presenting to you our 2016 Annual Report and Audited Financial Statements.

Yoong Hau Chun
Group Managing Director

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

RM540.0 million
Total Revenue for FY2016

An increase of 7.3%

RM80.7 million
Highest ever Profit After Tax

An increase of 9.6%

7.1 sen
Dividend

Representing approximately 45% of the Group's PAT for FY 2016

FINANCIAL PERFORMANCE

Despite the global economic uncertainties in 2016, **HeveaBoard** recorded another financial high in terms of top and bottom line. We achieved a total revenue of RM540.0 million for the Financial Year Ended 2016 ("FY2016"), an increase of 7.3% from the preceding Financial Year Ended 2015 ("FY2015") of RM503.3 million. The Group also reported a 9.6% increase in highest ever Profit After Tax ("PAT") of RM80.7 million for FY2016 as compared to RM73.6 million for FY2015.

The encouraging set of numbers was achieved as a result of our continued focus on manufacturing and delivering higher quality and value added products. This, combined with better cost management and the rising demand for environmentally friendly products as a result of higher standard and quality of living have helped us to significantly increase the Group's bottom line in the recent financial year.

DIVIDEND POLICY

With a much stronger financial performance, the Company had announced in the previous AGM a dividend policy of not less than 30% of the Group's PAT to be used for distribution as dividend. The Board had since declared three (3) interim dividends which totalled 4.6 sen per share, or RM23.5 million for FY2016. The Board is recommending a final dividend of 2.5 sen per share to be approved at the forthcoming Annual General Meeting (AGM), thus bringing the total dividends for FY2016 to 7.1 sen, representing approximately 45% of the Group's PAT for FY2016.

BUSINESS OPERATIONS

Our operational focus in differentiating ourselves through high quality and environmentally friendly products continued to lead the Company towards better performance. As an export oriented Company, the much subtle USD movement in FY2016 as compared to FY2015 would certainly make it harder for us to repeat our performance achieved in FY2015. However, I am glad to report that with our higher margin products, better operational efficiencies and also better automation at the RTA sector, our performance turned out marginally better.

As reported earlier, we turned into a net cash company in the 3rd quarter of 2015, and in March 2016, we had fully paid off our entire USD loan and other loans taken for the expansion of our second particleboard line one year ahead of the original repayment schedule. I am glad to report that we had further consolidated our financial footing with the further strengthening of our shareholders' fund by 22% to RM421.1 million.

OPERATIONAL EFFICIENCIES

The Group continues to practise a cautious approach in our operations to rationalise our costs through cost optimisation measures. Our decision to increase automation in our processes a few years back has continued to increase our efficiency and ultimately our productivity.

BUSINESS DEVELOPMENT

For the year 2017, the Group will allocate RM48.0 million on capital expenditure (CAPEX) to upgrade and expand our facilities to further increase our production capacity as well as capability in producing higher quality products, and also to embark on our new gourmet fungi cultivation project. From the RM48.0 million, approximately RM20.0 million will be used in the RTA sector to build a new factory and to acquire new machineries for the 7.7 acre industrial land that we had just acquired for RM13.5 million. We also allocated RM10.5 million to build new climate controlled gourmet fungi cultivation facility and RM4.0 million will be allocated for further upgrading works for our particleboard sector.

INDUSTRY OUTLOOK & COMPANY PROSPECT

The particleboard and RTA sectors will remain as our core business activities for which we will continue to focus on the strategy we charted out. We will continue to invest in the particleboard sector to elevate our product quality level as well as value adding our products. As for the RTA sector, we will continue to automate and also to widen our product range. As mentioned above, the new RTA factory will contribute positively to the Group's financial performance.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

We started 2017 with some very wet weather, with major floods recorded in a few locations near us. Coupled with the high latex price, there is bound to be lesser replanting of rubber trees going on at the moment. This would push raw material prices up and I foresee this to be one of the major challenges we will all have to face. We have been preparing for such eventuality, and we shall face it with innovation to reduce the impact that it may bring.

CORPORATE SOCIAL RESPONSIBILITY

We strongly acknowledge the importance of Corporate Social Responsibility as a long-term strategic initiative towards sustainable and innovative business that creates value for our shareholders and the society at large. Our corporate social responsibility initiatives encompass a number of key commitments that focus on our people, the environment and the community.

Employees' Health and Safety

At **HeveaBoard**, our employees' health and safety hold tremendous importance to us. We are committed to ensure a safe environment for our employees, contractors and visitors on site. In view of this, we have implemented numerous initiatives to develop and to encourage a strong safety culture within the Group. Some of the areas that we continue to review and to strengthen include fire drill and training on firefighting techniques and the proper method to use the different firefighting equipment, health checks and briefing on good health practices as well as training on Safety & Health at Work through collaborations with the Fire Department, Klinik Kesihatan and the Department of Safety and Health respectively.

Environment

As part of our ongoing efforts to reduce our carbon footprints, we have put in place various initiatives including mobile chipping for higher wood fibre recovery which also eliminates open burning during replanting of rubber trees. Currently, about 15% of **HeveaBoard**'s total wood requirement comes from mobile chipping in rubber plantation. This method has close to 100% recovery rate and will leave no residue for further open burning, thus saving more than 20,000 tonnes of Carbon Dioxide from being emitted into our atmosphere every year.

Our process heat requirement comes from biomass generation, without the use of fossil fuel. Biomass feed stock which is carbon neutral, will enhance a smaller carbon footprint from heavy industry players such as **HeveaBoard**.

HeveaBoard also jointly organised "Go Green With Kids (100 trees, 100 kids)" with MYGEMAS. The event was officiated by YB Datuk Hj Hamim Samuri, the Deputy Minister of Environment. This event presented a great opportunity for school children to understand the importance of preserving our Mother Nature by planting 100 Merbau trees. More than 100 school children from 6 schools took part in this tree planting activity.

We continue to advocate the highest ecological standards in the production of our products. With a proven track record for quality and environmentally safe products, our products are certified with the Eco Label Certificate by SIRIM and Green Label Certificate by the Singapore Environment Council. We are also certified by Greentech Malaysia with the MyHijau certificate as a testimony that our particleboard meets the low emission requirements.

Human Resource Development

Our employees are our greatest asset – we say it often and with good reason. It is only with the determination and dedication of our employees that we can serve our clients, generate long-term value for our shareholders and contribute to the broader public. At the crux of our human resource acquisition and development efforts is our focus on recruiting, retaining and developing local talents. The Group has been making continuous effort to recruit more local talents from the surrounding areas. As one of the major contributors to the economy of Gemas and Sungai Gadut, the Group currently provides more than 800 employment opportunities to the locals.

As part of our human resource development efforts, the Group believes in investing in our employees and continues to be committed to helping them realise their utmost potential and ultimately grow with the company. In line with this objective, we regularly enroll our employees in trainings and seminars as an avenue for them to gain new skills or hone existing ones. Additionally, we also provide on-the-job (OTJ) trainings for university students at our facilities. This OTJ training serves as a pathway to future employment within our Group.

Community

As a business, we recognise the importance of giving back to the community that has supported us throughout the years by remaining active in various programmes that encourage our employees to reach out with their helping hands.

As part of the outreach programme, we organised a tour to our manufacturing plant for the teachers and students of Sekolah Menengah Tuanku Abdul Rahman, Gemas. The aim was to educate and encourage students on career options within the manufacturing, engineering and automation industry. The Group also sponsored a team from the same school to participate in the National Robotics Competition, by donating LEGO sets for the students to build robots with the theme "Rap the Scrap". Employees from the production and electronic engineering team had also contributed to the project by training the students on robotics programming.

We are also a strong advocate of quality education, thus we have contributed to the provision of a conducive learning environment for students. Our subsidiary, HeveaPac, manufactured and donated environmentally safe writing tables to schools with severely dilapidated desks or insufficient desks. To-date, we have donated over 1,000 desks for this cause. To encourage students to excel in education, we've also awarded top achievers in PMR, SPM and STPM from 2 schools in Gemas with certificates and cash awards.

The Group also continued the yearly blood donation drive for Seremban General Hospital.

APPRECIATION

On behalf of the Board of Directors, I would like to express our appreciation to the Management and staff of **HeveaBoard** for their relentless commitment and contribution to the growth of the Group. Our appreciation also goes to all the valued shareholders, business partners, customers and professionals in the relevant fields for their unwavering support.

I hope all shareholders will continue to place your trust and faith in our Group as we continue to drive the Group forward for another exciting year.

Yoong Hau Chun
Group Managing Director

HIGHLIGHTS OF 2016

MARCH

HeveaBoard fully repaid all outstanding loans amounted RM34 million taken for the expansion of the second particleboard line – more than 1 year ahead of original repayment schedule

MAY

Announced dividend policy of not less than 30% of Group Profit After Tax (PAT) to be distributed as dividend

DEC

HeveaBoard upgraded the certification for Japanese Industrial Standards (JIS) to version 2015

DEC

HeveaPac registered highest ever annual revenue of RM310 million

DEC

HeveaPac recorded highest ever annual PAT of RM36 million

DEC

HeveaBoard achieved highest ever annual revenue of RM242 million

DEC

HeveaBoard achieved highest ever annual PAT of RM50 million

MARCH '17

Declared highest ever dividend of 7.1 sen for FY2016

PROFILE OF DIRECTORS

TAN SRI DATO' CHAN CHOONG TACK @ CHAN CHOONG TAK

Senior Independent Non-Executive Chairman

A Malaysian aged 84, male, was appointed as an Independent Non-Executive Director of **HeveaBoard Berhad** ("**HeveaBoard**" or "the Company") on 1 October 2004. On 12 February 2010, he was re-designated as Independent Non-Executive Chairman of **HeveaBoard**. He is also the Chairman of the Nomination Committee, Remuneration Committee, Tender Board Committee and a member of the Audit Committee of the Company.

A qualified Normal Class and Kirby trained teacher as well as a Barrister-at-Law, Tan Sri Dato' Chan 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.

Save as disclosed above, Tan Sri Dato' Chan does not hold any directorship in any other public companies or public listed companies.

Tan Sri Dato' Chan does not have any family relationship with any other director and/or substantial shareholders of **HeveaBoard**.

YOONG HAU CHUN

Group Managing Director

A Malaysian aged 41, male, joined **HeveaBoard** in 2000 and was appointed as Executive Director to **HeveaBoard** on 21 July 2000. Mr Yoong Hau Chun was re-designated as the Group Managing Director on 6 June 2012.

He graduated from Sussex University, UK with a First Class Honours Degree in Mechanical Engineering with Business Management and a MSc in Wood Industries Technology from UPM. He is responsible for the operation of the particleboard plants and the Group of companies under **HeveaBoard**.

Mr Yoong Hau Chun does not hold any directorship in any other public companies or public listed companies.

He is the son of Mr Tenson Yoong, his Alternate Director and a substantial shareholder of the Company, and the brother of Ms Yoong Li Yen, the Executive Director and a substantial shareholder of the Company. Besides, he is the brother-in-law of Mr Bailey Policarpio, a Non-Independent Non-Executive Director of **HeveaBoard**.

DATO' LOO SWEE CHEW

Non-Independent Non-Executive Director

A Malaysian aged 69, male, one of the founding members of **HeveaBoard** and was appointed as a Non-Independent Non-Executive Director of the Company on 21 October 1997. Dato' Loo is also a member of the Tender Board Committee.

Dato' Loo has been in the timber industry for more than 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.

Dato' Loo does not hold any directorship in any other public companies or public listed companies.

Save as he is the father of Mr Loo Chin Meng, his Alternate Director, he does not have any family relationship with any other director and/or substantial shareholders of **HeveaBoard**.

PROFILE OF DIRECTORS (CONTINUED)

LIM KAH POON
Independent Non-Executive Director

A Malaysian aged 68, male, was appointed as an Independent Non-Executive Director of **HeveaBoard** on 1 October 2004. Mr Lim Kah Poon 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 Kah Poon, a finance professional with a broad based business experience, spent the early part of his professional career with two of the big four accounting firms in Dublin and Kuala Lumpur/Penang for approximately 12 years. He joined a multinational company in Kuala Lumpur in 1983, where he held various senior finance positions over a 15 year-period, with the last one and a half years involving in audit and risk assessment on the control environment within the group companies in the Asia Pacific Region. In 1997, he joined a local company, also quoted on Bursa Malaysia Securities Berhad, as its Chief Financial Officer. He left his last company in September 2001 in order to focus on his consultancy work.

Presently, Mr Lim Kah Poon is also Director of Pineapple Resources Berhad, Chuan Huat Resources Berhad and Spring Energy Resources Berhad.

Save as disclosed above, he does not hold any other directorship in any other public companies or public listed companies.

Mr Lim Kah Poon does not have any family relationship with any other director and/or substantial shareholders of **HeveaBoard**.

BAILEY POLICARPIO
Non-Independent Non-Executive Director

A Filipino aged 46, male, was appointed as a Non-Independent Non-Executive Director of **HeveaBoard** on 8 March 2007. He is a member of the Audit Committee and Nomination Committee.

Mr Bailey Policarpio graduated from De La Salle University, Philippines with a Degree in Electronics and Communications Engineering and an MSc in Manufacturing Systems from University of Nottingham, UK. His career includes being a lecturer at De La Salle University; being Directors for First Philippine Scales, Inc. (FPSI) and ProFence Systems Corporation. He is also an approved signatory of FPSI Metrology Laboratory, which is an ISO/IEC 17025 Accredited Calibration Laboratory.

Save as disclosed above, Mr Bailey Policarpio does not hold any other directorship in any other public companies or public listed companies.

Mr Bailey Policarpio is the spouse of Ms Yoong Li Yen, the Executive Director, the brother-in-law of Mr Yoong Hau Chun, the Group Managing Director, and the son-in-law of Mr Tenson Yoong, the Alternate Director to Mr Yoong Hau Chun, the substantial shareholders of the Company.

YOONG LI YEN
Executive Director

A Malaysian aged 40, female, was appointed as an Executive Director of the Company on 18 February 2013.

Ms Yoong Li Yen graduated with a Bachelor of Administration degree from University of New Brunswick Canada and Post Graduate Diploma from Chartered Institute of Marketing (CIM), United Kingdom.

Prior to joining **HeveaBoard**, she started her career in 1996 as a Business Analyst with New Brunswick Power, Canada. In 1998, she joined **HeveaBoard** as a Marketing Executive. Throughout the years, she had gained extensive experience in sales, marketing and logistics, and was the General Manager in Commercial of **HeveaBoard**. She is also the Director of HeveaPac Sdn. Bhd., HeveaMart Sdn. Bhd. and Hevea OSB Sdn. Bhd.

PROFILE OF DIRECTORS (CONTINUED)

Ms Yoong Li Yen does not hold any directorship in any other public companies or public listed companies.

She is the spouse of Mr Bailey Policarpio, a Non-Independent Non-Executive Director of **HeveaBoard**. She is the daughter of Mr Tenson Yoong and sister of Mr Yoong Hau Chun, the Directors and substantial shareholders of the Company.

YOONG TEIN SENG @ YONG KIAN SENG (TENSON YOONG)

Alternate Director to Yoong Hau Chun

A Malaysian aged 70, male, was appointed as the Alternate Director to Mr Yoong Hau Chun, the Group Managing Director, on 18 February 2013.

Mr Tenson Yoong has over 30 years of experience in sawmill and timber export business and is one of the founding members of **HeveaBoard**.

Mr Tenson Yoong does not hold any directorship in any other public companies or public listed companies.

Mr Tenson Yoong is the father of Mr Yoong Hau Chun and Ms Yoong Li Yen, the Directors and substantial shareholders of **HeveaBoard**. Mr Tenson Yoong is also the father-in-law of Bailey Policarpio, a Non-Independent Non-Executive Director of the Company.

LOO CHIN MENG

Alternate Director to Dato' Loo Swee Chew

A Singaporean, aged 39, male, was appointed as the Alternate Director to Dato' Loo Swee Chew, Non-Independent Non-Executive Director, on 27 May 2016.

Mr Loo Chin Meng graduated in 1998 with Bachelor Degree in Communication Business from Bond University, Australia, majoring in marketing and public relations. He enlisted into Singapore Arms Forces in 1998 and received training in Officer Cadet School. He was commissioned as 2nd Lieutenant in 1999. He was promoted as Lieutenant in 2000.

Mr Loo Chin Meng started his career in 2001 in sawmill and timber industry. He has been in sawmill and timber industry throughout the years and is currently Directors of a number of companies involved in sawmill and timber export business. He also engages in housing development and is currently Directors for a few property development companies.

Mr Loo Chin Meng does not hold any directorship in any other public companies or public listed companies.

He is the son of Dato' Loo Swee Chew who is a Non-Independent Non-Executive Director and a substantial shareholder of **HeveaBoard**.

"WE CONTINUE TO ADVOCATE THE HIGHEST ECOLOGICAL STANDARDS IN THE PRODUCTION OF OUR PRODUCTS"

Notes to Directors' Profiles:-

None of the Directors has:-

- * *Any conflict of interest in any business arrangement involving **HeveaBoard Berhad.***
- ** *Any conviction for offences within the past five (5) years other than traffic offences, and there are no public sanction and/or penalty imposed by the relevant regulatory bodies on the Directors during the financial year.*

The details of the Directors' securities holdings are set out in the Analysis of Shareholdings as at 30 March 2017 as set out on pages 119 to 124 of this Annual Report.

The details of the Directors' attendance at Board and Audit Committee meetings are set out on page 17 and 35 of this Annual Report respectively.

The composition of the Board of Directors complies with Paragraph 15.02 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad whereby one-third (1/3) of the Board are Independent Directors.

CORPORATE STRUCTURE

HeveaBoard Berhad

Manufacturing of particleboards and investment holding

100%
HeveaPac Sdn. Bhd.
Manufacturing of ready-to-assemble furniture

100%
BocoWood Sdn. Bhd.
Distribution and marketing of ready-to-assemble furniture

100%
HeveaMart Sdn. Bhd.
Trading of particleboards and other panel board

100%
HeveaGro Sdn. Bhd.
Cultivation of gourmet fungi

100%
Hevea OSB Sdn. Bhd.
Dormant

QUALITY SYSTEM
SIRIM
UKAS
074
CERTIFIED TO MS ISO 9001 : 2000
REGISTRATION NO AR2045

ID No. WP MY 03 01

1st JIS Certified Particleboard Manufacturer In Malaysia

C.A.R.B.
93120.2(a) & 93120.12

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak
Senior Independent Non-Executive Chairman

Yoong Hau Chun
Group Managing Director

Yoong Li Yen
Executive Director

Dato' Loo Swee Chew
Non-Independent Non-Executive Director

Lim Kah Poon
Independent Non-Executive Director

Bailey Policarpio
Non-Independent Non-Executive Director

Yoong Tein Seng @ Yong Kian Seng (Tenson Yoong)
Alternate Director to Yoong Hau Chun

Loo Chin Meng
Alternate Director to Dato' Loo Swee Chew

AUDIT COMMITTEE

Lim Kah Poon (Chairman)

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak

Bailey Policarpio

NOMINATION COMMITTEE

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak (Chairman)

Lim Kah Poon

Bailey Policarpio

REMUNERATION COMMITTEE

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak (Chairman)

Yoong Hau Chun

Lim Kah Poon

TENDER BOARD COMMITTEE

Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak (Chairman)

Dato' Loo Swee Chew

Lim Kah Poon

COMPANY SECRETARY

Wong Youn Kim (MAICSA 7018778)

REGISTERED OFFICE

Level 2, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur
Wilayah Persekutuan

Tel : 03-2241 5800
Fax : 03-2282 5022

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

AmBank (M) Berhad
(Company No. 8515-D)

CIMB Berhad Berhad
(Company No. 13491-P)

Citibank Berhad
(Company No. 297098-M)

Malayan Banking Berhad
(Company No. 3813-K)

OCBC Bank (Malaysia) Berhad
(Company No. 295400-W)

AUDITORS

Baker Tilly Monteiro Heng *(AF0117)*
Chartered Accountants
Baker Tilly MH Tower
Level 10, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur
Wilayah Persekutuan

Tel : 03-2297 1000
Fax : 03-2282 9981

STOCK EXCHANGE LISTING

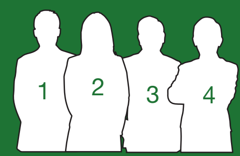
Main Market of Bursa Malaysia Securities Berhad

Stock Short Name : HEVEA

Stock Code : 5095

Warrant Code : 5095WB

PROFILE OF KEY SENIOR MANAGEMENT



From left to right

1. YOONG HAU CHUN
2. YOONG LI YEN
3. PEH JU CHAI
4. YEE KONG YIN

YOONG HAU CHUN

Group Managing Director, **HeveaBoard Berhad**

A Malaysian aged 41, male, joined **HeveaBoard** in 2000 and was appointed as Executive Director to **HeveaBoard** on 21 July 2000. He was re-designated as the Group Managing Director on 6 June 2012. He graduated from Sussex University, UK with a First Class Honours Degree in Mechanical Engineering with Business Management and a MSc in Wood Industries Technology from UPM. He is responsible for the operation of the particleboard plants and the Group of companies under **HeveaBoard**. Mr Yoong Hau Chun does not hold any directorship in any other public companies or public listed companies. He is the son of Mr Tenson Yoong, his Alternate Director and a substantial shareholder of the Company, and the brother of Ms Yoong Li Yen, the Executive Director and a substantial shareholder of the Company. Besides, he is the brother-in-law of Mr Bailey Policarpio, a Non-Independent Non-Executive Director of **HeveaBoard**.

YOONG LI YEN

Executive Director, **HeveaBoard Berhad**

A Malaysian aged 40, female, was appointed as an Executive Director of the Company on 18 February 2013. She graduated with a Bachelor of Administration degree from University of New Brunswick Canada and Post Graduate Diploma from Chartered Institute of Marketing (CIM), United Kingdom. Prior to joining **HeveaBoard**, she started her career in 1996 as a Business Analyst with New Brunswick Power, Canada. In 1998, she joined **HeveaBoard** as a Marketing Executive. Throughout the years, she had gained extensive experience in sales, marketing and logistics, and was the General Manager in Commercial of **HeveaBoard**. She is also the Director of HeveaPac Sdn. Bhd., HeveaMart Sdn. Bhd., and Hevea OSB Sdn. Bhd. Ms Yoong Li Yen does not hold any directorship in any other public companies or public listed companies. She is the spouse of Mr Bailey Policarpio, a Non-Independent Non-Executive Director of **HeveaBoard**. She is the daughter of Mr Tenson Yoong and sister of Mr Yoong Hau Chun, the Directors and substantial shareholders of the Company.

PEH JU CHAI

Executive Director, **HeveaPac Sdn Bhd**

A Malaysian aged 56, male, joined the group in 2000 and is one of the founders of HeveaPac. He studied Chartered Association of Certified Accountants and Chartered Institute of Management Accountants, UK. He is also a graduate of Tuanku Abdul Rahman College with a Diploma in Commerce. Mr Peh Ju Chai is an Executive Director of HeveaPac and is in-charge of the Marketing, Shipping, Accounts, and Finance Department. Prior to joining the Group, he held various senior positions in different industries including wood base. He has many years of marketing and management experience in the RTA furniture manufacturing industry and he has been actively involved in the international trading business since 1987. Mr Peh Ju Chai does not hold any directorship in any other public companies or public listed companies. He does not have any family relationship with any director and major shareholders of the Company.

YEE KONG YIN

Executive Director, **HeveaPac Sdn Bhd**

A Malaysian aged 54, male, joined the Group in year 2000 as Executive Director and is one of the founders of HeveaPac. He holds a Bachelor of Business Administration from National Cheng Chi University, Taiwan. He has over 28 years of experience in wood industry. Mr Yee Kong Yin does not hold any directorship in any other public companies or public listed companies. He does not have any family relationship with any director and major shareholders of the Company.

Notes to Profile of Key Senior Management:
None of the above Key Senior Management has:

* *Any conflict of interest in any business arrangement involving **HeveaBoard Berhad**.*
* *Any conviction for offences within the past five (5) years other than traffic offences, and these are no public sanction and/or penalty imposed by the relevant regulatory bodies during the financial year.*

STATEMENT ON CORPORATE GOVERNANCE

INTRODUCTION

The Board of Directors ("the Board") of **HeveaBoard Berhad** ("**HeveaBoard**" or "the Company") is pleased to report that for the financial year under review, the Company has continued to apply good governance practices in managing and directing the business of the Group by adopting the principles and the recommendations prescribed in the Malaysian Code on Corporate Governance 2012 ("the Code").

The Board has conducted a review of its current practices and proceedings against the principles and recommendations in the Code. The result of this review has been used as the basis for the Board in describing the application of the principles and the extent of compliance with the recommendations advocated therein in compliance with the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities"), which are drawn into four (4) sections:-

(A) Board of Directors
(B) Directors' Remuneration
(C) Accountability and Audit
(D) Shareholders

(A) BOARD OF DIRECTORS

1. Composition of the Board

The Board recognises the importance of board diversity and good mix in board composition to ensure effective leadership and achieve the goals and objective of the Group.

During the financial year, the Board consists of six (6) members, comprising two (2) Executive Directors, two (2) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors. There are two (2) Alternate Directors. The composition of the Board includes sufficient number of Independent, Executive and Non-Executive Directors as prescribed by the Listing Requirements of Bursa Securities.

The Board is of the view the current composition, having one-third (1/3) of the Board members being Independent Directors, is of optimal size and its mixture of age group and gender comprises high calibre individuals with extensive experiences from diverse backgrounds and various fields, including industry-specific knowledge, engineering, technical, finance, management and legal has enabled productive discussion among the Board members to arrive at independent decision-making and thus effective oversight of management and performance of the Group.

No individual or group dominate the Board's decision-making process. 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 have been held by separate members of the Board.

The Chairman, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak is an Independent Non-Executive Director, and the Group Managing Director is Mr Yoong Hau Chun. The Chairman is responsible for the Board's effectiveness and conduct as well as ensuring timely and necessary information is provided to members of the Company, whilst the Group Managing Director has the overall responsibilities over the Group's operating units, organisational effectiveness and implementation of Board policies and decisions.

In accordance with the requirements of the Code, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak as the Senior Independent Non-Executive Chairman will assist with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Group Managing Director.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

1. Composition of the Board (Continued)

The presence of the Independent Non-Executive Directors provides a good complementing role to ensure a balance of power and authority. The role of Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined as they provide unbiased and independent views, advice and judgment to take account of interests, not only of the Group, but also of shareholders, employees, customers, suppliers and the communities in which the Group conducts business.

Meanwhile, the Alternate Directors would attend and act on behalf at Board Meetings where their principal directors would be otherwise unable to attend, so that the functioning of the Board remains effective. During the financial year, Mr Loo Chin Meng was appointed as Alternate Director of Dato' Loo Swee Chew who is a Non-Independent Non-Executive Director.

The Board acknowledges the benefit of board diversity which includes gender equality for effective functioning of the Board. With the presence of Ms Yoong Li Yen who is the Executive Director of the Group, the Board, in its recruitment process, would continue to source for female director who possesses the relevant skills, experience, competencies and other qualities vis-a-vis the Group's present business portfolios and prospective investments.

Descriptions of the background of each Director presented previously remain substantially unchanged. The profile of each Director is presented on pages 6 to 8 of this Annual Report. Pursuant to Paragraph 9.25 of the Listing Requirements, such information is also published on the Company's corporate website at www.heveaboard.com.my for shareholders' reference.

2. Board Responsibilities

(a) Clear Roles and Responsibilities

It is the overall governance responsibilities of the Board to lead, control and oversee the performance of the Group and the Company. The principal duties and responsibilities of the Board are:-

i) Establishing strategic direction, formulation of strategies, business plans and significant policies;
ii) Reviewing, adopting and approving the Group's key operational initiatives, major investments, annual budget and funding decisions;
iii) Overseeing the business conduct and code of ethics of the Group;
iv) Reviewing the risk management process within the Group;
v) Reviewing the adequacy and integrity of internal control system to ensure compliance with the relevant laws;
vi) Responsible for corporate sustainability; and
vii) Responsible for succession planning within the Group.

The Board is led by a Senior Independent Non-Executive Chairman, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak.

The Chairman ensures positive culture is inculcated in the Board and the effective and smooth functioning of the Board. He acts as a facilitator at meetings of the Board to ensure that no directors, whether executive or non-executive, dominate discussion, that appropriate discussion takes place and that relevant opinion among directors is forthcoming.

Key matters reserved for Board's deliberation and approval including but not limited to strategic plans and corporate plans proposed by Management, annual and quarterly financial results, major acquisitions and disposals, investments and new businesses, material agreements, major capital expenditures, budgets, corporate proposals, succession planning for top management and changes to management and control structure, including key policies, procedures, and authority limits are duly deliberated.

In discharging the Board's stewardship responsibilities, specific powers of the Board are entrusted and delegated to the following Board Committees to oversee the conduct of the Group's affair and to assist in the execution of its duties and responsibilities:-

i. Audit Committee
ii. Nomination Committee
iii. Remuneration Committee
iv. Tender Board Committee

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2. **Board Responsibilities (Continued)**

(a) Clear Roles and Responsibilities (Continued)

The Committees operate under clearly defined terms of reference and scope of work. The Committees are authorised by the Board to deal with and deliberate on matters delegated to them within the terms of reference. The Chairman of the respective Committees reports to the Board on the outcome of the Committee meetings.

The Board have the authority to approve transactions or activities which are beyond the individual discretionary powers of senior officers or management committees delegated by the Board as per the Approving Authority Limits stipulated in the relevant policy manuals of respective operating units subject to the provision of the Articles of Association of the Company.

The Group Managing Director, Mr Yoong Hau Chun assumes the primary responsibility for managing the Group's operations and resources. While the Executive Directors and Management are responsible for the implementation of the operational and corporate decisions as well as day-to-day management of the business operation of the Group and the Company.

The key roles of the Group Managing Director, amongst others, include the following:-

a. Developing the strategic direction of the Company;
b. Ensuring that Board decisions are implemented and Board directions are responded to;
c. Providing directions in the implementation of short and long-term business plans;
d. Providing strong leadership; i.e. effectively communicating a vision, management philosophy and business strategy to the employees;
e. Keeping the Board fully informed of all important aspects of the Company's operations and ensuring sufficient information is distributed to Board members; and
f. Ensuring day-to-day business affairs of the Company are effectively managed.

The Independent Non-Executive Directors play an important role in corporate accountability by providing unbiased and independent view, advice and judgement focusing on performance monitoring and enhancement of corporate governance in safeguarding the interest of the shareholders and stakeholders.

(b) Overseeing the conduct of the Group's business

The Board keeps itself in pace with the development of the Company through the reports of the Group Managing Director, Board Committees, Executive Committees and Management and deliberates matters of concern and makes decision at Board meetings. As and when necessary, the Board members review and discuss ad hoc and urgent matters that require their approval via electronic mail or informal discussion and carry out their decision by way of circular resolution.

The Board meets at least once in every quarter with additional meetings to be convened as and when necessary.

Each Board meeting is scheduled in advance and has been conducted with proper meeting proceedings. Meeting notice, agenda, board papers and other relevant information are circulated to the Board Members via electronic mail at least 7 days prior to the Board meeting to provide the Board Members with relevant and timely information to enable them to have a constructive discussion, proper deliberation and to facilitate decision-making process. Urgent proposal can be presented or circulated to the Board Members less than 7 days or during the Board meeting subject to the approval of the Chairman.

Directors will use their best endeavours to attend Board meetings. Directors who are not able to attend a Board meeting will advise the Chairman at an earlier date if possible and confirm in writing to the Company Secretary.

During the Board meeting, the Board Members receive and discuss reports and proposals from the Group Managing Director and Board Committees, and make decisions and or give directions on recommendations made by Management and Board Committees.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2. Board Responsibilities (Continued)

(b) Overseeing the conduct of the Group's business (Continued)

The Head of the respective division units and relevant management personnel may be invited to attend the Board meetings to present inter-alia the financial results and performance, updates on the progress of the business plan, proposal and achievement, risk management and governance issues and to respond and clarify enquiries or issues raised by the Board to facilitate the Board's deliberation and decision-making. The Company Secretaries are in attendance at the Board meetings ensuring the meeting flows effectively, constantly update and advise the Board on the latest developments and changes of the Listing Requirements and the Code to ensure that these are duly observed by the Board and complied with in discharging its duties and responsibilities.

During the financial year ended 31 December 2016, the Board held six (6) meetings, and two (2) meetings were held during the period from 1 January 2017 to the date of approving this statement on 22 March 2017. Details of Directors' attendance at Board meetings are laid out on page 17 of this Annual Report.

<u>**Quarterly Meetings**</u>

There were four (4) quarterly meetings held during the financial year ended 31 December 2016 and one (1) quarterly meeting held during the period from 1 January 2017 to the date of approving this statement on 22 March 2017. At each quarterly meeting, the Board reviewed, deliberated, where appropriate, approve the following matters:-

i) Quarterly financial results;
ii) Reports from the Chairman of the Audit Committee ("AC") on AC's review and recommendation of the quarterly financial results, internal control effectiveness, risk management, related party transactions, conflict of interest situation and other matters of significant concern;
iii) Reports on key issues discussed at Executive Committee Meetings;
iv) Declaration of interim dividends;
v) The progress of the business plans, potential projects and ongoing projects, corporate exercises undertaken or proposed to be undertaken by the Group; and
vi) Update on the latest developments and changes of the Listing Requirements and the Code.

On certain occasions, besides matters described above, the Board also review and deliberate special matters such as corporate proposals, major acquisitions and disposals, investments and new business, budgets, major capital expenditure at the quarterly meetings.

- At the quarterly meeting held on 27 May 2016, the Board deliberated and adopted the Company's Dividend Policy.

- The Board reviews the need for the purchase of own shares by the Company and its status of solvency once in every six (6) months. These reviews were conducted at the quarterly meetings held on 23 August 2016 and 24 February 2017.

- At the quarterly meeting held on 28 November 2016, the Board received reports, reviewed and deliberated special matters i.e., annual assessment of performance of the Board and Board Committees and individual Directors which were conducted by the Nomination Committee, and remuneration packages of the Executive and Non-Executive Directors and Management staff as recommended by the Remuneration Committee.

<u>**Additional Board Meetings**</u>

There were two (2) additional Board meetings held during the financial year ended 31 December 2016 and one (1) additional Board Meeting held during the period from 1 January 2017 to the date of approving this statement on 22 March 2017.

On 10 February 2016, the Board discussed the need for the purchase of own shares by the Company.

Whilst, on 29 March 2016, the Board reviewed and approved the Statutory Financial Statements for the financial year ended 31 December 2015, the 2015 Annual Report, and recommended directors fees, audit fees and a final dividend for its shareholders' approval at the 2016 Annual General Meeting.

Likewise, on 22 March 2017, the Board reviewed and approved the Statutory Financial Statements for the financial year ended 31 December 2016, the 2016 Annual Report, and recommended directors fees, audit fees and a final dividend for its shareholders' approval at the forthcoming 2017 Annual General Meeting.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2. Board Responsibilities (Continued)

(c) Ethical standards through Code of Ethics

In discharging its duties, the Board is constantly mindful of the need to safeguard the interest of the Group's stakeholders and the importance of good corporate governance throughout the Group as a fundamental to ensure the success of the Group and the Company. To this end, the Group has adopted the Board Charter, Code of Conduct on Ethical Behaviours and Whistleblowing Policy.

(i) Board Charter

The Board is guided by the Board Charter in discharging its duties and fiduciary obligation to the Group and the Company. The Board Charter sets out guidance on the following areas:-

- The Board's roles and responsibilities;
- The Board size and composition;
- The position description of the Board Chairman, Managing Director and Executive Directors;
- Independent Directors;
- The process of Board appointment, re-election; retention/re-designation of an Independent Director with cumulative term of more than nine (9) years;
- Board/Management's authorities;
- Establishment of Board Committees;
- Board procedures;
- Meeting procedures;
- Remuneration of Directors; and
- Beneficial influence on community.

Details of the Board Charter can be viewed on the Company's corporate website.

(ii) Code of Conduct on Ethical Behaviours

The adoption of the Code of Conduct for Directors by the Board on 28 August 2015 formalised the standards of responsibility, obligations, integrity and ethical conduct amongst the Board members in fulfilling their fiduciary obligations to the Group and the Company. Members of the Board shall at all times abide by the Code of Conduct in their capacity as Board Members.

Details of the Code of Conduct can be viewed on the Company's corporate website.

(iii) Whistleblowing Policy

The Group in its effort to enhance corporate governance has put in place a Whistleblowing Policy ("the Policy") on 28 August 2015.

The Policy forms an integral part of the Group's commitment towards providing a safe and ethical work environment, and meeting its obligations to its stakeholders, the relevant authorities, the communities and the environment, thus resulting in improving the overall effectiveness and success of the Group.

Recognising that upholding these ethical standards requires confidence on the part of all directors, employees and stakeholders, and issues of concern can be raised and addressed transparently, fairly and truthfully, the Policy is intended to provide a framework to promote responsible and secure whistleblowing within the Group without fear of adverse consequences.

By this Policy, the Group seeks to encourage the reporting of unethical or fraudulent practices by directors, employees or management officers of the Group regardless of position so that damage control or remedial action can be taken promptly.

Any person may report incidents pursuant to the Policy. The Policy provides an avenue to enable directors and employees to raise or disclose concerns about malpractices. The Policy also provides procedures to enable wrongdoings at all levels of the Group to be reported and such reports will be properly followed up. Further, this Policy provides safeguards to minimize the likelihood of its abuse.

All whistle-blowing reports could be addressed to the Investigative Office who is the Senior Independent Non-Executive Chairman of the Company namely, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak via e-mail address: choongtak_chan@heveaboard.com.my.

Details of the Policy can be viewed on the Company's corporate website.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2. **Board Responsibilities (Continued)**

(d) Reviewing risk management process

The Board oversees the risk management frameworks through the Audit Committee. The Audit Committee advises and reports to the Board on areas of high risk, the level of adequacy of the control procedures within the Group and the Company at each quarterly meeting. The details are described in Statement on Risk Management and Internal Control on pages 30 and 31 of this Annual Report.

(e) Board Commitment

The underlying factors of Directors' commitment to the Group are devotion of time and continuous improvement of knowledge and skill in fulfilling their duties and responsibilities as Directors of the Company.

The Board is satisfied with the level of Directors' commitment during the financial year, the members of the Board and Board Committees had almost full attendance and had been actively participating in discussion on matters which required their review and consideration.

As guided by the Board Charter, none of the Directors holds directorships in more than five (5) public or public listed companies to ensure that Directors have sufficient time to focus and fulfill their duties effectively in the Company. Directors should notify the Chairman of the Board before accepting any new directorship, including an indication of time that will be spent on the new appointment.

During the financial year ended 31 December 2016 and from the period from 1 January 2017 to the date of approving this statement on 22 March 2017, a total of eight (8) Board meetings were held. The details of attendance of the Board members are as follows:-

Director	No. of Meetings Attended/ No. of Meetings Held
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	8/8
Mr Yoong Hau Chun	8/8
Mr Yoong Tein Seng @ Yong Kian Seng (Tenson Yoong) Alternate Director to Yoong Hau Chun	8/8
Ms Yoong Li Yen	8/8
Dato' Loo Swee Chew	1/8**
Mr Loo Chin Meng (Alternate Director to Dato' Loo Swee Chew)	5/8
Mr Lim Kah Poon	8/8
Mr Bailey Policarpio	8/8

** *During the period, Dato' Loo Swee Chew has appointed Mr Loo Chin Meng as his Alternate to attend the Board meetings of the Company.*

Directors' Training

All Directors have attended the Mandatory Accreditation Programme prescribed by the Bursa Malaysia Securities Berhad ("Bursa Securities"). The Directors recognise the needs to attend training to enable them to discharge their duties effectively. The Directors will continue to attend other relevant training programmes, seminars and conferences to enhance their knowledge and expertise, and keep abreast with developments on a continuous basis, in compliance with paragraph 15.08 of the Listing requirement of Bursa Securities.

The training needs of each Director would be identified and proposed by the individual Director.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2. **Board Responsibilities (Continued)**

(e) Board Commitment (Continued)

The following are the trainings attended by Directors during the financial year:-

Director	Training Attended
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	• Updates on key risk profiles • Corporate Governance Breakfast Series for Directors: "Improving Board Risk Oversight Effectiveness" • Corporate Governance Statement Workshop: "The Interplay between CG, Non-Financial Information (NFI) and Investment Decision" • Corporate Governance Breakfast Series: "Thought Leadership Session for Directors" • Corporate Governance Breakfast Series for Directors: "Future of Auditor Reporting – The Game Changer for Boardroom"
Mr Yoong Hau Chun	• Updates on key risk profiles
Ms Yoong Li Yen	• Updates on key risk profiles
Dato' Loo Swee Chew	• Updates on key risk profiles
Mr Lim Kah Poon	• Updates on key risk profiles • Fraud Risk Management
Mr Bailey Policarpio	• Updates on key risk profiles

(f) Corporate Sustainability

The Board has always been committed to the Group sustainability in evolving global environment, social and governance (ESG) aspect of business which underpin sustainability.

The Group has been adopting various good practices in achieving sustainability which include the use of cleaner technologies, operational procedures and provide not only superior performance at lower costs, but also to reduce environmental and climate change impacts, thereby optimising positive social and environmental development impacts.

The Group and the Company continue to be certified with the following certifications for its good practices with respect for the highest ecological, social and ethical standards:-

i. Quality Management Systems ISO 9001:2008;
ii. Japanese Industrial Standard (JIS) A5908;
iii. The Environment Management Systems ISO 14001:2004;
iv. Occupational Safety and Health Management System OSHAS 18001 and MS 1722;
v. Sustainable Forest and Energy Management Systems under the Programme for the Endorsement of Forest Certification (PEFC);
vi. Energy Management System ISO 50001:2011 Certification in Efficient and Effective Energy Management Systems;
vii. Singapore Green Label Certificate and Sirim Eco-Label Scheme Certification, a hall mark for environmentally-friendly product; and
viii. CARB (California Air Resources Board) Certification on compliance with applicable emission standards.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2. **Board Responsibilities (Continued)**

   (g) **Succession Planning**

   The Board is responsible for ensuring effective and orderly succession planning is in place with the Group.

   Succession planning is an ongoing exercise. The Nomination Committee is entrusted with the responsibility for formulating selection policies for the Group's key management personnel and members of the Board and Board Committees.

   The identification, selection, assessment and appointment process is performed based on the current and future needs of the Group, the aspirations of the future of the Group, the evolving business environment, the regulatory requirements, the Boardroom diversity and the existing Board's strengths and weaknesses.

   The Nomination Committee selects, considers and assesses candidates based on the "Fit and Proper" standards which include age limit, professional achievement, working experience and track records, business and industry knowledge, personal background such as personal integrity and reputation, competencies, level of time commitment to ensure all candidates appointed to these positions are of sufficient calibre. The Nomination Committee also applies the Directors evaluation and assessment criteria as recommended in the Corporate Governance Guide for evaluating and selecting potential candidates for new directorships and key positions.

   During the financial year, the Board approved the appointment of Mr Loo Chin Meng who was appointed and nominated by Dato' Loo Swee Chew (the Non-Independent Non-Executive Director) as his alternate. Save as disclosed above, there were no appointments of new key senior management, Board members or Board Committee members.

3. **Supply of Information**

   All Directors have the same right, unrestricted and timely access to all information and resources within the Group and to make further enquiries, seek information or updates on any aspect of the Group's and the Company's operations and business concern from the Management whenever deemed necessary in furtherance of their duties.

   The Directors also have access to the advices and support services of the Company Secretary and other independent professionals if deemed reasonable and necessary, at the expense of the Group in the discharge of their duties.

   The Board and Board Committees meetings are scheduled in advance. The agenda for Board and Board Committees meetings together with the board papers are circulated to all members of the Board via electronic mail at least seven (7) days prior to the Board and Board Committee meetings. The Board Papers provide information on the Group performance on major operational, financial and corporate issues and other information deemed suitable to facilitate the Board and Board Committees deliberation and decision-making.

   During the meeting, Management provides further information and clarification on issues raised by members of the Board and Board Committees during their deliberations and decision-making.

4. **Company Secretary**

   The Company Secretary of the Group is qualified to act as Company Secretary under section 235 of the Companies Act, 2016. The Company Secretary and her team continuously keep themselves abreast of the changing capital environment and regulatory as well as development in corporate governance through attendance at relevant professional development programme and conferences. During the financial year, the Company Secretary has fulfilled the requirement of the Malaysian Institute of Charted Secretaries and Administrators (MAICSA) and attended the Mandatory Continuing Professional Development and obtained renewal of Company Secretary Practising Certificate.

   The Directors have full access to the services of the Company Secretary, who plays an advisory role to ensure that the Board procedures, applicable codes, rules, regulation and laws are complied with and assists the Board on the implementation of the Code. She also provides effective support to the Board and Board Committees to facilitate their discussion and proceedings of the Board and Board Committees meetings and ensures that deliberations are well documented.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

5. **Appointments of the Board, Re-Election and Retention of Independent Directors**

The Nomination Committee is responsible for Board nomination and appointment process for new appointment of Directors and the annual assessment of the Directors who are proposed for re-election and retention of Independent Directors at an Annual General Meeting ("AGM").

i) **Appointment of Director**

Pursuant to Articles 128 of the Articles and Association of the Company, the Board may appoint a person who is willing to act, either to fill a casual vacancy or as an additional director, provided that the appointment does not cause the total number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors.

The Nomination Committee assesses the strength, effectiveness and the level of diversity of the Board as well as the regulatory requirements in determining the need for proposing new appointment of Director. As and when necessary, recommendation will be made to the Board for consideration.

In evaluating the suitability of the candidates, the Nomination Committee considers the following factors:-

- Age;
- Qualification, skills, business and industry knowledge, expertise, working experience and track records;
- Personal background such as character, personal integrity and reputation;
- Competencies;
- Willingness to devote time to effectively discharge his/her duties as Director; and
- In the case of candidates for the position of Independent Non-Executive Director, the independence of the candidates and the candidate's ability to discharge such responsibilities/functions as are expected from Independent Non-Executive Directors.

Appropriate measures shall also be taken in its selection and recruitment exercise to achieve boardroom diversity in particular to identify woman candidates with sufficient calibre to be part of the Board.

An Induction Programme will be given to the newly appointed Director to ensure that he/she understands the nature of the Company's business, the strategies adopted, the current issues faced by the company, his/her roles and responsibilities and the Board's expectation in terms of his/her knowledge contribution. The Chairman of the Nomination Committee ensures that the Induction Programme achieves its objective, whilst the Senior Management and Company Secretary are responsible to facilitate the Induction Programme. The Nomination Committee also evaluates the training needs of the new Director and for Director who has not been as Director of public listed company is required to attend a Mandatory Accreditation Programme (MAP) pursuant to the Listing Requirements.

During the financial year, the Board approved the appointment of Mr Loo Chin Meng who was appointed and nominated by Dato' Loo Swee Chew (the Non-Independent Non-Executive Director) as his alternate. Save for the above, no additional Director is recommended for appointment as the Board deems the current Board composition is adequate for effective functioning of the Board.

ii) **Re-election of Director**

Pursuant to Article 128 of the Articles and Association of the Company, the newly appointed Director shall hold office until the next following AGM and then shall be eligible for re-election. There was no new Director appointed during the financial year, except the Board had approved the appointment of Mr Loo Chin Ming as Alternate Director of Dato' Loo Swee Chew. An Alternate Director shall not subject to re-election.

Article 123 of the Articles and Association provides that an election of Directors shall take place each year. At every AGM one-third (1/3) of the Directors are subject to retirement by rotation such that each Director shall retire from office once in every 3 years.

Both Mr Yoong Hau Chun and Mr Lim Kah Poon who retire by rotation at the conclusion of the Twenty Third (23rd) AGM in accordance with Article 123 of the Company's Articles of Association have offered themselves for re-election as Directors of the Company at the forthcoming AGM.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

5. Appointments of the Board, Re-Election and Retention of Independent Directors (Continued)

ii) Re-election of Director (Continued)

The Nomination Committee is responsible for recommending those Directors who are eligible to stand for re-election. The Nomination Committee has reviewed the performance of Mr Yoong Hau Chun and Mr Lim Kah Poon taking into account their contribution to the Board, skills, experience, business and industry knowledge contribution, calibre, integrity and the level of commitment in discharging their duties and responsibilities during the financial year.

At the Board meeting held on 28 November 2016, the Board approved the recommendation of the Nomination Committee that both Mr Yoong Hau Chun and Mr Lim Kah Poon be eligible to stand for re-election at the forthcoming AGM.

The Board proposed that both of them be re-elected as Directors of the Company for effective functioning of the Board.

iii) Retention of Independent Director

Pursuant to Recommendation 3.2 of the Code the tenure of an Independent Director should not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years, an independent director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director.

Pursuant to Recommendation 3.3 of the Code, the Board must justify and seek shareholders' approval in the event it retains as an Independent Director, a person who has served in that capacity for more than nine (9) years.

The Board recognises the Recommendations 3.2 and 3.3 of the Code that limit the Independent Directors' tenure to a maximum of nine (9) years.

During the financial year, both Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak and Mr Lim Kah Poon have served the Board as an Independent Non-Executive Director for a term of more than nine (9) years since 1 October 2004. Hence, shareholders' approval will be sought for this purpose at the forthcoming AGM.

On 28 November 2016, the Nomination Committee conducted an annual assessment of independence of the Independent Directors and submitted the outcome of the assessment to the Board for evaluation. Both Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak and Mr Lim Kah Poon are recommended to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:-

(a) Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak and Mr Lim Kah Poon have fulfilled the criteria stated under the definition of Independent Director as defined in the Listing Requirements of Bursa Securities and they would be able to provide proper check and balance thus bringing an element of objectivity to the Board;

(b) Their length of services on the Board of more than nine (9) years each do not in any way interfere with the exercise of objective judgement or their ability to act in the best interest of the Group and the Company. In fact, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak and Mr Lim Kah Poon, having been with the Company for more than nine (9) years, are familiar with the Group's business operations and have always actively participated in Board and Board Committee discussions and have continuously provided an independent view to the Board; and

(c) They have exercised due care during their tenures as Independent Directors of the Company and have discharged their duties with skill and competence, bringing independent judgement into the decision making of the Board and in the best interest of the Company and its shareholders.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

6. **Reinforce Independence**

To reinforce independence of Independent Directors, the Board has adopted the following procedures:-

i) **Tenure of Independence Director**

The Board recognises the Recommendations 3.2 and 3.3 of the Code that limit the Independent Directors' tenure to a maximum of nine (9) years.

Subject to Board justification and shareholders' approval, tenure of Independent Directors should not exceed a cumulative nine (9) years.

ii) **Annual assessment of Independence**

Annual assessment of independence of its Independent Directors shall be performed, focusing on events that would affect the ability of Independent Directors to continue bringing independent and objective judgment to Board deliberation.

The Independent Directors must satisfy the test of an Independent Director as defined under Paragraph 1.01 of the Practice Note 13 of the Main Market Listing Requirements that he is independent of Management and free from any business or other relationship which could interfere the exercise of independent judgment or the ability to act at the best interest of the Group.

iii) **Separation of position of the Chairman and Group Managing Director**

The roles and responsibilities of the Chairman and Group Managing Director must be separated and the Chairman of the Board must be an Independent Director.

During the financial year, the position of Chairman and Group Managing Director remain separated and held by difference individual to ensure a balance of power and authority.

iv) **Composition of Board**

The composition of the Board of Directors complies with Paragraph 15.02 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad whereby one-third (1/3) of the Board are Independent Directors.

7. **Board Committees**

The Board has delegated specific responsibilities to the respective committees of the Board, namely Audit Committee, Nomination Committee, Remuneration Committee, Tender Board Committee in order to enhance business and corporate efficiency and effectiveness. The Board Committees will deliberate and examine issues within the established terms of reference and report to the Board on significant matters that require the Board's attention. The ultimate responsibility for the final decision on all matters lies with the Board.

i) ***Audit Committee ("AC")***

The composition, responsibilities and the summary of activities of the AC are outlined in this Annual Report under the section of Audit Committee Report.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

7. **Board Committees (Continued)**

ii) Nomination Committee ("NC")

In order to ensure that the selection and evaluation of Board members are done objectively, the NC comprises exclusively of Non-Executive Board members with a majority of Independent Directors, and the NC is chaired by a Senior Independent Non-Executive Director. The members of the NC are as follows:-

i. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak – Chairman
ii. Lim Kah Poon – Member
iii. Bailey Policarpio – Member

The NC is responsible for:-

a) Formulating selection policies for the Group's key management personnel and members of the Board and Board Committees;
b) Recommending candidates for Directorships to be approved by the Board after assessing their suitability by considering their competencies, commitment and contribution;
c) Recommending Directors to fill positions on Board's Committees;
d) Assessing the effectiveness of the Board as a whole;
e) Assessing the effectiveness of the Committees of the Board;
f) Assessing the contribution of individual Directors;
g) Reviewing the composition of the Board and Board Committees, and recommending the required mix of skills, experience, background, gender and other qualities the Board requires in order to function completely and efficiently; and
h) Ensuring that all Directors receive appropriate continuous training programmes in order to keep abreast with developments in the industry and with changes in the relevant statutory and regulatory requirements.

The salient Terms of Reference of the NC can be viewed on the Company's corporate website.

During the financial year ended 31 December 2016, and the period from 1 January 2017 to the date of approving this statement on 22 March 2017, the NC held one (1) meeting on 28 November 2016.

Prior the NC meeting, the NC members and each individual Director were required to conduct relevant appraisals concerning the performance of Directors, Board and Board Committees through appropriate Performance Appraisal Forms. The Company Secretary compiled and summarized the performance ratings and circulated to the NC members via electronic mail before the NC meeting.

The meeting was attended by all members. At the meeting, the NC:-

i. Reviewed the composition of the Board and Board Committees;
ii. Performed annual assessment on the performance of individual Director, Board Committees and the Board as a whole;
iii. Assessed the performance of the Directors who retire at the forthcoming AGM and made recommendation to the Board for their re-election;
iv. Assessed the independence of the Directors who have served as Independent Non-Executive Directors of the Company for a term of more than nine (9) years; and
v. Reviewed the training needs of the Directors.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

7. **Board Committees (Continued)**

ii) Nomination Committee ("NC") (Continued)

The criteria and factors taking into consideration in assessing the performance of individual Director, Board Committees and the Board are established with reference to the criteria as recommended in the Corporate Governance Guide.

The performance of individual Directors were assessed based on the following criteria:-

- Integrity;
- Professionalism (provides logical honest opinions and unique insight on issues presented, provides realism and practical advice for Board's deliberations, applies analytical and conceptual skills to the decision-making process);
- Business knowledge;
- Industry knowledge;
- Availability, meeting attendance and preparation;
- Board participation (participates actively in Board's activities, works constructively with peers);
- Business planning contribution; and
- Relationship with Board Members and team work.

The performance of the Board was assessed based on the criteria in terms of the following areas:-

- Board Structure and composition;
- Board Chairman's Role and Responsibilities;
- Board Operations;
- Board Dynamics;
- Strategy and Planning;
- Risk Management and Internal Control;
- Measuring and Monitoring Performances;
- Management Evaluation, Compensation and Succession Planning; and
- Shareholders Communication and Investor Relations.

The performance and effectiveness of Board Committees were assessed based on the following factors:-

- The composition of the Board Committees;
- The criteria used on appointment of Board Committee Chairman;
- The expertise of the members of the Board Committees in fulfilling their roles;
- The value and quality of the Board Committees' recommendations in assisting the Board for better decision-making, and making the Board meetings more efficient/effective;
- The ability of the Board Committees to effectively discharging their responsibilities conferred by the Board in their terms of reference;
- The ability of the Board Committees Chairs to properly discharging their responsibilities, deploying resources and expertise, and providing appropriate reporting and recommendations to the Board; and
- Whether the Board is well informed on a sufficiently timely basis regarding the Board Committee's deliberations.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

7. Board Committees (Continued)

ii) Nomination Committee ("NC") (Continued)

The outcome of the annual assessments is also used, where appropriate, as a basis of the NC on its recommendation to the Board for re-election of Directors at the forthcoming AGM.

In evaluating the training needs of the Directors and Board Committees, the NC identified the training and development needs of each Director and recommended training programme based on the results of the annual assessments. Each Director may also identify and propose his/her own training needs.

The Board has reviewed the performance of the NC and is satisfied that the NC has discharged their duties and responsibilities effectively in accordance with its Terms of Reference.

iii) Remuneration Committee ("RC")

The RC comprises mostly Independent Non-Executive Directors. The members of the RC are as follows:-

i. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak – Chairman
ii. Lim Kah Poon – Member
iii. Yoong Hau Chun – Member

The Company aims to set remuneration at levels which are sufficient to attract and retain the Directors and Management staff needed to run the Group and the Company successfully, taking into consideration all relevant factors including the function, workload and responsibilities involved, but without paying more than is necessary to achieve this goal.

The RC assists the Board to establish a formal and transparent framework for developing policy on remuneration packages for individual Directors and Management staff that is in line with market norms by taking into account the comparable roles among other similar organization and industry, taking into consideration the following:-

- In the case of Executive Directors, the component parts of remuneration should be structured so as to link rewards to corporate and individual performance and contributions;

- In the case of Non-Executive Directors, the level of remuneration should reflect the experience and level of responsibility undertaken by the non-executive director concerned; and

- Likewise, Management staff is rewarded based on various performance measures set, together with assessment of each individual performance.

The salient Terms of Reference of the RC can be viewed on the Company's corporate website.

During the financial year ended 31 December 2016, and the period from 1 January 2017 to the date of approving this statement on 22 March 2017, the RC held one (1) meeting on 28 November 2016. The meeting was attended by all members.

At the meeting, the RC conducted an annual review of the remuneration packages of the Group Managing Director, Executive and Non-Executive Directors, and Senior Management, and submitted recommendations to the Board for approval on specific adjustments in remuneration and/or reward payments that reflected their respective contributions for the year, which were based on the performance of the Group and/or quantified organisational targets set.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

7. **Board Committees (Continued)**

iii) Remuneration Committee ("RC") (Continued)

The remuneration packages of the Company's Group Managing Director, Executive and Non-Executive Directors, and Senior Management are determined by the Board as a whole, with the Director concerned abstaining from participating in the deliberation and decision making in respect of his/her own individual remuneration. Fees and benefits payable to the Directors are recommended by the Board for approval of the shareholders at the AGM.

The details of the remuneration of Directors are described on pages 26 and 27 of this Annual Report.

The Board has reviewed the performance of the RC and is satisfied that the RC has discharged their duties and responsibilities effectively in accordance with its Terms of Reference.

iv) Tender Board Committee ("TBC")

The TBC is responsible for reviewing, deliberating and considering shortlisted tenders and proposals put forward by the Management. The TBC comprises mainly Non-Executive Directors. The members of the TBC are as follows:-

i. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak – Chairman
ii. Dato' Loo Swee Chew – Member
iii. Lim Kah Poon – Member

Meetings of TBC are held as and when required. During the financial year and the period from 1 January 2017 to the date of approving this statement on 22 March 2017, the TBC had reviewed, deliberated and recommended amongst others, the proposed implementation of the new ERP System, the propose purchasing of additional equipment for enhancement and upgrading of the Plants' facilities and the proposed acquisition of a piece of vacant land held under Pajakan Negeri 38000 Lot 6246 Pekan Sungai Gadut, District of Seremban and State of Negeri Sembilan by HeveaPac Sdn. Bhd., a wholly-owned subsidiary of the Company, for purpose of building additional factory premises and production facilities.

(B) DIRECTORS' REMUNERATION

Details of the Directors' remuneration received from the Company and on Group basis during the financial year are set out below:-

i. **Aggregate Remuneration**

Company

Category of Remuneration	Executive Directors RM'000	Non-Executive Directors RM'000	Total RM'000
Salaries, Bonus, EPF, Others	2,357	N/A	2,357
Fees	N/A	668	668
Other Emoluments	N/A	178	178
Total	**2,357**	**846**	**3,203**

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(B) DIRECTORS' REMUNERATION (CONTINUED)

i. Aggregate Remuneration (Continued)

Group

Category of Remuneration	Executive Directors RM'000	Non-Executive Directors RM'000	Total RM'000
Salaries, Bonus, EPF, Others	2,357	N/A	2,357
Fees	N/A	728	728
Other Emoluments	2,050	178	2,228
Total	**4,407**	**906**	**5,313**

ii. Analysis of Remuneration

Company

Remuneration Band	Executive Directors	Non-Executive
RM50,001 – RM100,000	N/A	3
RM100,001 – RM150,000	N/A	2
RM400,001 – RM450,000	N/A	1
RM1,050,001 – RM1,100,000	1	N/A
RM1,250,001 – RM1,300,000	1	N/A
Total	**2**	**6**

Group

Remuneration Band	Executive Directors	Non-Executive
RM50,001 – RM100,000	N/A	2
RM100,001 – RM150,000	N/A	3
RM400,001 – RM450,000	N/A	1
RM1,050,001 – RM1,100,000	1	N/A
RM3,300,001 – RM3,350,000	1	N/A
Total	**2**	**6**

The details of the individual Director's remuneration are not disclosed in the report as the Board considers the above disclosures satisfy the accountability and transparency aspect of the Code.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(C) ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board is responsible to ensure that the quarterly financial reporting of the Company presents a fair and balanced view and assessment of the Group's financial position, performance and prospects. The Board ensures that the Group's financial statements are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved financial reporting standards. The Board is assisted by the Audit Committee in reviewing and scrutinising the information in terms of the overall accuracy, adequacy and completeness of disclosure and ensuring the Group's financial statements comply with applicable financial reporting standards.

The Board of Directors considers that in preparing the financial statements for the financial year ended 31 December 2016, the Group and the Company have:-

- complied with the applicable financial reporting standards in Malaysia and the provisions of the relevant Companies Acts;
- selected and consistently applied the suitable and appropriate accounting policies; and
- made estimates and judgments which are reasonable and prudent.

The Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company to enable them to ensure that the financial statements comply with the provisions of the relevant Companies Acts. The Board of Directors is also responsible for taking reasonable steps to safeguard the assets of the Group and the Company, and to detect and prevent any fraud as well as any other irregularities.

2. Relationship with External Auditors

The Group has established a formal and transparent arrangement for maintaining appropriate relationship with its External Auditors in seeking professional advice and ensuring compliance with the appropriate accounting standards.

The role of the Audit Committee in relation to the External Auditors is stated in the Audit Committee Report on pages 38 to 39 of this Annual Report.

3. Risk Management

The Board is committed to its responsibility for the Group's risk management framework and internal control system. The Board acknowledges that risk management is an integral part of good management practices. Risk is inherent in all business activities. It is, however, not the Group's objective to eliminate risk totally, but to provide structural means to identify, prioritise and manage the risks involved in all the Group's activities and to balance between the cost of managing and treating risks, and the anticipated benefits that will be derived.

In order to further strengthen the present risk management and internal control systems in the Group, the Board would continue to work with the Management in formalising and approving the Group's Risk policy.

The Board has established an Internal Audit Function which is currently outsourced to a professional firm. Functionally, the Internal Auditors report to the Audit Committee directly and they are responsible for conducting regular reviews and appraisals of the effectiveness of the governance, risk management and internal controls and processes within the Group.

Further details of the Group's state of risk management and internal control systems are reported in the Statement on Risk Management and Internal Control on pages 30 to 31 of this Annual Report.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

(D) SHAREHOLDERS

Investor Relation and Shareholder Communication

1. Corporate Disclosure

Corporate disclosure and information are important for investors and shareholders. The Company is committed to provide accurate, timely, consistent and credible public disclosure and dissemination of material and non-material information of the Group and The Company in accordance with the applicable laws and regulatory requirements to the investment community, media and other relevant stakeholders, to enable informed and orderly market decision by the investing public. The Board is advised by the Management, the Company Secretary and the External and Internal Auditors on the contents and timing of disclosure requirements of the Listing Requirements on the financial results and various announcements.

2. Shareholders' Right

The Board values the relationship between the Company and its shareholders. The Board also recognises the need for transparency and accountability to the Company's shareholders and regular communication with its shareholders, stakeholders and investors on the performance and major developments in the Group.

The Board ensures timely releases of quarterly financial results, annual financial statements, circulars, Annual Reports, corporate announcements and press releases. In addition to the various announcements made during the period, information on the Company is available on the Company's website at www.heveaboard.com.my.

The Company would respond to meetings and hold regular dialogue with institutional shareholders, analysts and members of the press to convey information regarding the Group's performance, strategic direction, development, financial and prospect as and when requested. Price sensitive information about the Group is, however, not disclosed in these dialogues until after the relevant announcement to Bursa Securities has been made.

3. General Meeting and Annual General Meeting

The General Meetings and Annual General Meeting ("AGM") are one of the principal forums for dialogue with shareholders.

Notice of the General Meeting and AGM together with Annual Reports are sent out to shareholders at least twenty-one (21) days before the date of the meeting. The Board ensures that full information is disclosed in the notice of the meeting. Items of special business included in the AGM notice are accompanied by an explanatory statement to facilitate full understanding and to enable informed decision by the shareholders. Apart from that, the Board ensures suitability of venue and timing of meeting and undertake other measures to encourage shareholders' participation in the meetings.

Besides the usual agenda for the AGM, the Board presents the progress and performance of the business as contained in the Annual Report and provides opportunities for shareholders to raise questions pertaining to the business activities of the Group. All Directors are available to provide responses to questions from the shareholders during these meetings.

4. Leverage on Information Technology for Effective Dissemination of Information

The Board leverages on its corporate website in communicating, disseminating and add depth to the governance reporting. There is a dedicated section for Corporate Governance on the Company's website where information such as the Board Charter, Code of Conduct and Whistleblowing Policy, Terms of Reference of Board Committees and Statement on Risk Management are published. Other principal governance information such as Annual Reports, Announcements, and Financial Highlights are also made available in the website under the section for Investor Relations for benefit of the investing public.

Shareholders may also convey any concerns regarding the Company to the Senior Independent Non-Executive Chairman, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak via e-mail: choongtak_chan@heveaboard.com.my.

This statement is made in accordance with a resolution of the Directors dated 22 March 2017.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Pursuant to Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), the Board of Directors ("Board") is pleased to provide the following Statement on Risk Management and Internal Control of the Group. In producing this Statement, the Board has considered and was guided by the latest "Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers" ("Guidelines") issued by the Task Force on Internal Control with the support and endorsement of Bursa Securities.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The risk management processes in identifying, evaluating and managing significant risks facing the organization are embraced in the operating and business processes. These processes are driven by all Executive Directors and senior management team members in their course of work. Key matters covering the financial and operation performances, changes in customers' preference, suppliers, raw material prices, risks and market outlook are reviewed and deliberated in the EXCO meetings. During these EXCO Meetings, causes and reasons for performances are discussed in order to identify the appropriate measures to manage risks effectively. Key issues discussed in EXCO meetings are recorded in minutes and are presented in the quarterly Board meetings in order for all Board members to review and consider the overall performance of the Group.

Annual risk assessment workshop is held to identify new risks, reassess the risk appetite of the Board as well as the possibility and impact of the existing risks, consider the effectiveness of the existing controls, and to formulate new risk management mitigation action plan. This workshop is attended by all Executive and Non-Executive Board members and key senior management personnel. Based on the key risks identified management has identified the necessary measures to minimise the possibility and impact of these risks.

HeveaBoard Berhad continues to maintain the following certifications:-

i. Quality Management Systems of ISO 9001:2008;

ii. The Environment Management Systems ISO 14001:2004;

iii. Occupational Safety and Health Management System OSHAS 18001 and MS 1722;

iv. Sustainable Forest and Energy Management Systems under the Programme for the Endorsement of Forest Certification ("PEFC");

v. Energy Management System ISO 50001:2011 Certification in efficient and effective energy management system;

vi. Singapore Green Label Certificate and Sirim Eco-Label Scheme Certification for environmentally-friendly product; and

vii. CARB (California Air Resources Board) Certification on compliance with applicable emission standard.

These management systems and certifications form the guiding principles for the operational procedures. Internal quality audits are carried out and annual surveillance audits are conducted by external certification body to ensure compliance with the respective certification bodies' requirements.

In addition to the above, the fundamental controls that have been put in place in the Group are:-

i. Management organisation chart outlining the management responsibilities and hierarchical structure of reporting and accountability;

ii. Approval and authority limits of the top executives and heads of department;

iii. Insurances to protect the assets and interests of the Group;

iv. Verifications, review of operation performance and segregation of duties in the management functions of the Group;

v. Legal review ensuring contractual risks are addressed and managed before entering into material contracts or agreements;

vi. Job descriptions for each position are established providing understanding to employees of their actions needed in discharging their responsibilities;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

vii. Financial forecasts are used as performance targets;

viii. Whistle blowing policy for reporting of employees' misbehaviours; and

ix. Audit Committee review of the quarterly financial reports, annual financial statements, related party transactions, external and internal audit reports.

THE REVIEW MECHANISM

There are two levels of review of systems of risk management and internal control in the organisation. The first level of the review is undertaken by the Executive Directors and senior management while the second level constitutes the independent review performed by the Audit Committee. The internal audit function reports directly to the Audit Committee, conducts periodic audits to assess the effectiveness of the systems of risk management and internal control, recommends actions to management for improvement and reports the status of management control procedures to the Audit Committee. The scope of works of the internal audit function are carried out based on the approved internal audit plan by the Audit Committee.

The internal audit function has organised its work in accordance to the principles of the internal auditing standards covering the conduct of the audit planning, execution, documentations, communication of findings and consultation with senior management and Board on the audit concerns.

MANAGEMENT RESPONSIBILITIES AND ASSURANCE

In accordance to the Guidelines, management is responsible to the Board for identifying risks relevant to the business of the Group's objectives and strategies, implementing and maintaining sound systems of risk management and internal control and monitoring and reporting significant control deficiencies and changes in risks that could significantly affect the Group achievement of its objective and performance.

The Board has received assurance from the Group Managing Director and Chief Financial Officer that, to the best of their knowledge that the Group's risk management and internal control systems are operating adequately and effectively, in all material respect.

BOARD ASSURANCE AND LIMITATION

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group. The Board continues to derive its comfort of the state of risk management and internal control of the Group from the following key processes and information:-

- Periodic review of financial information covering financial performance and quarterly financial results;
- Audit Committee's review and consultation with Management on the integrity of the financial results, Annual Report and audited financial statements before recommending to the Board for approval;
- Audit findings and reports on the review of systems of internal control provided by the Internal Auditors and status of Management's implementation of the audit recommendations; and
- Management's assurance that the Group's risk management and internal control systems have been operating adequately and effectively, in all material respects.

For the financial year under review, the Board is satisfied that the existing level of systems of risk management and internal control are effective to enable the Group to achieve its business objectives and there were no material losses resulted from significant control weaknesses that would require additional disclosure in the Annual Report. Nonetheless, the Board recognises that the systems of risk management and internal control should be continuously improved in line with the evolving business development. It should also be noted that all risk management systems and systems of internal control could only manage rather than eliminate risks of failure to achieve business objectives. Therefore, these systems of risk management and internal control in the Group can only provide reasonable but not absolute assurance against material misstatements, frauds and losses.

REVIEW OF STATEMENT ON INTERNAL CONTROL BY EXTERNAL AUDITORS

The External Auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in this Annual Report for the year ended 31 December 2016 and have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and integrity of the systems of risk management and internal control of the Group.

STATEMENT ON DIRECTORS' RESPONSIBILITIES

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 Group and the Company as at the end of the financial year and of the income statement and cash flows of the Group and the Company for the financial year.

The Directors consider that, in preparing the financial statements of the Group and the Company for the year ended 31 December 2016, 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 Group and the Company 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 Group and the Company.

ADDITIONAL COMPLIANCE INFORMATION

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

1. ULTILISATION OF PROCEEDS

There were no corporate proposals undertaken by the Company to raise funds during the financial year ended 31 December 2016.

2. LIST OF PROPERTIES

The properties held by the Company during the financial year ended 31 December 2016 is stated on page 118 of the Annual Report.

3. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

The details of the related party transactions and recurrent related party transactions of a revenue or trading nature during the financial year ended 31 December 2016 between **HeveaBoard** and related parties are disclosed in Note 31 of the Financial Statements.

4. MATERIAL CONTRACTS

There was no material contract entered into by the Company and its subsidiaries involving Directors and major shareholders' interests which were subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial period.

5. MATERIAL LITIGATION

There was no material litigation during the financial year ended 31 December 2016.

AUDIT COMMITTEE REPORT

The Board is pleased to present the Audit Committee Report for the financial year ended 31 December 2016.

The Board is required by law to ensure that the financial statements of the Company present a true and fair view of the state of affairs of the Company and that they are prepared in accordance with applicable financial reporting standards and provisions of the Companies Act. The Board also assumes the responsibility to maintain a sound system of risk management and internal control in achieving its business objective and operational efficiency. The Board may delegate, but not abdicate, its responsibility to the Audit Committee.

COMPOSITION OF MEMBERS

During the financial year under review, the Audit Committee comprises exclusively Non-Executive Directors with majority Independent Directors. This meets the requirements of paragraph 15.09 (1) of the Main Market Listing Requirements. The members of the Audit Committee are:-

1) Mr Lim Kah Poon (Chairman)
   Independent Non-Executive Director

2) Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak - Member
   Senior Independent Non-Executive Chairman

3) Mr Bailey Policarpio - Member
   Non-Independent Non-Executive Director

The Chairman of the Audit Committee, Mr Lim Kah Poon, is a Fellow of the Institute of Chartered Accountants in Ireland and a member of the Malaysian Institute of Accountants (MIA). Accordingly, this complies with paragraph 15.09 (1) (c) of the Main Market Listing Requirements.

AUTHORITY

The Audit Committee is authorised by the Board to independently investigate any matters within its Terms of Reference, and shall have full and unrestricted access to information pertaining to the Group, from the internal and external auditors, Management and all employees in carrying out its duties.

The Terms of Reference of the Audit Committee can be viewed on the Company's corporate website.

KEY RESPONSIBILITIES OF THE AUDIT COMMITTEE

Audit Committee should assume four (4) fundamental responsibilities:-

(a) Overseeing financial reporting;
(b) Assessing the risks and control environment;
(c) Evaluating the internal and external audit process; and
(d) Reviewing conflict of interest situations and related party transactions.

The Board has reviewed the performance of the Audit Committee based on the Nomination Committee's report, and is satisfied that the Audit Committee has discharged their duties and responsibilities effectively in accordance with its Terms of Reference.

AUDIT COMMITTEE REPORT (CONTINUED)

MEETING

During the financial year ended 31 December 2016, the Audit Committee held five (5) Audit Committee meetings, and two (2) Audit Committee meetings were held during the period from 1 January 2017 to the date of approving this Report on 22 March 2017.

The details of attendance of each Audit Committee member are as follows:-

Name of Committee Member	No. of Meetings Attended/ No. of Meetings Held
Mr Lim Kah Poon (Chairman)	7/7
Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	7/7
Mr Bailey Policarpio	7/7

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

The quorum for a meeting of the Audit Committee shall be two (2) members, provided that the majority of members present at the meeting shall be independent.

The Audit Committee Meeting shall be held excluding the attendance of other Directors, Management and employees, except when the Audit Committee requests their presence. The Audit Committee also has the right to hold private discussion with the External Auditors for exchange of free and honest views and opinion without the presence of other Directors and Management, whenever deemed necessary. The Company Secretary will be in attendance at all meetings.

Each Audit Committee Meeting is scheduled in advance and has been conducted with proper meeting proceedings. Meeting notice, agenda, discussion papers and other relevant information are circulated to the Audit Committee members via electronic mail at least 7 days prior to the Audit Committee Meeting so as to provide the Audit Committee members with relevant and timely information to enable them to review and analyse the subject matters for effective and meaningful discussion during the meeting.

As and when necessary, the Audit Committee will review and discuss ad hoc and urgent matters via electronic mail or informal discussion and carries out its decision and recommendation by way of circular resolution.

At each quarterly meeting, the Chief Financial Officer was invited to present the quarterly financial results and related party transactions as well as conflict of interest situation that may arise within the Group and the Company, and at the same time to provide clarification on issues and queries which may be raised by the Audit Committee members. The Internal Auditors were required to report the outcome of their internal audit, the Executive Directors and Management were invited to brief and give further clarification to the Audit Committee on issues arising from the internal audit to facilitate direct communication and discussion. As and when required, the External Auditors were invited to present their Audit Plans, Audit Review Memorandum and draft Audited Financial Statements.

With a view to facilitate the efficiency of the Board's subsequent reviewing and deliberating the recommendations of the Audit Committee pertaining to the quarterly financial results and other subject matters, the Audit Committee has invited other Board members to present at the Audit Committee Meetings, except the private discussion sessions with the External Auditors.

AUDIT COMMITTEE REPORT (CONTINUED)

MEETING (CONTINUED)

The Audit Committee Chairman presented to the Board the Audit Committee's Report consisting of recommendations and significant concerns at the subsequent Board meeting.

During the financial year ended 31 December 2016 and during the period from 1 January 2017 to the date of approving this Report on 22 March 2017, the agendas of the Audit Committee meetings included the following:-

1) To review and recommend the quarterly results for the Board's approval;
2) To review the Internal Audit Plan and Internal Audit Reports;
3) To review Audit Plans and Audit Review Memorandum of the External Auditors;
4) To meet up with the External Auditors without the presence of Executive Members;
5) To review and recommend the draft Audited Financial Statements for the Board approval;
6) To review the Audit Committee Report and Statement on Risk Management and Internal Control for inclusion in the Annual Report;
7) To consider the Audit and Non-Audit fees;
8) To consider the re-appointment of External Auditors of the Company;
9) To review any related party transaction and conflict of interest situation;
10) To confirm the Minutes of the last Audit Committee Meetings; and
11) To discuss various significant concerns.

SUMMARY OF ACTIVITIES

The activities of the Audit Committee during the financial year ended 31 December 2016, and during the period from 1 January 2017 to the date of approving this Report on 22 March 2017 comprised the following:-

1. Financial Reporting

a. Review of quarterly financial results

The Audit Committee reviewed the unaudited quarterly financial results at its quarterly meetings.

The Audit Committee reviewed the unaudited quarterly financial results for the four (4) quarters of the financial year ended 31 December 2016 at the four (4) Audit Committee quarterly meetings held on 27 May 2016, 23 August 2016, 28 November 2016 and 24 February 2017.

At the meetings, the Audit Committee reviewed the financial information and reports prepared by Management quarterly in compliance with the Malaysian Financial Reporting Standard (MFRS) 134 *Interim Financial Reporting* and paragraph 9.22, including appendix 9B of the Main Market Listing Requirements. The Audit Committee in consultation with Management deliberated the integrity of the quarterly financial results as well as the significant issues of concerns focusing on the following aspects before recommending to the Board for approval:-

- Significant financial reporting issues and judgements;
- The appropriateness of accounting policies, key judgements and fairness of management estimates and going concern assumptions;
- The material financial areas in which significant judgements have been made;
- Changes in or implementation of major accounting policy and practices;
- Compliance with financial reporting standards and governance requirements;
- Other significant and unusual events; and
- The clarity of disclosures.

AUDIT COMMITTEE REPORT (CONTINUED)

SUMMARY OF ACTIVITIES (CONTINUED)

1. **Financial Reporting (Continued)**

   b. **Audited Financial Statements**

2016 Audit Plan

On 23 August 2016, the Audit Committee conducted a preliminary meeting with the External Auditors to review and discuss the overall Audit Strategy and Audit Plan of the External Auditors for the financial year ending 31 December 2016. The Audit Plan outlined, amongst others, the audit scope, areas of emphasis, risk assessment and audit approach, related party transaction disclosures and procedures, audit timeframe, and prevailing accounting development.

In reviewing the overall Audit Strategy and Audit Plan, the Audit Committee focused its oversight on:-

- The audit planning and identification process;
- The timing of major audit activities;
- Whether the External Auditors' analysis and planned audit activities demonstrate sufficient knowledge of the Group's business risks;
- Key audit deliverables; and
- The resources needed to execute the Audit Plan.

The Audit Committee also reviewed the reasonableness of the proposed audit fees for the statutory audit and assurance-related fees which may include, amongst others, the review of Statement of Risk Management and Internal Control and Annual Report.

Audit Review Memorandum

The External Auditors were invited to present their Audit Review Memorandum to provide, amongst others, their significant audit findings and matters of concerns, significant unusual events, fraud related matters, related party disclosures, outstanding matters, accounting developments and capital market development.

The Audit Committee also reviewed with the External Auditors on the level of assistance given by the officers of the Group and the Company to the External Auditors, including any difficulties or disputes with Management encountered during the audit.

- On 24 February 2016, the Audit Committee reviewed the Audit Review Memorandum in respect of audit for the financial year ended 31 December 2015 as presented by the External Auditors.

- On 24 February 2017, the Audit Committee reviewed the Audit Review Memorandum in respect of audit for the financial year ended 31 December 2016 as presented by the External Auditors.

A Private discussion was also held with the External Auditors without the presence of the Group Managing Director, other Directors and Management. There were no areas of concern raised by the External Auditors in terms of Management's cooperation with the External Auditors, adequacy in financial reporting function in particular in relation to compliance of applicable accounting standards that need to be brought to the attention of the Board.

AUDIT COMMITTEE REPORT (CONTINUED)

SUMMARY OF ACTIVITIES (CONTINUED)

1. Financial Reporting (Continued)

b. Audited Financial Statements (Continued)

Specific meeting is held, amongst other matters, to review the draft Audited Financial Statements presented by the External Auditors and the issues highlighted with respect to the audit work before recommending to the Board for approval.

As part of the reviewing process, the Audit Committee also discussed with Management with regard to the audit findings, disclosures and key areas relating the draft Audited Financial Statements, the representation letters issued by the External Auditors and the implementation of audit recommendations.

- On 29 March 2016, a specific meeting was held to review the draft Audited Financial Statements for the financial year ended 31 December 2015.
- On 22 March 2017, a specific meeting was held to review the draft Audited Financial Statements for the financial year ended 31 December 2016.

2. External Auditors

The Audit Committee is responsible for monitoring the ongoing effectiveness and independence of the External Auditors, and making recommendation to the Board as to the re-appointment of the auditors.

a. Independence

The External Auditors must comply with their local professional institutes' rules concerning auditors' independence or their firm's requirement.

The External Auditors, namely Messrs Baker Tilly Monteiro Heng confirmed that in relation to their audit of the financial statements of **HeveaBoard** Group ("the Group") ended 31 December 2016, the Engagement Partners and its staff engaged in the audit of the Group neither hold any direct or indirect financial interest in the Group nor are connected with the Group which would impair their independence, and have complied with the requirements for independence as stipulated in the International Standards on Auditing ("ISA") 260.

b. Audit and Non-Audit Fees

Before recommending the proposed audit fees and the assurance-related fees to the Board for approval, the Audit Committee evaluated the quantum of audit work, the audit process and approach; the engagement team's credentials and experience, their ability to provide value advice and services and to perform audit work within the Group's timeline.

The details of the audit and non-audit fees paid/payable in 2016 to the External Auditors and a firm or corporation affiliated to the External Auditors are set out below:-

	Company RM	Group RM
Audit Fees	70,693.00	138,356.74
Non-Audit Fees		
i) Review of Internal Control	5,340.00	5,340.00
ii) Review of Unrealized Profit	5,240.00	5,240.00
iii) Service to perform agreed-upon procedures for review purpose	2,648.00	2,648.00
iv) Taxation Services	50,430.00	70,224.63
Total	63,658.00	83,452.63

AUDIT COMMITTEE REPORT (CONTINUED)

SUMMARY OF ACTIVITIES (CONTINUED)

2. External Auditors (Continued)

b. Audit and Non-Audit Fees (Continued)

At the Audit Committee meeting held on 22 March 2017, the Audit Committee recommended to the Board for approval audit fee of RM70,693.00 and total non-audit fee of RM63,658.00 in respect of the financial year ended 31 December 2016.

The Board at its meeting held on 22 March 2017, approved the audit fees and non-audit fees based on the recommendation of the Audit Committee.

c. Re-appointment of External Auditors

Each financial year, the Audit Committee assess the audit performed by the External Auditors. This enables the Audit Committee to make an informed recommendation to the Board on whether or not the External Auditors should be put forward for re-appointment at the Annual General Meeting.

The Audit Committee performed assessment of the suitability and independence of the External Auditors by considering the following criteria:-

i. The independence, objectivity and professionalism of the External Auditors in accordance with the terms of the professional and regulatory requirements of the Malaysian Institute of Accountants;
ii. The experience and resources of the firm;
iii. The performance and competencies of the External Auditors;
iv. The quality of services including the responsiveness to issues and ability to provide realistic analysis with technical knowledge and independent judgement, and sufficiency of resources they provided to the Group; and
v. The level of non-audit services rendered by the External Auditors and its affiliates.

The Audit Committee also determined whether the External Auditors have exercised professionalism and performed a quality audit based on the quality of the communications and interactions with the Audit Committee during the course of audit.

Following the completion of the 2016 financial year audit, the Audit Committee was satisfied with the effectiveness and independence of Messrs Baker Tilly Monteiro Heng as External Auditors of the Group and the Company. The Audit continues to consider Messrs Baker Tilly Monteiro Heng to be suitable in their role as External Auditors of the Group.

In accordance with the By-laws of the Malaysian Institute of Accountants, Messrs Baker Tilly Monteiro Heng rotates its engagement partner once every five (5) years to ensure objectivity, independence and integrity of audit opinions. The current lead audit engagement partner of the Group will be due for rotation in 2020.

At the Audit Committee meeting held on 22 March 2017, the Audit Committee recommended to the Board for approval the re-appointment of Messrs Baker Tilly Monteiro Heng as External Auditors of the Group and the Company for the financial year ending 31 December 2017.

The Board at its meeting held on 22 March 2017, approved the re-appointment of Messrs Baker Tilly Monteiro Heng as the Group's and the Company's External Auditors for the ensuing year based on the Audit Committee's recommendation, subject to the shareholders' approval to be sought at the forthcoming AGM.

AUDIT
COMMITTEE REPORT (CONTINUED)

SUMMARY OF ACTIVITIES (CONTINUED)

3. Internal Audit

The Internal Audit Function has been outsourced to an independent internal audit service provider, namely IA Essential Sdn. Bhd., who report directly to the Audit Committee.

Internal Audit Report

During the financial year, the Audit Committee reviewed the internal audits undertaken by the outsourced Internal Auditors, reporting on the outcome of the audits conducted and the effectiveness of the internal control implemented within the Group.

Based on the audit findings and reports of the Internal Audit Function, the Audit Committee formed an opinion on the adequacy of measures undertaken by management, and reported to the Board on the overall standing of the Group's internal control.

The following Internal Audit Reports were tabled to the Audit Committee for its review:-

Date of AC Meeting	Internal Audit Reports reviewed	Objectives of Audit
24 February 2016**	Internal Audit Report on Human Resource of HeveaPac Sdn. Bhd. (a wholly-owned subsidiary of **HeveaBoard**)	To evaluate management controls design and human resource procedures.
27 May 2016	Internal Audit Report on Inventory and Store Management in **HeveaBoard Berhad**	To evaluate the management controls in Inventory Management (raw material and finished goods) and Store Management (spare parts).
23 August 2016	Report on Annual Risk Assessment Workshop conducted on 8 August 2016	The risk assessment workshop was conducted to review, re-assess and update the risk profile of the Group and to assess the need for further risk management and control of the Group.
22 November 2016	Follow-up Audit Report	Follow-up audit on the status of implementation of proposed actions and audit recommendations.
24 February 2017	Internal Audit Report on Purchasing and Payable in **HeveaBoard Berhad**	To evaluate the effectiveness of management control procedures and compliance with the operating instruction in purchasing and payable function.

*** During the meeting, the External Auditors were present to observe the Audit Committee proceedings.*

Statement on Risk Management and Internal Control

The Audit Committee reviewed the Statement on Risk Management and Internal Control at the Audit Committee meetings held on 29 March 2016 and 22 March 2017, for publication in the 2015 and 2016 Annual Reports respectively.

AUDIT COMMITTEE REPORT (CONTINUED)

SUMMARY OF ACTIVITIES (CONTINUED)

4. Review of related party transaction and conflict of interest situation

At each quarterly meeting, the Audit Committee reviews any related party transaction ("RPT") and conflict of interest ("COI") situation that may arise within the Group and the Company including any transaction, procedure or course of conduct that raises questions of management integrity.

The Audit Committee reviews RPT and/or COI situation presented by Management prior to the Group or the Company entering into such transaction.

As such, the Audit Committee must ensure that:-

a. Adequate oversight over the controls on the following:-

   i. identification of the interested parties;
   ii. identification of the related party transactions and possible conflict of interest situations; and

b. Assess and address the reasonableness of the conflict of interest situations or the related party transactions to ensure that interested parties do not abuse their powers to gain unfair advantage.

Upon receiving of a report of a RPT and/or COI situation, the Audit Committee reviews and determines whether the RPT and/or COI situation is fair, reasonable, on normal commercial terms and in the best interest of the Group and the Company.

The key considerations taken by the Audit Committee in reviewing the RPT and/or COI situation are as follows:-

(a) Whether the transaction price is at arm's length basis or whether the terms are fair to the Company;
(b) Whether there are business reasons for the Company to enter into the transaction with the related party and not a third party;
(c) Whether the business reasons are in line with the overall strategy and objectives of the Company;
(d) What benefits the interested party will derive from the transaction;
(e) What impact the transaction will have on the financial statements;
(f) Whether there is economic substance in entering into the transaction; and
(g) Enquire to ascertain whether, apart from the review of related party transactions and conflicts of interest, transactions entered into have been disclosed in the Company's financial statements under the relevant financial reporting standards.

The Audit Committee reports to the Board of any RPT (including recurrent related party transactions) and COI situations that may arise within the Group and the Company.

At each quarterly meeting, the Audit Committee reviewed the recurrent related party transactions of a revenue or trading in nature which include the rental payment for renting of a piece of land from the Company's substantial shareholder, and supplies of services, parts and maintenance by related parties. Announcement on the transactions is not required to be made to Bursa Malaysian Securities Berhad as the value of the transactions does not exceed the threshold as stipulated by the Listing Requirements.

On 6 January 2017, the Audit Committee reviewed and the proposed acquisition of a piece of vacant land held under Pajakan Negeri 38000 Lot 6246 Pekan Sungai Gadut, District of Seremban and State of Negeri Sembilan by HeveaPac Sdn. Bhd., a wholly-owned subsidiary of the Company, from one of its Executive Director, who is regarded as related party, for purpose of building additional factory premises and production facilities.

AUDIT COMMITTEE REPORT (CONTINUED)

INTERNAL AUDIT FUNCTION

The Board recognises the importance of the Internal Audit Function and the independent status required for carrying out their functions effectively. For the financial year ended 31 December 2016, the Internal Audit Function of the Company has been outsourced to an independent internal audit service provider, IA Essential Sdn. Bhd.

The Internal Audit Function includes providing the Board, through the Audit Committee, reasonable assurance of effectiveness of the Group's internal control, risk management and governance process.

The Internal Audit Function assists the Audit Committee to execute its oversight function and discharge its duties and responsibilities by performing independent reviews to ensure the adequacy and effectiveness of the internal control and risk management systems established by the Group.

Formally, the Internal Auditors report directly to the Audit Committee, and provide its reports to Management, outlining their audit findings, areas of improvement, areas for improvement, audit recommendations to Management for further action and improvement.

The Audit Committee reviews periodically the adequacy of the audit scope, function and resources made available to the Internal Audit Function as well as the competency of the Internal Auditors.

The Internal Auditors carry out their functions based on the Internal Audit Plan approved by the Audit Committee. Subject to separate terms of engagement, special and ad hoc audit reviews and assistance requested by the Management shall be approved by the Audit Committee.

The audit approach is designed for the benefit of the Board and Audit Committee. In carrying their audit assessments, the Internal Auditors design their work to assess the effectiveness of management systems of internal control. Nonetheless, this internal audit does not constitute an audit in accordance with general acceptable auditing standard for expressing an opinion on financial statements.

In determining the proposed Internal Audit Plan, the Internal Auditors take into account the following factors in prioritising its audit focus:-

- Corporate Structure
- Functional Activities
- Board Meeting Minutes
- Financial Highlights
- Debtor's and Creditor's Aging
- KPI Achievement Report
- Risk Assessment Report
- Management's areas of concern

AUDIT COMMITTEE REPORT (CONTINUED)

INTERNAL AUDIT FUNCTION (CONTINUED)

Based on the Internal Audit Plan 2015 and 2016 approved by the Audit Committee at the Audit Committee Meeting held on 25 February 2015, the Internal Audit Function has continued focusing its audit activities on the adequacy and effectiveness of internal control systems and governance processes implemented on key audit areas comprising Purchasing, Human Resources and Inventory Controls which are the fundamental functions for manufacturing operations, using Risk Assessment Workshop as Management's self-assessment tools to verify the effectiveness of control in the Group in managing and mitigating key risks. IT General Control Audit is now being considered to be conducted to assess the effectiveness within the Group.

The activities of the Internal Audit Function for the financial year ended 31 December 2016 included the following:-

(a) Conducting internal audit reviews in accordance with the Internal Audit Plan approved by the Audit Committee;
(b) Reporting the results of internal audits and making recommendations for improvements to the Audit Committee on a periodic basis;
(c) Performing follow-up audits to ensure that recommendations for improvement to the internal control systems were satisfactorily implemented; and
(d) Conducting Annual Risk Assessment Workshop.

During the financial year, the internal audits conducted on the Group did not reveal any significant weaknesses in the internal control system that would result in material losses, contingencies or uncertainties which are necessary to be disclosed in the Group's Annual Report.

The cost incurred for the Internal Audit Function in respect of the financial year ended 31 December 2016 amounted to RM60,387.45.

This Report was approved by the Board on 22 March 2017.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of HeveaBoard Berhad ("the Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company are manufacturing of particleboards and investment holding. The principal activities of its subsidiaries are disclosed in Note 7 to the financial statements.

There have been no significant changes in the nature of these principal activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	80,669	50,079
Attributable to:		
Owners of the Company	80,669	50,079
Non-controlling interests	–	–
	80,669	50,079

DIVIDENDS

The amount of dividend declared and paid by the Company since the end of the previous financial year were as follows:

	RM'000
Single tier third interim dividend of 0.75 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2015, paid on 8 April 2016.	3,348
Single tier final dividend of 1.00 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2015, paid on 13 July 2016.	4,613
Single tier first interim dividend of 1.30 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2016, paid on 23 September 2016.	6,284
Single tier second interim dividend of 1.30 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2016, paid on 21 December 2016.	6,504
	20,749

DIRECTORS' REPORT (CONTINUED)

DIVIDENDS (CONTINUED)

Subsequent to the financial year end, the Company declared a single tier third interim dividend of 2.00 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2016 on 24 February 2017. The financial statements for the current financial year do not reflect this declared dividend. Such dividend, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2017.

At the forthcoming Annual General Meeting, a final (single tier) dividend in respect of the financial year ended 31 December 2016, amounting 2.50 sen per ordinary share of RM0.25 each will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2017.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were prepared, 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 had satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company had 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 circumstances 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 circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

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

(ii) any contingent liabilities in respect of the Group and of the Company which has arisen since the end of the financial year.

In the opinion of the directors, 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 will or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances 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 MATERIAL AND UNUSUAL NATURE

In the opinion of the directors,

(i) the results of the operations of the Group and of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

2010/2020 WARRANTS ("Warrants")

On 8th March 2010, the Company announced that 42,666,666 units of 2010/2020 Warrants issued pursuant to the corporate exercises were listed and quoted on the Main Market of Bursa Malaysia Securities Berhad. The warrants were issued at an issue price of RM0.01 per warrant. The warrants issued are constituted under a Deed Poll executed and constituted by the Company.

The movement in the warrants during the financial year are as follows:

	Number of Warrants			
	At 1.1.2016	Exercised	Expired	At 31.12.2016
Warrants	132,098,474	(64,823,700)	–	67,274,774

The salient terms of the warrants are as follows:

(a) Each warrant entitles the registered holder/(s) at any time during the exercise period to subscribe for one new ordinary share of RM0.25 each at an exercise price of RM0.25 per ordinary share. The warrants entitlement is subject to adjustments under the terms and conditions set out in the Deed Poll.

(b) The exercise price for the warrants is fixed at RM0.25 per new ordinary share of the Company, subject to adjustments under certain circumstances in accordance with the provision of the Deed Poll.

(c) The exercise period is ten years from the date of issuance until the maturity date, i.e. the date preceding the tenth anniversary of the date of issuance. Upon the expiry of the exercise period, any unexercised rights will lapse and cease to be valid for any purposes.

(d) The new ordinary shares of RM0.25 each to be issued pursuant to the exercise of the warrants upon allotment and issue, rank pari passu in all respect with the existing ordinary shares of the Company except that the new ordinary shares so allotted shall not be entitled to any dividends, rights, allotment and/or other distributions declared, made or paid to shareholders, the entitlement date for which is before the date of allotment of the said new ordinary shares.

DIRECTORS' REPORT (CONTINUED)

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued and fully paid share capital from 436,328,190 ordinary shares of RM0.25 each to 501,151,890 ordinary shares of RM0.25 each through the issuance of 64,823,700 ordinary shares of RM0.25 each via the exercise of 64,823,700 warrants 2010/2020 at the exercise price of RM0.25 each per ordinary share.

The new ordinary shares issued during the financial year rank pari-passu in all respects with the existing ordinary shares of the Company.

The Company did not issue any debentures during the financial year.

TREASURY SHARES

Treasury shares relate to ordinary shares of the Company that are repurchased and held by the Company in accordance with the requirement of Section 67A of the Companies Act, 1965 in Malaysia.

There was no resale, cancellation or distribution of treasury shares during the financial year.

As at 31 December 2016, the Company held 580,000 treasury shares out of its 125,287,973 issued and paid-up ordinary shares. Such treasury shares are held at a carrying amount of RM666,000. Further details are disclosed in Note 14 to the financial statements.

DIRECTORS

The directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Y. Bhg. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak
Y. Bhg. Dato' Loo Swee Chew
Yoong Tein Seng @ Yong Kian Seng (Alternate director to Yoong Hau Chun)
Yoong Hau Chun
Yoong Li Yen
Lim Kah Poon
Bailey Policarpio
Loo Chin Meng (Alternate director to Dato' Loo Swee Chew) (Appointed on 27 May 2016)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings kept by the Company under Section 134 of the Companies Act, 1965 in Malaysia, the interests of directors in office at the end of the financial year in shares and warrants in the Company and its related corporations during the financial year ended 31 December 2016 were as follows:

		Number of ordinary shares		
		At 1.1.2016	**Bought/ (sold)**	**At 31.12.2016**
The Company				
Direct Interests				
Yoong Hau Chun		600,000	–	600,000
Y. Bhg. Dato' Loo Swee Chew		592,000	2,700,000	3,292,000
Lim Kah Poon		200,000	–	200,000
Bailey Policarpio		100,000	–	100,000
Yoong Li Yen		1,639,200	–	1,639,200
Loo Chin Meng (Alternate director to Dato' Loo Swee Chew)		–	370,000	370,000
Indirect Interests				
Yoong Hau Chun	(1)	156,821,090	7,050,000	163,871,090
Y. Bhg. Dato' Loo Swee Chew	(2)	121,239,890	(280,000)	120,959,890
Y. Bhg. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	(3)	252,000	–	252,000
Lim Kah Poon	(4)	84,000	–	84,000
Bailey Policarpio	(5)	1,639,200	–	1,639,200
Yoong Li Yen	(6)	154,441,890	7,050,000	161,491,890
Yoong Tein Seng @ Yong Kian Seng (Alternate director to Yoong Hau Chun)	(7)	166,887,090	7,050,000	173,937,090
Loo Chin Meng (Alternate director to Dato' Loo Swee Chew)	(8)	–	3,292,000	3,292,000

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS (CONTINUED)

		Number of Warrants		
		At 1.1.2016	Acquired/ (sold)/ (exercised)	At 31.12.2016
The Company				
Direct Interests				
Yoong Hau Chun		100,000	541,050	641,050
Y. Bhg. Dato' Loo Swee Chew		312,932	687,068	1,000,000
Bailey Policarpio		26,664	–	26,664
Yoong Li Yen		33,332	–	33,332
Yoong Tein Seng @ Yong Kian Seng (Alternate director to Yoong Hau Chun)		–	1,312,100	1,312,100
Indirect Interests				
Yoong Hau Chun	(1)	52,661,478	(29,576,413)	23,085,065
Y. Bhg. Dato' Loo Swee Chew	(2)	52,614,814	(51,264,950)	1,349,864
Bailey Policarpio	(5)	33,332	–	33,332
Yoong Li Yen	(6)	52,741,478	(29,035,363)	23,706,115
Yoong Tein Seng @ Yong Kian Seng (Alternate director to Yoong Hau Chun)	(7)	52,748,274	(30,380,923)	22,367,351
Loo Chin Meng (Alternate director to Dato' Loo Swee Chew)	(8)	–	1,000,000	1,000,000

(1) Deemed interested by virtue of Section 6A of the Companies Act, 1965 in Malaysia, shareholdings held through Tenson Holdings Sdn. Bhd., a substantial shareholder of both Firama Holdings Sdn. Bhd. and HeveaWood Industries Sdn. Bhd., and by virtue of his family relationship with Tan Ya Ling, his spouse, Yoong Tein Seng @ Yong Kian Seng, his father and Yoong Li Yen, his sister and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 % of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.

(2) Deemed interested by virtue of his substantial shareholdings in HeveaWood Industries Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965 in Malaysia, and by virtue of his family relationship with Loo Chin Meng, his son and deemed interested by virtue of HeveaWood Industries Sdn Bhd being entitled to control the exercise of 100 % of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.

(3) Deemed interested by virtue of his relationship with Dato' Philip Chan Hon Keong, his son.

(4) Deemed interested by virtue of his relationship with Chua Sew Yin @ Chuah Chai Ean, his spouse.

(5) Deemed interested by virtue of his relationship with Yoong Li Yen, his spouse.

(6) Deemed interested by virtue of her family relationship with Bailey Policarpio, her spouse, Yoong Tein Seng @ Yong Kian Seng, her father, Yoong Hau Chun, her brother and deemed interested by virtue of HeveaWood Industries Sdn. Bhd., being entitled to control the exercise of 100% of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.

(7) Deemed interested by virtue of his relationship with Yoong Hau Chun, his son, Yoong Li Yen, Yoong Li Mian, Yoong Li Bing and Yoong Li Xian, his daughters and deemed interested by virtue of HeveaWood Industries Sdn. Bhd., being entitled to control the exercise of 100% of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.

(8) Deemed interested by virtue of his relationship with Dato' Loo Swee Chew, his father.

By virtue of their shareholdings in the Company, Yoong Tein Seng @ Yong Kian Seng, Y. Bhg. Dato' Loo Swee Chew, Y.Bhg. Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak, Yoong Hau Chun, Lim Kah Poon, Bailey Policarpio, Yoong Li Yen and Loo Chin Meng 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 in Malaysia.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS (CONTINUED)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable, by the directors as disclosed in Note 32 to the financial statements) 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.

Neither during, nor at the end of the financial year, was the Company a party to any arrangements where the 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, other than those arising from the 2010/2020 Warrant issued.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are disclosed in the Note 32 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries are disclosed in Note 7 of the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are disclosed in Note 26 to the financial statements.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Details of significant events subsequent to the end of the financial year are disclosed in Note 37 to the financial statements.

AUDITORS

The auditors, Messrs Baker Tilly Monteiro Heng, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:

YOONG HAU CHUN
Director

Y. BHG. DATO' LOO SWEE CHEW
Director

Kuala Lumpur
Date: 22 March 2017

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	229,353	233,624	165,788	172,455
Prepaid lease payments	6	5,562	5,725	–	–
Investment in subsidiaries	7	–	–	40,960	40,960
Goodwill on consolidation	8	2,946	2,946	–	–
Total non-current assets		237,861	242,295	206,748	213,415
Current assets					
Inventories	9	70,374	62,977	21,444	19,326
Trade and other receivables	10	71,059	48,825	35,933	20,831
Prepayments		4,139	1,302	259	104
Tax recoverable		409	351	377	303
Other investments	11	36,039	2,500	36,039	–
Cash and short-term deposits	12	94,312	122,874	25,262	64,363
Total current assets		276,332	238,829	119,314	104,927
TOTAL ASSETS		514,193	481,124	326,062	318,342
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	13	125,288	109,082	125,288	109,082
Treasury shares	14	(666)	–	(666)	–
Other reserves	15	18,280	18,280	18,280	18,280
Retained profits	16	278,173	218,253	132,648	103,318
Total equity		421,075	345,615	275,550	230,680
Non-current liabilities					
Provision for retirement benefits	18	1,074	1,261	276	495
Loans and borrowings	19	7,977	23,215	5,089	17,704
Deferred tax liabilities	22	3,908	3,122	–	–
Total non-current liabilities		12,959	27,598	5,365	18,199
Current liabilities					
Trade and other payables	17	69,074	67,546	41,345	39,744
Tax payable		2,738	4,808	–	–
Loans and borrowings	19	8,347	35,557	3,802	29,719
Total current liabilities		80,159	107,911	45,147	69,463
Total liabilities		93,118	135,509	50,512	87,662
TOTAL EQUITY AND LIABILITIES		514,193	481,124	326,062	318,342

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Revenue	23	540,045	503,309	241,788	238,849
Cost of sales	24	(417,241)	(385,168)	(180,846)	(175,044)
Gross profit		122,804	118,141	60,942	63,805
Other income		10,016	10,142	11,796	9,851
Distribution expenses		(10,390)	(7,573)	(7,628)	(3,634)
Administrative expenses		(27,716)	(25,271)	(11,266)	(11,293)
Other expenses		(2,367)	(10,517)	(1,909)	(9,940)
Operating profit		92,347	84,922	51,935	48,789
Finance costs	25	(2,051)	(2,088)	(1,627)	(1,607)
Profit before tax	26	90,296	82,834	50,308	47,182
Income tax expense	27	(9,627)	(9,263)	(229)	(84)
Profit for the financial year		80,669	73,571	50,079	47,098
Other comprehensive income		–	–	–	–
Total comprehensive income for the financial year		80,669	73,571	50,079	47,098
Profit for the financial year attributable to:-					
Owners of the Company		80,669	73,571	50,079	47,098
Non-controlling interests		–	–	–	–
		80,669	73,571	50,079	47,098
Total comprehensive income attributable to:-					
Owners of the Company		80,669	73,571	50,079	47,098
Non-controlling interests		–	–	–	–
		80,669	73,571	50,079	47,098

Earnings per share attributable to owners of the Company		**(sen)**	**(sen)**
– Basic earnings per share	28(a)	17.27	17.94
– Diluted earnings per share	28(b)	15.09	13.57

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		← *Attributable to owners of the Company*					→
				← *Non-distributable*	→	*Distributable*	
	Note	**Share Capital RM'000**	**Treasury Shares RM'000**	**Share Premium RM'000**	**Warrant Reserve RM'000**	**Retained Profits RM'000**	**Total Equity RM'000**
Group							
At 1 January 2015		99,449	–	17,854	400	152,976	270,679
Total comprehensive income for the financial year		–	–	–	–	73,571	73,571
Transactions with owners:							
Arising from exercise of warrants	13	9,633	–	96	(70)	–	9,659
Dividends	29	–	–	–	–	(8,294)	(8,294)
Total transaction with owners		9,633	–	96	(70)	(8,294)	1,365
At 31 December 2015		109,082	–	17,950	330	218,253	345,615
Total comprehensive income for the financial year		–	–	–	–	80,669	80,669
Transactions with owners:							
Arising from exercise of warrants	13	16,206	–	162	(162)	–	16,206
Shares repurchased	14	–	(666)	–	–	–	(666)
Dividends	29	–	–	–	–	(20,749)	(20,749)
Total transactions with owners		16,206	(666)	162	(162)	(20,749)	(5,209)
At 31 December 2016		125,288	(666)	18,112	168	278,173	421,075

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 **(CONTINUED)**

		Attributable to owners of the Company					
				Non-distributable		*Distributable*	
	Note	**Share Capital RM'000**	**Treasury Shares RM'000**	**Share Premium RM'000**	**Warrant Reserve RM'000**	**Retained Profits RM'000**	**Total Equity RM'000**
Company							
At 1 January 2015		99,449	–	17,854	400	64,514	182,217
Total comprehensive income for the financial year		–	–	–	–	47,098	47,098
Transactions with owners:							
Arising from exercise of warrants	13	9,633	–	96	(70)	–	9,659
Dividends	29	–	–	–	–	(8,294)	(8,294)
Total transactions with owners		9,633	–	96	(70)	(8,294)	1,365
At 31 December 2015		109,082	–	17,950	330	103,318	230,680
Total comprehensive income for the financial year		–	–	–	–	50,079	50,079
Transactions with owners:							
Arising from exercise of warrants	13	16,206	–	162	(162)	–	16,206
Shares repurchased	14	–	(666)	–	–	–	(666)
Dividends	29	–	–	–	–	(20,749)	(20,749)
Total transactions with owners		16,206	(666)	162	(162)	(20,749)	(5,209)
At 31 December 2016		125,288	(666)	18,112	168	132,648	275,550

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		90,296	82,834	50,308	47,182
Adjustments for:-					
Amortisation for prepaid lease payments		163	163	–	–
Depreciation for property, plant and equipment		25,372	25,931	18,763	19,822
Dividend income		–	–	(5,960)	(4,470)
Finance costs		2,051	2,088	1,627	1,607
Finance income		(3,324)	(754)	(1,467)	(335)
Gain on disposal of property, plant and equipment		(480)	(78)	(223)	(70)
Property, plant and equipment written off		–*	2	–	–
Provision for retirement benefits		21	59	21	19
Unrealised (gain)/loss on foreign exchange		(1,739)	9,498	(1,098)	9,281
Operating Profit before Changes In Working Capital		112,360	119,743	61,971	73,036
Changes In Working Capital:-					
Inventories		(7,397)	(2,288)	(2,118)	2,199
Trade and other receivables		(24,105)	16,080	(14,291)	15,363
Trade and other payables		3,572	12,676	5,055	1,274
Net Cash Flows Generated From Operations		84,430	146,211	50,617	91,872
Interest paid		(31)	(54)	(31)	(54)
Income tax paid		(10,969)	(4,374)	(303)	(8)
Income tax refunded		–	267	–	157
Retirement benefits paid		(240)	(240)	(240)	(240)
Net Cash Flows Generated From Operating Activities		73,190	141,810	50,043	91,727

* Represented by amount less than RM1,000

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances to related companies		(4)	(230)	(4)	(230)
Deposits placed with licensed banks held for funded employee benefits		200	36	200	223
Dividend received		–	–	5,960	4,470
Interest received		3,324	754	1,467	335
Net change in other investments		(33,539)	(2,500)	(36,039)	–
Proceeds from disposal of property, plant and equipment		509	341	223	333
Purchase of property, plant and equipment	30	(17,800)	(6,467)	(9,827)	(2,879)
Repayment from subsidiaries		–	–	–	7
Net Cash Flows (Used In)/From Investing Activities		(47,310)	(8,066)	(38,020)	2,259
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend paid		(20,749)	(8,294)	(20,749)	(8,294)
Interest paid		(2,020)	(2,034)	(1,596)	(1,553)
Net repayment of onshore foreign currency loan		–	(13,119)	–	(13,119)
Proceed from issuance of ordinary shares		16,206	9,633	16,206	9,633
Purchase of treasury shares		(666)	–	(666)	–
Repayment to related company		(2,044)	(350)	(2,044)	(350)
Repayment to subsidiaries		–	–	(1,410)	–
Net repayment of finance lease liabilities		(3,871)	(3,639)	(1,657)	(1,141)
Net repayment of term loan		(43,209)	(29,083)	(39,459)	(27,239)
Net Cash Flows Used In Financing Activities		(56,353)	(46,886)	(51,375)	(42,063)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(30,473)	86,858	(39,352)	51,923
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		121,224	34,354	63,887	11,964
Effects of exchange rate changes on cash and cash equivalents		1,652	12	451	–
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		92,403	121,224	24,986	63,887
ANALYSIS OF CASH AND CASH EQUIVALENTS:					
Deposits placed with licensed banks	12	54,056	88,418	6,255	45,050
Cash and bank balances	12	40,256	34,456	19,007	19,313
		94,312	122,874	25,262	64,363
Less: Deposit placed with licensed banks held for funded employee benefits	12	(1,074)	(1,242)	(276)	(476)
Bank overdraft		(835)	(408)	–	–
		92,403	121,224	24,986	63,887

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

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

HeveaBoard Berhad ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur.

The principal place of business of the Company is located at Lot 1941 & 1942, Batu 3, Jalan Tampin, 73400 Gemas, Negeri Sembilan Darul Khusus.

The principal activities of the Company are manufacturing of particleboards and investment holding. The principal activities of its subsidiaries are disclosed in Note 7 to the financial statements.

There have been no significant changes in the nature of these principal activities during the financial year.
The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 22 March 2017.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

2.2 Basis of measurement

The financial statements of the Group and of the Company have been prepared under the historical cost basis, except as disclosed in the significant accounting policies in Note 3 to the financial statements.

2.3 Use of estimates and judgement

The preparation of financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

2.4 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency at the primary economic environment in which they operate ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency and has been rounded to the nearest thousand, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.5 Adoption of amendments/improvements to MFRSs

The Group and the Company have adopted the following amendments/improvements to MFRSs that are mandatory for the current financial year:

Amendments/Improvements to MFRSs	
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations
MFRS 7	Financial Instruments: Disclosures
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 101	Presentation of Financial Statements
MFRS 116	Property, Plant and Equipment
MFRS 119	Employee Benefits
MFRS 127	Separate Financial Statements
MFRS 128	Investments in Associates and Joint Ventures
MFRS 134	Interim Financial Reporting
MFRS 138	Intangible Assets
MFRS 141	Agriculture

The adoption of the above amendments/improvements to MFRSs did not have any significant effect on the financial statements of the Group and of the Company, and did not result in significant changes to the Group's and the Company's existing accounting policies, except for those as discussed below:

Amendments to MFRS 7 Financial Instruments: Disclosures

Amendments to MFRS 7 provide additional guidance to clarify whether servicing contracts constitute continuing involvement for the purposes of applying the disclosure requirements of MFRS 7.

The amendments also clarify the applicability of Disclosure – Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 7) to condensed interim financial statements.

Amendments to MFRS 101 Presentation of Financial Statements

Amendments to MFRS 101 improve the effectiveness of disclosures. The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Amendments to MFRS 116 Property, Plant and Equipment

Amendments to MFRS 116 prohibit revenue-based depreciation because revenue does not reflect the way in which an item of property, plant and equipment is used or consumed.

Amendments to MFRS 119 Employee Benefits

Amendments to MFRS 119 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability and the depth of the market for high quality corporate bonds should be assessed at a currency level.

Amendments to MFRS 127 Separate Financial Statements

Amendments to MFRS 127 allow a parent and investors to use the equity method in its separate financial statements to account for investments in subsidiaries, joint ventures and associates, in addition to the existing options.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.5 Adoption of amendments/improvements to MFRSs (Continued)

Amendments to MFRS 138 Intangible Assets

Amendments to MFRS 138 introduce a rebuttable presumption that the revenue-based amortisation method is inappropriate. This presumption can be overcome only in the following limited circumstances:

- when the intangible asset is expressed as a measure of revenue, i.e. in the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold; or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to MFRS 10 Consolidated Financial Statements, MFRS 12 Disclosure of Interests in Other Entities and MFRS 128 Investments in Associates and Joint Ventures

These amendments address the following issues that have arisen in the application of the consolidation exception for investment entities:

- Exemption from presenting consolidated financial statements: the amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.
- Consolidation of intermediate investment entities: the amendments clarify that only a subsidiary is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
- Policy choice for equity accounting for investments in associates and joint ventures: the amendments allow a non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interest in subsidiaries, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture.

2.6 New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") that have been issued, but yet to be effective

The Group and the Company have not adopted the following new MFRSs, amendments/improvements to MFRSs and new IC Int that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
New MFRSs		
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 16	Leases	1 January 2019
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of MFRSs	1 January 2018
MFRS 2	Share-based Payment	1 January 2018
MFRS 4	Insurance Contracts	1 January 2018
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 12	Disclosure of Interests in Other Entities	1 January 2017
MFRS 107	Statement of Cash Flows	1 January 2017
MFRS 112	Income Taxes	1 January 2017
MFRS 128	Investments in Associates and Joint Ventures	1 January 2018/ Deferred
MFRS 140	Investment Property	1 January 2018
New IC Int		
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

A brief discussion on the above significant new MFRSs, amendments/improvements to MFRSs and new IC Int are summarised below. Due to the complexity of these new MFRSs, amendments/improvements to MFRSs and new IC Int, the financial effects of their adoption are currently still being assessed by the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.6 New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") that have been issued, but yet to be effective (Continued)

MFRS 9 Financial Instruments

Key requirements of MFRS 9:

- MFRS 9 introduces an approach for classification of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments.
  In essence, if a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the statements of financial position, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the statements of financial position.

- MFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, this Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

- MFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

MFRS 15 Revenue from Contracts with Customers

The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:-

(i) identify the contracts with a customer;
(ii) identify the performance obligation in the contract;
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligations in the contract; and
(v) recognise revenue when (or as) the entity satisfies a performance obligation.

MFRS 15 also includes new disclosures that would result in an entity providing users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The following MFRSs and IC Interpretations will be withdrawn on the application of MFRS 15:

MFRS 111	Construction Contracts
MFRS 118	Revenue
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 15	Agreements for the Construction of Real Estate
IC Interpretation 18	Transfers of Assets from Customers
IC Interpretation 131	Revenue – Barter Transactions Involving Advertising Services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.6 New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") that have been issued, but yet to be effective (Continued)

MFRS 16 Leases

Currently under MFRS 117 *Leases*, leases are classified either as finance leases or operating leases. A lessee recognises on its statement of financial position assets and liabilities arising from the finance leases.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. All leases will be brought onto its statement of financial position except for short-term and low value asset leases.

Amendments to MFRS 1 First-time Adoption of MFRSs

Amendments to MFRS 1 deleted the short-term exemptions that relate to MFRS 7 *Financial Instruments: Disclosure,* MFRS 119 *Employee Benefits* and MFRS 10 *Consolidated Financial Statements* because they are no longer applicable.

Amendments to MFRS 12 Disclosure of Interests in Other Entities

Amendments to MFRS 12 clarify that entities classified as held for sale are required to apply all the disclosure requirements of MFRS 12 except for the disclosure requirements set out in paragraphs B10-B16 of the standard.

Amendments to MFRS 107 Statement of Cash Flows

Amendments to MFRS 107 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The disclosure requirement could be satisfied in various ways, and one method is by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Amendments to MFRS 112 Income Taxes

Amendments to MFRS 112 clarify that decreases in value of debt instrument measured at fair value for which the tax base remains at its original cost give rise to a deductible temporary difference. The estimate of probable future taxable profits may include recovery of some of an entity's assets for more than their carrying amounts if sufficient evidence exists that it is probable the entity will achieve this.

The amendments also clarify that deductible temporary differences should be compared with the entity's future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences when an entity evaluates whether it has sufficient future taxable profits. In addition, when an entity assesses whether taxable profits will be available, it should consider tax law restrictions with regards to the utilisation of the deduction.

IC Int 22 Foreign Currency Transactions and Advance Consideration

IC Int 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements of the Group and of the Company.

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

(a) Subsidiaries and business combination

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the acquirees until the date the Group loses control of the acquirees.

The Group applies the acquisition method to account for business combinations from the acquisition date.

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:-

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by-acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.

The accounting policy for goodwill is set out in Note 3.7 to the financial statements.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have been previously been recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings, on the same basis as could be required if the acquirer had disposed directly of the previously held equity interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

(a) Subsidiaries and business combination (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.

Upon the loss of control of subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an associate, joint venture, an available-for-sale financial asset or a held for trading financial asset.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

(b) Transactions eliminated on consolidation

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

3.2 Separate financial statements

In the Company's statement of financial position, investment in subsidiaries is measured at cost less any accumulated impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs. The policy for the recognition and measurement of impairment losses shall be applied on the same basis as could be required for impairment of non-financial assets as disclosed in Note 3.10(b) to the financial statements.

3.3 Translation of foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the Group entities at the exchange rates prevailing at the dates of the transactions.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

Non-monetary items denominated in foreign currencies that are carried at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of the initial transactions.

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss except for monetary item that is designated as a hedging instrument in either a cash flow hedge or a hedge of the Group's net investment of a foreign operation. When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences are recognised in profit or loss in the separate financial statements of the parent company or the individual financial statements of the foreign operation. In the consolidated financial statements, the exchange differences are considered to form part of a net investment in a foreign operation and are recognised initially in other comprehensive income until its disposal, at which time, the cumulative amount is reclassified to profit or loss.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments

Financial instruments are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contract provisions of the financial instrument.

When financial instruments are recognised initially, they are measured at fair value plus, in the case of financial instruments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(a) Subsequent measurement

The Group and the Company categorise the financial instruments as follows:

(i) Financial assets

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial assets is either held for trading, including derivatives or it is designated into this category upon initial recognition.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value with the gain or loss recognised in profit or loss.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(a) to the financial statements. Gains and losses are recognised in profit or loss through the amortisation process.

Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(a) to the financial statements. Gains and losses are recognised in profit or loss through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets comprise investment in equity and debt securities that are designated as available for sale or are not classified in any of the three preceding categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair values hedges which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's and the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

(a) Subsequent measurement (Continued)

(ii) Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, including derivatives or financial liabilities designated into this category upon initial recognition.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value with the gain or loss recognised in profit or loss.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

The Group has not designated any financial liabilities at fair value through profit or loss.

Other financial liabilities

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss through the amortisation process.

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

(c) Derecognition

A financial asset or a part of it is derecognised when, and only when, the contractual rights to receive the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition of measurement of impairment losses is in accordance with Note 3.10(b) to the financial statements.

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes cost of materials, direct labour, and any other direct attributable costs but excludes internal profits. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs in Note 3.14 to the financial statements.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(b) Subsequent cost

The cost of replacing a part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

(c) Depreciation

No depreciation is provided on the freehold land as it has infinite useful life.

Property, plant and equipment are depreciated on straight line basis to write off the cost of each asset to its residual value over the estimated useful lives of the assets concerned. The annual rates used for this purpose are as follows:-

Leasehold land	1%
Buildings	2% - 5%
Plant, machineries and equipment	5% - 20%
Furniture, fittings and renovation	10% - 20%
Motor vehicles	20%

The residual values and useful lives of assets and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any revisions of the residual values, useful lives and depreciation method are included in profit or loss for the financial year in which the changes arise.

Fully depreciated assets are retained in the financial statements until the assets are no longer in use.

(d) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit or loss in the financial year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

(a) Lessee Accounting

If an entity in the Group is a lessee in a finance lease, it capitalises the leased asset and recognises the related liability. The amount recognised at the inception date is the fair value of the underlying leased asset or, if lower, the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are charged as expenses in the periods in which they are incurred.

The capitalised leased asset is classified by nature as property, plant and equipment.

For operating leases, the Group does not capitalise the leased asset or recognise the related liability. Instead lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit.

Any upfront lease payments are classified as land use rights within intangible assets.

(b) Lessor Accounting

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in the finance lease.

If an entity in the Group is a lessor in operating lease, the underlying asset is not derecognised but is presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

3.7 Goodwill

Goodwill arising from business combinations is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition and measurement of impairment losses is in accordance with Note 3.10(b) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Inventories

Inventories are measured 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 manufactured goods includes cost of materials, labour and an appropriate proportion of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Other inventories not to be resold and for consumption purpose is classified as consumables and spare parts.

3.9 Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand, bank balances and deposits and other short-term, highly liquid investments with a maturity of three months or less, that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are presented net of bank overdrafts.

3.10 Impairment of assets

(a) Impairment and uncollectibility of financial assets

At each reporting date, all financial assets (except for financial assets categorised as fair value through profit or loss and investment in subsidiaries) are assessed whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

<u>Loans and receivables and held-to-maturity investments</u>

The Group and the Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the Group and the Company include the financial asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Financial assets that are individually assessed for impairment for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment was recognised, the previously recognised impairment loss is then reversed by adjusting an allowance account to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Company. If a write-off is later recovered, the recovery is credited to the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Impairment of assets (Continued)

(a) Impairment and uncollectibility of financial assets (Continued)

Available-for-sale financial assets

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment. The Group and the Company use their judgement to determine what is considered as significant or prolonged decline, evaluating past volatility experiences and current market conditions.

When a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of cumulative loss that is reclassified from equity to profit or loss shall be the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss.

Impairment losses on available-for-sale equity investments are not reversed through profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income.

For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to loss event occurring after the recognition of the impairment loss in profit or loss.

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for inventories) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group and the Company make an estimate of the asset's recoverable amount. For goodwill and intangible assets that have indefinite useful life and are not yet available for use, the recoverable amount is estimated at each reporting date.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a CGU or a group of CGUs that are expected to benefit from the synergies of business combination.

The recoverable amount of an asset of CGU is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of an asset exceed its recoverable amount, the carrying amount of asset is reduced to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss, except for assets that were previously revalued with the revaluation surplus recognised in other comprehensive income. In the latter case, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

Impairment losses in respect of goodwill are not reversed. For other assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Share capital

(a) Ordinary shares

Ordinary shares are equity instruments and classified as equity. An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(b) Treasury shares

When share capital recognised as equity is repurchased, the amount of consideration paid is recognised directly in equity. Repurchased shares that have not been cancelled including any attributable transaction costs are classified as treasury shares and presented as a deduction from total equity.

When treasury shares are sold or reissued subsequently, the difference between the sales consideration and the carrying amount is presented as a movement in equity.

3.12 Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group and the Company.

(b) Post-employment benefits: Defined contribution plans

As required by law, the Group and the Company contribute to the Employees Provident Fund ("EPF"), the national defined contribution plan. The Group and the Company also contribute to retirement benefits for key personnel under defined contribution plan. Such contributions are recognised as an expense in the profit or loss in the period in which the employees render their services.

3.13 Revenue and other income

The Group and the Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below:

(a) Sale of Goods

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

(b) Interest Income

Interest income is recognised on an accrual basis.

(c) Dividend Income

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

(d) Rental Income

Rental income from properties is recognised on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Borrowing costs

Borrowing costs are interests and other costs that the Group and the Company incur in connection with borrowing of funds.

Borrowings are initially recognised based on the proceeds received, net of transaction cost incurred. In the subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings.

Interest, dividends, losses and gains relating to a financial instrument, or a component part classified as a liability is reported within finance cost in the profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

3.15 Taxes

(i) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected taxes payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Taxes (Continued)

(i) Income tax (Continued)

(b) Deferred tax (Continued)

Deferred tax is 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 tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

(ii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST") except:

- where the GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

3.16 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group Managing Director of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief operating decision-maker that makes strategic decisions.

3.17 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Earnings Per Ordinary Share

The Group presents basic and diluted earnings per share data for its ordinary shares (“EPS”).

Basis EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.19 Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect in determining the amount recognised in the financial year include the following:

(a) Depreciation and useful lives of property, plant and equipment

As disclosed in Note 3.5 to the financial statements, the Group and the Company review the residual values, useful lives and depreciation methods at the end of each reporting period. Estimates are applied in the selection of the depreciation method, the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment may differ from the estimates applied and therefore, future depreciation charges could be revised.

The carrying amounts of the Group’s and the Company’s property, plant and equipment are disclosed in Note 5 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) Impairment of goodwill

The Group assesses at each reporting date whether there is any indication that goodwill may be impaired. For the purpose of assessing impairment, assets (including goodwill) are grouped at the lowest level where there are separately identifiable cash flows (cash-generating units). In determining the value-in-use of a cash-generating unit, management estimates the discounted cash flows using reasonable and supportable inputs about sales, costs of sales and other expenses based on past experience, current events and reasonably possible future developments. Cash flows that are projected based on those inputs or assumptions and the discount rate applied in the measurement of value-in-use may have a significant effect on the Group's financial position and results if the actual cash flows are less than the expected.

The carrying amount of the Group's goodwill and key assumptions used to determine the recoverable amount for different cash-generating units, including sensitivity analysis, are disclosed in Note 8 to the financial statements.

(c) Impairment of financial assets

The Group and the Company recognise impairment losses for loans and receivables using the incurred loss model. At the end of each reporting period, the Group and the Company assess whether there is any objective evidence that loans and receivables is impaired. Individually significant loans and receivables are tested for impairment separately by estimating the cash flows expected to be recoverable. All others are grouped into credit risk classes and tested for impairment collectively, using the Group's and the Company's past experience of loss statistics, ageing of past due amounts and current economic trends. The actual eventual losses may be different from the impairment made and this may affect the Group's and the Company's financial position and results.

The carrying amounts of the Group's and the Company's financial assets are disclosed in Note 35(a) to the financial statements.

(d) Measurement of income taxes

Significant judgement is required in determining the Group's and the Company's estimation for current and deferred taxes because the ultimate tax liability for the Group as a whole is uncertain. When the final outcome of the tax payable is determined with the tax authorities in each jurisdiction, the amounts might be different from the initial estimates of the taxes payables. Such differences may impact the current and deferred taxes in the period when such determination is made. The Group and the Company will make adjustments for current or deferred taxes in respect of prior years in the current period on those differences arise. The income tax expense of the Group and the Company are disclosed in Note 27 to the financial statements.

(e) Inventories

The Group and the Company write down their obsolete or slow moving inventories based on the assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Reviews are made periodically on inventories for standard costs, obsolete and decline in net realisable value below cost. These reviews require the use of judgement and estimate. Possible changes in these estimates may result in revisions to the valuation of inventories. The carrying amounts of the Group's and the Company's inventories are disclosed in Note 9 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT

Group 2016	Freehold Land RM'000	Leasehold Land RM'000	Buildings RM'000	Plant, Machineries and Equipment RM'000	Furniture, Fittings and Renovation RM'000	Motor Vehicles RM'000	Total RM'000
Cost							
At 1 January 2016	7,462	4,061	66,246	418,531	3,979	6,028	506,307
Additions	–	–	4,229	12,979	317	3,605	21,130
Disposals/write-offs	–	–	–	(109)	(1)	(2,383)	(2,493)
At 31 December 2016	7,462	4,061	70,475	431,401	4,295	7,250	524,944
Accumulated Depreciation							
At 1 January 2016	–	529	16,107	248,882	2,435	4,730	272,683
Depreciation charge for the financial year	–	45	1,617	22,611	261	838	25,372
Disposals/write-offs	–	–	–	(96)	(1)	(2,367)	(2,464)
At 31 December 2016	–	574	17,724	271,397	2,695	3,201	295,591
Carrying Amounts							
At 31 December 2016	7,462	3,487	52,751	160,004	1,600	4,049	229,353
2015							
Cost							
At 1 January 2015	7,462	4,061	64,971	403,532	3,401	5,287	488,714
Additions	–	–	1,275	16,165	585	915	18,940
Disposals/write-offs	–	–	–	(1,166)	(7)	(174)	(1,347)
At 31 December 2015	7,462	4,061	66,246	418,531	3,979	6,028	506,307
Accumulated Depreciation							
At 1 January 2015	–	485	14,572	226,208	2,211	4,358	247,834
Depreciation charge for the financial year	–	44	1,535	23,577	229	546	25,931
Disposals/write-offs	–	–	–	(903)	(5)	(174)	(1,082)
At 31 December 2015	–	529	16,107	248,882	2,435	4,730	272,683
Carrying Amounts							
At 31 December 2015	7,462	3,532	50,139	169,649	1,544	1,298	233,624

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2016	Freehold Land RM'000	Leasehold Land RM'000	Buildings RM'000	Plant, Machineries and Equipment RM'000	Furniture, Fittings and Renovation RM'000	Motor Vehicles RM'000	Total RM'000
Cost							
At 1 January 2016	6,034	4,061	30,148	335,966	799	2,885	379,893
Additions	–	–	3,121	6,599	91	2,285	12,096
Disposals	–	–	–	–	–	(1,228)	(1,228)
At 31 December 2016	6,034	4,061	33,269	342,565	890	3,942	390,761
Accumulated Depreciation							
At 1 January 2016	–	529	7,686	196,285	610	2,328	207,438
Depreciation charge for the financial year	–	45	694	17,496	49	479	18,763
Disposals	–	–	–	–	–	(1,228)	(1,228)
At 31 December 2016	–	574	8,380	213,781	659	1,579	224,973
Carrying Amounts							
At 31 December 2016	6,034	3,487	24,889	128,784	231	2,363	165,788
2015							
Cost							
At 1 January 2015	6,034	4,061	30,117	329,793	753	2,629	373,387
Additions	–	–	31	7,307	46	256	7,640
Disposals	–	–	–	(1,134)	–	–	(1,134)
At 31 December 2015	6,034	4,061	30,148	335,966	799	2,885	379,893
Accumulated Depreciation							
At 1 January 2015	–	485	7,057	178,390	565	1,990	188,487
Depreciation charge for the financial year	–	44	629	18,766	45	338	19,822
Disposals	–	–	–	(871)	–	–	(871)
At 31 December 2015	–	529	7,686	196,285	610	2,328	207,438
Carrying Amounts							
At 31 December 2015	6,034	3,532	22,462	139,681	189	557	172,455

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(i) Included in property, plant and equipment of the Group and the Company are assets pledged to the licensed financial institutions to secure credit facilities granted to the Group and the Company as disclosed in Note 19 to the financial statements with carrying amounts as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Freehold land	6,034	6,034	6,034	6,034
Leasehold land	3,487	3,532	3,487	3,532
Buildings	51,402	50,022	23,543	22,349
Plant, machineries and equipments	13,734	136,772	13,734	136,772
Furniture and fittings	166	176	166	176
	74,823	196,536	46,964	168,863

(ii) Included in property, plant and equipment of the Group and of the Company are assets acquired under finance lease instalment plans with carrying amounts as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Plant, machineries and equipments	9,075	12,554	4,776	5,362
Motor vehicles	3,557	939	2,281	534
	12,632	13,493	7,057	5,896

6. PREPAID LEASE PAYMENTS

	Group	
	2016 RM'000	2015 RM'000
At Cost		
At 1 January/ At 31 December	7,530	7,530
Accumulated Amortisation		
At 1 January	1,805	1,642
Amortisation during the financial year	163	163
At 31 December	1,968	1,805
Carrying Amounts		
At 31 December	5,562	5,725

Pursuant to MFRS 117 Leases, the Group and the Company have determined that the leasehold land of the Group and the Company with a lease period of more than 50 years at the inception date is in substance a finance lease and has been reclassified as property, plant and equipment.

The leasehold land has been pledged as security to licensed financial institutions for bank borrowings granted to the Group, as disclosed in Note 19 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. INVESTMENT IN SUBSIDIARIES

	Company 2016 RM'000	2015 RM'000
At Cost		
Unquoted shares	40,960	40,960

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

Name of company	Effective ownership interest/voting rights 2016 %	2015 %	Principal activities
Held by the Company			
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.

8. GOODWILL ON CONSOLIDATION

	Group 2016 RM'000	2015 RM'000
At 1 January/ 31 December	2,946	2,946

Goodwill on consolidation has been allocated to the Group's cash generating units ("CGUs") identified according to business segments as follows:

	Group 2016 RM'000	2015 RM'000
Ready-to-assemble products segment:		
Manufacturing segment	2,666	2,666
Trading segment	280	280
	2,946	2,946

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. GOODWILL ON CONSOLIDATION (CONTINUED)

The recoverable amounts of cash-generating units ("CGUs") in ready-to-assemble products segment are determined based on value-in-use calculations using cash flows projections on financial budgets approved by management covering a 5 years period. The cash flows were projected by the directors based on past experiences, actual operating results and the 5 years business plan. A pre-tax discount rate of 14% was used in determining the value-in-used. The discount rate was estimated based on the Company's weighted average cost of capital.

The key assumptions used for value-in-use calculations are:

- In the first year of the 5 years business plan, revenue was projected at approximately RM356,138,000 and RM14,563,000 for manufacturing segment and trading segment respectively. The expected revenue growth in the cash flows projection was ranged from 5% to 15% per annum for year 2017 to 2021.

- The budgeted gross margin is based on the estimated selling prices, fixed and variable costs, adjusted for market conditions and economic conditions and internal resource efficiency. The budgeted gross margin used is 15% and 34% for manufacturing segment and trading segment respectively.

- The discount rate used is pre-tax and reflect specific risk relating to the industry.

The value assigned to the key assumptions represents directors' assessment on the future trends of the Ready-to-Assemble Furniture Industry and are based on both external and internal sources.

Sensitivity to changes in assumptions

There are no reasonable possible changes in key assumptions which would cause the carrying value of goodwill on consolidation to exceed its recoverable amount.

9. INVENTORIES

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At Cost				
Finished goods	16,365	15,298	6,775	4,506
Raw materials	40,609	34,749	4,854	5,332
Work-in-progress	3,585	3,442	–	–
Consumables and spare parts	9,815	9,488	9,815	9,488
	70,374	62,977	21,444	19,326

The cost of inventories of the Group and the Company recognised as an expense in cost of sales during the financial year was RM389,389,000 (2015: RM356,767,000) and RM160,445,000 (2015: RM154,174,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current Trade				
Trade receivables	59,590	44,310	30,066	17,487
Amount owing by a subsidiary	–	–	588	2,404
Less: Impairment for trade receivables	–	–	–	–
Trade receivables, net	59,590	44,310	30,654	19,891
Non-trade				
Other receivables	8,128	3,992	4,813	587
Refundable deposits	3,107	293	232	123
Amount owing by a related company	234	230	234	230
	11,469	4,515	5,279	940
Less: Impairment for other receivables	–	–	–	–
Other receivables, net	11,469	4,515	5,279	940
Total trade and other receivables	71,059	48,825	35,933	20,831

The currencies exposure profile of trade and other receivables are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Chinese Yuan	1,293	–	1,293	–
Euro Dollar	3,682	–	1,109	–
Ringgit Malaysia	17,293	17,397	4,522	4,209
Singapore Dollar	56	–	52	–
United States Dollar	48,735	31,428	28,957	16,622
	71,059	48,825	35,933	20,831

Trade receivables are non-interest bearing and normal trade credit terms offered by the Group and the Company ranging from 30 to 90 days (2015: 30 to 90 days) from the date of invoices. Other credit terms are assessed and approved on a case by case basis.

(i) Amount owing by a subsidiary is unsecured, non-interest bearing and repayable upon demand and is expected to be settled in cash.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

(ii) Amount owing by a related company is non-trade in nature, unsecured, interest-free, repayable on demand and is expected to be settled in cash.

(iii) At the reporting date, approximately 37% (2015: 38%) of the Group's trade receivables were due from 2 major customers.

(iv) Included in Group's deposits is an amount of RM2,660,086 (2015: Nil) paid for purchase of plant and machineries and motor vehicles, as disclosed in Note 33 to the financial statements.

(v) Ageing analysis

The ageing analysis of the Group's and the Company's trade receivables are as follows:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Neither past due nor impaired	57,381	41,642	30,066	16,567
Past due but not impaired:				
1 - 30 days past due not impaired	1,532	1,985	–	740
31 - 60 days past due not impaired	677	683	–	180
	2,209	2,668	–	920
Impaired	–	–	–	–
	59,590	44,310	30,066	17,487

Receivables that are neither past due nor impaired

A significant portion of trade receivables that are neither past due nor impaired are regular customers that have been transacting with the Group and the Company. The Group and the Company use aging analysis to monitor the credit quality of the trade receivables. Any receivables having significant balances past due or more than 90 days, which are deemed to have higher credit risk, are monitored individually.

Receivables that are past due but not impaired

The Group and the Company believe that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

In determining the recoverability of a trade receivable, the Group and the Company consider any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group and the Company have policies in place to ensure that credit is extended only to customers with acceptable credit history and payment track records. Allowances for impairment are made on specific trade receivable when there is objective evidence that the Company will not able to collect the amounts due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. OTHER INVESTMENTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current:				
Financial assets at fair value through profit or loss				
– Unquoted money market fund	36,039	2,500	36,039	–

Other investments are funds invested mainly in money market and fixed income instruments and are managed by investment banks.

12. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and bank balances	40,256	34,456	19,007	19,313
Short-term deposits placed with licensed banks	54,056	88,418	6,255	45,050
	94,312	122,874	25,262	64,363

The currencies exposure profile of cash and short-term deposits are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Chinese Yuan	3,884	–	3,884	–
Indian Rupee	1	1	1	1
Japanese Yen	174	–	174	–
Ringgit Malaysia	84,577	88,002	17,651	42,534
United States Dollar	5,676	34,871	3,552	21,828
	94,312	122,874	25,262	64,363

The interest rate as at the reporting date and the remaining maturities of the Group's and the Company's short-term deposits placed with licensed banks are as follows:

	Group and Company	
	2016	2015
Interest Rate (%) (per annum)	2.45 - 4.11	0.90 - 4.15
Average maturities (months)	1 to 6	1 to 12

Included in the deposits placed with licensed banks of the Group and the Company is an amount of RM1,074,000 (2015: RM1,242,000) and RM276,000 (2015: RM476,000) respectively representing the funded amounts for the repayment of retirement benefits as disclosed in Note 18 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. SHARE CAPITAL

	Group and Company 2016 Number of Shares '000 unit	2016 RM'000	2015 Number of Shares '000 unit	2015 RM'000
Authorised:-				
Ordinary shares of RM0.25 each	2,000,000	500,000	2,000,000	500,000
Issued and fully paid:-				
Before share split (Ordinary shares of RM1 each)				
At 1 January	–	–	99,449	99,449
Issued for cash under warrant exercised	–	–	2,708	2,708
	–	–	102,157	102,157
After share split (Ordinary shares of RM0.25 each)				
At 1 January	436,328	109,082	–	–
Share split	–	–	306,472	–
Issued for cash under warrant exercised	64,824	16,206	27,699	6,925
	501,152	125,288	334,171	6,925
At 31 December	501,152	125,288	436,328	109,082

(a) Share split

In the previous financial year, the authorised share capital of the Company of RM500,000,000 comprising 500,000,000 ordinary shares of RM1 each has been created to RM500,000,000 comprising 2,000,000,000 ordinary shares of RM0.25 each.

On 24 July 2015, the Company increased its issued and fully paid share capital from 102,157,200 ordinary shares of RM1 each into 408,628,800 ordinary shares of RM0.25 each by way of share split involving the subdivision of every one (1) existing ordinary share of RM1 each held in the Company into four (4) ordinary shares of RM0.25 each.

The share split was completed on 24 July 2015.

The above new shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. SHARE CAPITAL (CONTINUED)

(b) Issuance of shares

During the financial year, the Company increased its issued and fully paid share capital from 436,328,190 ordinary shares of RM0.25 each to 501,151,890 ordinary shares of RM0.25 each through the issuance of 64,823,700 ordinary shares of RM0.25 each via the exercise of 64,823,700 warrants 2010/2020 at the exercise price of RM0.25 each per ordinary share.

In the previous financial year, the Company increased its issued and fully paid share capital from 99,449,000 ordinary shares of RM1 each to 436,328,190 ordinary shares of RM0.25 each through the issuance of:

(i) 2,708,200 ordinary shares of RM1 each via the exercise of 2,708,200 warrants 2010/2020 at the exercise price of RM1 each per ordinary share;

(ii) subdivision of every one (1) ordinary share into four (4) ordinary shares from 102,157,200 ordinary shares of RM1 each into 408,628,800 ordinary shares of RM0.25 each; and

(iii) 27,699,390 ordinary shares of RM0.25 each via the exercise of 27,699,390 warrants 2010/2020 at the exercise price of RM0.25 each per ordinary shares.

The new ordinary shares issued during the financial year rank pari-passu in all respects with the existing ordinary shares of the Company.

14. TREASURY SHARES

	Group and Company			
	2016		2015	
	Number of Shares '000 unit	RM'000	Number of Shares '000 unit	RM'000
At 1 January	–	–	–	–
Shares repurchased during the financial year	580	666	–	–
At 31 December	580	666	–	–

The details of shares repurchased during the financial year are as follows:

Shares repurchased	Number of Shares '000 unit	Total Consideration RM'000
February 2016	180	215
May 2016	100	120
August 2016	300	331
	580	666

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. TREASURY SHARES (CONTINUED)

Treasury shares relate to ordinary shares of the Company that are repurchased and held by the Company.

At the Annual General Meeting held on 30 May 2016, the shareholders approved the Company to repurchase of its issued ordinary shares based on the following terms:

(i) The aggregate number of shares purchased does not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company as quoted on Bursa Securities as at the point of purchase;

(ii) The maximum fund to be allocated by the Company for the purpose of purchasing the shares shall be backed by an equivalent amount of retained profits and share premium; and

(iii) The Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividends.

All the share repurchases made to date are retained as treasury shares in accordance with Section 67A of the Companies Act, 1965 in Malaysia.

There was no resale, cancellation or distribution of treasury shares during the financial year.

15. OTHER RESERVES

	Group and Company 2016 RM'000	2015 RM'000
Share premium	18,112	17,950
Warrant reserve	168	330
	18,280	18,280

(a) *Share Premium*

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 in Malaysia.

(b) *2010/2020 Warrants ("Warrants")*

The warrants issued on 8 March 2010 are constituted under a Deed Poll executed by the Company. The warrants were issued at an issue price of RM0.01 per warrant. The warrants are listed on the Main Market of Bursa Malaysia Securities Berhad.

On 30 April 2015, the Company announced the share split involving the subdivision of every one (1) existing ordinary share of RM1 each into 4 ordinary shares of RM0.25 each in the Company. The entitlement date for share split has been fixed on 23 July 2015 and additional 119,848,398 warrants has been listed and quoted on the main market of Bursa Malaysia Securities Berhad on 24 July 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. OTHER RESERVES (CONTINUED)

(b) *2010/2020 Warrants ("Warrants") (Continued)*

The movement in the warrants during the financial year are as follows:

	Number of Warrants			
	At 1.1.2016	Exercised	Expired	At 31.12.2016
Warrants	132,098,474	(64,823,700)	–	67,274,774

The salient terms of the warrants are as follows:

(i) Each warrant entitles the registered holder/(s) at any time during the exercise period to subscribe for 1 new ordinary share of RM0.25 each at an exercise price of RM0.25 per ordinary share. The warrants entitlement is subject to adjustments under the terms and conditions set out in the Deed Poll.

(ii) The exercise price for the warrants is fixed at RM0.25 per new ordinary share of the Company, subject to adjustments under certain circumstances in accordance with the provision of the Deed Poll.

(iii) The exercise period is 10 years from the date of issuance until the maturity date, i.e. the date preceding the 10 anniversary of the date of issuance. Upon the expiry of the exercise period, any unexercised rights will lapse and cease to be valid for any purposes.

(iv) The new ordinary shares of RM0.25 each to be issued pursuant to the exercise of the warrants will upon allotment and issue rank pari passu in all respects with the existing ordinary shares of the Company except that the new ordinary shares so allotted shall not be entitled to any dividends, rights, allotment and/or other distributions declared, made or paid to shareholders, the entitlement date for which is before the date of allotment of the said new ordinary shares.

16. RETAINED PROFITS

The Company will be able to distribute dividends out of its entire retained profits under the single tier system.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current Trade				
Trade payables	30,886	36,133	21,101	21,179
Non-trade				
Other payables	11,891	7,799	5,472	4,204
Accrued operating expenses	26,091	21,364	10,014	6,149
Amount owing to subsidiaries	–	–	4,758	6,168
Amount owing to a related company	206	2,250	–	2,044
	38,188	31,413	20,244	18,565
Total trade and other payables	69,074	67,546	41,345	39,744

(i) The normal trade credit term granted to the Group and the Company range from 30 to 90 days (2015: 30 to 90 days).

(ii) The amount owing to subsidiaries and to a related company are non-trade in nature, unsecured, interest-free, repayable on demand and is expected to be settled in cash.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. TRADE AND OTHER PAYABLES (CONTINUED)

(iii) The foreign currencies exposure profile of the trade and other payables are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Euro Dollar	54	239	24	165
Japanese Yen	155	53	155	53
Ringgit Malaysia	66,038	63,581	39,555	38,748
Singapore Dollar	–	81	–	81
United States Dollar	2,827	3,592	1,611	697
	69,074	67,546	41,345	39,744

18. PROVISION FOR RETIREMENT BENEFITS

The movement in provision for retirement benefits are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	1,261	1,442	495	716
Addition	53	59	21	19
Benefits paid during the financial year	(240)	(240)	(240)	(240)
At 31 December	1,074	1,261	276	495
The retirement benefit obligations are expected to be settled as follows:-				
Non-current:-				
- later than 5 years	1,074	1,261	276	495

The Group and the Company established an unfunded defined benefit plan for key management personnel since 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.

With effect from 1 April 2014, as a retirement benefit, the Group and the Company shall contribute to the Employees Provident Fund as additional monthly contribution of 8.33% of monthly basic salary only excluding bonus or allowances until the employee attains the age of 60 years. The accumulated retirement benefits up to 31 March 2014 will be paid by the Company into a designated fixed deposit account as disclosed in Note 12 to the financial statements and such amount shall only be paid to the employee upon his/her retirement together with the interest earned.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. LOANS AND BORROWINGS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current (secured)				
Bank overdraft	835	408	–	–
Finance lease liabilities (Note 20)	2,399	3,384	1,782	1,328
Term loan (Note 21)	5,113	31,765	2,020	28,391
	8,347	35,557	3,802	29,719
Non-current (secured)				
Finance lease liabilities (Note 20)	3,772	3,328	3,059	2,901
Term loan (Note 21)	4,205	19,887	2,030	14,803
	7,977	23,215	5,089	17,704
Total loans and borrowings	16,324	58,772	8,891	47,423

(i) The currencies exposure profile of loans and borrowings are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
United States Dollar	8,502	45,236	4,050	38,274
Ringgit Malaysia	7,822	13,536	4,841	9,149
	16,324	58,772	8,891	47,423

(ii) The loans and borrowings at the end of the reporting period are bearing interest rate as follows:

	Group		Company	
	2016 %	2015 %	2016 %	2015 %
Bank overdraft	7.60 - 8.15	7.85	–	–
Finance lease liabilities	2.23 - 3.30	2.40 - 3.50	2.23 - 3.30	2.48 - 3.50
Term loan	1.33 - 8.35	0.95 - 8.35	1.33 - 5.01	0.95 - 5.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. LOANS AND BORROWINGS (CONTINUED)

(iii) The bank overdraft, onshore foreign currency loan, and term loan are secured by:

(a) fixed charges over certain property, plant and equipment of the Group and of the Company, as disclosed in Note 5 to the financial statements;

(b) fixed charges over certain properties of a substantial corporate shareholder;

(c) fixed charges over leasehold land of the Group and of the Company, as disclosed in Note 6 to the financial statements; and

(d) corporate guarantees by the Company given to the financial institutions for credit facilities granted to a subsidiary company.

20. FINANCE LEASE LIABILITIES

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Minimum finance lease payments				
– not later than one year	2,845	3,688	2,184	1,547
– later than one year and not later than five years	3,809	3,687	3,059	3,106
	6,654	7,375	5,243	4,653
Less: Future finance charges	(483)	(663)	(402)	(424)
Present value of minimum finance lease payment	6,171	6,712	4,841	4,229
Represented by:-				
Current (Note 19)				
– not later than one year	2,399	3,384	1,782	1,328
Non-current (Note 19)				
– later than one year and not later than five years	3,772	3,328	3,059	2,901
	6,171	6,712	4,841	4,229

Obligations under finance lease arrangement

(i) Interest rates are fixed at the inception of the finance lease arrangement;

(ii) Certain finance lease arrangements of the Group are secured by joint and several guarantee by the directors of the Company; and

(iii) The finance lease liabilities are effectively secured on the rights of the assets under finance lease arrangement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. TERM LOAN

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current: (Note 19)				
- repayable within one year	5,113	31,765	2,020	28,391
Non-current: (Note 19)				
- not later than two years	3,597	17,775	1,670	14,803
- later than two years and not later than five years	608	2,112	360	–
	4,205	19,887	2,030	14,803
	9,318	51,652	4,050	43,194

22. DEFERRED TAX LIABILITIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	3,122	2,298	–	–
Transfer to profit or loss (Note 27)	786	824	–	–
At 31 December	3,908	3,122	–	–

(i) *Recognised deferred tax liability*

Deferred tax liabilities relate to the following:-

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deferred tax liability:				
- Accelerated capital allowances	3,908	3,122	–	–

(ii) *Unrecognised deferred tax assets*

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Excess of carrying amount over corresponding tax written down value	(120,363)	(131,546)	(120,363)	(131,546)
Provision for retirement benefit	276	495	276	495
Unabsorbed allowances on:				
- capital allowances	11,975	69,080	11,975	69,080
- investment tax allowances	248,805	248,805	248,805	248,805
- reinvestment allowance	669	669	669	669
Unutilised tax losses	1,327	1,327	1,327	1,327
	142,689	188,830	142,689	188,830
Potential deferred tax assets not recognised at 24% (2015: 24%)	34,245	45,319	34,245	45,319

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. REVENUE

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

24. COST OF SALES

Cost of sales represents the costs of inventories sold.

25. FINANCE COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest expenses:				
- bank overdraft	31	54	31	54
- finance lease	491	545	293	221
- letter of credit	794	444	794	444
- term loan	735	1,045	509	888
	2,051	2,088	1,627	1,607

26. PROFIT BEFORE TAX

Other than disclosed elsewhere in the financial statements, the following items have been charged/ (credited) in arriving at profit before tax:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amortisation of prepaid lease payments	163	163	–	–
Auditors' remuneration:				
- Statutory:				
- current year	123	105	58	50
- underprovision in prior year	10	12	–	8
- Non-statutory	60	78	60	78
Depreciation of property, plant and equipment	25,372	25,931	18,763	19,822
Directors' remunerations:				
• Directors of the Company				
- Directors' allowances	157	146	157	146
- Directors' fees	728	617	668	617
- Directors' emoluments:				
- salaries and bonus	2,015	1,542	2,015	1,542
- defined contribution plan	220	216	220	216
• Directors of the subsidiaries				
- Directors' fees	24	30	–	–
- Directors' emoluments:				
- salaries and bonus	2,687	2,344	–	–
- defined contribution plan	515	283	–	–
- other benefits	6,150	5,548	–	–
Loss on foreign exchange:				
- unrealised	–	9,498	–	9,281
Staff costs:				
- salaries, wages and bonuses	63,284	56,715	14,657	13,944
- defined contribution plan	2,230	2,256	1,439	1,277
- other staff related expenses	4,357	4,801	2,603	3,044

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. PROFIT BEFORE TAXATION (CONTINUED)

Other than disclosed elsewhere in the financial statements, the following items have been charged/ (credited) in arriving at profit before tax: (Continued)

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Retirement benefits:				
- directors	242	172	130	104
- others	85	77	85	77
Property, plant and equipment written off	–*	2	–	–
Rental of equipment	51	26	39	26
Rental of premises	48	158	–	-
Rental of land	180	180	180	180
Dividend income	–	–	(5,960)	(4,470)
Gain on disposal of property, plant and equipment	(480)	(78)	(223)	(70)
Gain on foreign exchange:				
- realised	(2,431)	(6,778)	(1,279)	(3,390)
- unrealised	(1,739)	(208)	(1,098)	–
Interest income	(3,324)	(754)	(1,467)	(335)
Rental income	–	(120)	–	–

The estimated monetary value of benefits-in-kind received and receivable by a director other than cash from the Company amounted to RM13,325 (2015: RM23,950).

* Represented by amount less than RM1,000.

27. INCOME TAX EXPENSE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income tax				
- current year	(10,728)	(8,553)	(229)	(84)
- over provision in prior year	1,887	114	–	–
	(8,841)	(8,439)	(229)	(84)
Deferred taxation (Note 22)				
- current year	(775)	(1,953)	–	–
- (under)/overprovision in prior year	(11)	1,129	–	–
	(786)	(824)	–	–
	(9,627)	(9,263)	(229)	(84)

The income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated taxable profit for the financial year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. INCOME TAX EXPENSE (CONTINUED)

The reconciliation of income tax expense applicable to profit before taxation at the statutory tax rate to income tax expense at the effective income tax rate of the Group and of the Company are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before tax	90,296	82,834	50,308	47,182
Taxation at applicable tax rate of 24% (2015: 25%)	(21,671)	(20,709)	(12,074)	(11,796)
Tax effects arising from				
- non-deductible expenses	(1,372)	(2,961)	(911)	(2,434)
- non-taxable income	466	76	1,682	1,140
- reversal of deferred tax assets not recognised in the financial statements	11,074	12,486	11,074	12,486
- effect of changes in tax rate	-	602	–	520
- overprovision in prior years	1,876	1,243	–	–
	(9,627)	(9,263)	(229)	(84)

28. EARNINGS PER SHARE

(a) **Basic earnings per ordinary share**

Basic earnings per ordinary share is calculated by dividing the profits for the financial year attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

The weighted average number of ordinary shares in issue for the previous year has been restated to reflect the retrospective adjustments arising from the Share Split which was completed during the financial year.

	Group	
	2016	2015
Profit for the financial year attributable to owners of the Company (RM'000)	80,669	73,571
Weighted average number of shares ('000 units)	467,180	409,981
Basic earnings per ordinary share (sen)	17.27	17.94

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. EARNINGS PER SHARE (CONTINUED)

(b) **Diluted earnings per ordinary share**

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are 2010/2020 Warrants ("Warrants").

For the purpose of calculating diluted earnings per share, the profit for the financial year attributable to owners of the Company and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, arising from Warrants.

	Group	
	2016 RM'000	**2015 RM'000**
Profit for the financial year attributable to owners of the Company	80,669	73,571

	2016 '000 units	**2015 '000 units**
Weighted average number of ordinary shares in issue	467,180	409,981
Add: Effect of dilution of share warrants	67,275	132,098
Weighted average number of ordinary shares for diluted earnings per share	534,455	542,079
Diluted earning per share (sen)	15.09	13.57

29. DIVIDENDS

	Group and Company	
	2016 RM'000	**2015 RM'000**
Recognised during the financial year:		
Single tier third interim dividend of 0.75 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2015, paid on 8 April 2016.	3,348	–
Single tier final dividend of 1.00 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2015, paid on 13 July 2016.	4,613	–
Single tier first interim dividend of 1.30 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2016, paid on 23 September 2016.	6,284	–
Single tier second interim dividend of 1.30 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2016, paid on 21 December 2016.	6,504	–
Single tier interim dividend of 1.50 sen per ordinary share of RM1.00 each in respect of the financial year ended 31 December 2014, paid on 10 April 2015.	–	1,492
Single tier final dividend of 2.50 sen per ordinary share of RM1.00 each in respect of the financial year ended 31 December 2014, paid on 3 August 2015.	–	2,535
Single tier first interim dividend of 0.50 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2015, paid on 8 October 2015.	–	2,101
Single tier second interim dividend of 0.50 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2015, paid on 30 December 2015.	–	2,166
	20,749	8,294

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. DIVIDENDS (CONTINUED)

Subsequent to the financial year end, the Company declared a single tier third interim dividend of 2.00 sen per ordinary share of RM0.25 each in respect of the financial year ended 31 December 2016 on 24 February 2017. The financial statements for the current financial year do not reflect this declared dividend. Such dividend, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2017.

At the forthcoming Annual General Meeting, a final (single tier) dividend in respect of the financial year ended 31 December 2016, amounting 2.50 sen per ordinary share of RM0.25 each will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2017.

30. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group and the Company made the following cash payments to purchase property, plant and equipment:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Purchase of property, plant and equipment	21,130	18,940	12,096	7,640
Financed by finance lease arrangements	(3,330)	(5,251)	(2,269)	(4,761)
Financed by term loan	–	(7,222)	–	–
Cash payments on purchase of property, plant and equipment	17,800	6,467	9,827	2,879

31. RELATED PARTIES

(a) Identity of related parties

A related party is an entity or person that directly or indirectly through one or more intermediary controls, is controlled by, or is under common or joint control with the Group and the Company or that have an interest in the Group and the Company that give it significant influence over the Group's and the Company's financial operating policies. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence for which significant voting power in the Group and the Company resides with, directly or indirectly.

Related parties of the Group include:

(i) its subsidiaries as disclosed in Note 7 to the financial statements;

(ii) the directors who are the key management personnel; and

(iii) entities controlled by certain key management personnel, directors and/or substantial shareholders, namely HeveaWood Industries Sdn. Bhd. and Gemas Ria Sdn. Bhd.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. RELATED PARTIES (CONTINUED)

(b) Significant related party transactions

Significant related party transactions other than disclosed elsewhere in the financial statements are as follows:

	Company	
	2016 RM'000	2015 RM'000
Dividend income from a subsidiary		
- HeveaPac Sdn. Bhd.	5,960	4,470
Sales to subsidiaries		
- HeveaPac Sdn. Bhd.	12,529	19,120
- HeveaMart Sdn. Bhd.	6,023	1,033
Purchase from a subsidiary		
- HeveaPac Sdn. Bhd.	(95)	–
Rental expense		
- HeveaWood Industries Sdn. Bhd.	180	180

(c) Compensation of key management personnel

The remuneration of key management personnel, which includes the directors' remuneration, is disclosed as follows:

	Group and Company	
	2016 RM'000	2015 RM'000
Short term employees benefits payable to key management personnel:		
- salaries and bonus	3,249	2,619
- defined contribution plans	352	456
- other benefits	395	289
	3,996	3,364

Key management personnel comprise persons including the directors and members of senior management team of the Company, having the authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32. DIRECTORS' REMUNERATION

The aggregate amount of remuneration received and receivable by the directors of the Company during the financial year are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Directors of the Company				
Executive Directors:				
- salaries, bonus and defined contribution plans	2,357	1,860	2,357	1,860
- other emoluments	2,050	1,849	–	–
	4,407	3,709	2,357	1,860
Non-executive Directors:				
- fees	728	641	668	617
- other emoluments	178	172	178	172
	906	813	846	789
Total Directors' remuneration	5,313	4,522	3,203	2,649

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Retirement benefits for Executive Directors	130	104	130	104

33. CAPITAL COMMITMENT

The outstanding commitment in respect of capital expenditure incurred on property, plant and equipment is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Capital expenditure commitment				
Property, plant and equipment:-				
- Contracted but not provided for	3,290	3,866	2,703	3,866

34. OPERATING SEGMENTS

Operating segments are prepared in a manner consistent with the internal reporting provided to the Board of directors/ respective Executive Committee as its chief operating decision maker in order to allocate resources to segments and to assess their performance. For management purposes, the Group is organised into business units based on their products and services provided.

The Group's operating segments are classified according to the nature of activities as follows:

Particleboards segment : Involved in the business of manufacturing and trading of particleboards and other panel boards;

Ready-to-assemble Products segment : Involved in the business of manufacturing and trading of ready-to-assemble furniture; and

Others : Investment holding.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. OPERATING SEGMENTS (CONTINUED)

The Board of directors/respective Executive Committee assess the performance of the operating segments based on operating profit or loss which is measured differently from those disclosed in the consolidated financial statements.

Assets, liabilities and expenses which are common and cannot be meaningfully allocated to the operating segments are presented under unallocated items. Unallocated items comprise mainly tax refundable, tax payable and deferred tax liabilities.

Group 2016	Particle-boards RM'000	Ready-to-assemble products RM'000	Others RM'000	Eliminations RM'000	Total RM'000
REVENUE					
External revenue	223,236	316,809	–	–	540,045
Inter-segment revenue	18,552	14,059	–	(32,611) A	–
Total revenue	241,788	330,868	–	(32,611)	540,045
RESULTS					
Segment results	51,935	46,578	(21)	(6,145) B	92,347
Finance costs	(1,627)	(424)	–	–	(2,051)
Profit before tax	50,308	46,154	(21)	(6,145)	90,296
Taxation					(9,627)
Profit after tax					80,669
Non-controlling interest					–
Profit attributable to owners of the Company					80,669
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Segment assets #	325,685	226,625	6,114	(44,640) C	513,784
Unallocated corporate assets					409
Total assets					514,193
Segment liabilities ^	50,512	42,264	23	(6,327) D	86,472
Unallocated corporate liabilities					6,646
Total liabilities					93,118
OTHER INFORMATION					
Capital expenditure	12,097	9,033	–	–	21,130
Depreciation and amortisation	18,764	6,771	–	–	25,535
Non-cash items other than depreciation and amortisation	–	–*	–	–	– E

* Represented by amount less than RM1,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. OPERATING SEGMENTS (CONTINUED)

Group 2015	Particle-boards RM'000	Ready-to-assemble products RM'000	Others RM'000	Eliminations RM'000	Total RM'000
REVENUE					
External revenue	219,903	283,406	–	–	503,309
Inter-segment revenue	20,342	9,559	–	(29,901) A	–
Total revenue	240,245	292,965	–	(29,901)	503,309
RESULTS					
Segment results	49,106	40,820	(5)	(4,999) B	84,922
Finance costs	(1,607)	(481)	–	–	(2,088)
Profit before tax	47,499	40,339	(5)	(4,999)	82,834
Taxation					(9,263)
Profit after tax					73,571
Non-controlling interest					–
Profit attributable to owners of the Company					73,571
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Segment assets #	320,679	201,017	6,138	(47,061) C	480,773
Unallocated corporate assets					351
Total assets					481,124
Segment liabilities ^	87,745	48,742	26	(8,934) D	127,579
Unallocated corporate liabilities					7,930
Total liabilities					135,509
OTHER INFORMATION					
Capital expenditure	7,641	11,299	–	–	18,940
Depreciation and amortisation	19,822	6,272	–	–	26,094
Non-cash items other than depreciation and amortisation	–	2	–	–	2 E

\# Segment assets comprise total current and non-current assets, less tax recoverable.

^ Segment liabilities comprise total current and non-current liabilities, less tax payable and deferred tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. OPERATING SEGMENTS (CONTINUED)

Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements are as follows:

A Inter-segment revenue are eliminated on consolidation.

B The following items are deducted from segment results to arrive at profit before tax:

	2016 RM'000	2015 RM'000
Dividend income	(5,960)	(4,470)
Unrealised profits on inventories	(185)	(529)
	(6,145)	(4,999)

C The following items are deducted from segment assets to arrive at total assets reported in the consolidated statement of financial position:

	2016 RM'000	2015 RM'000
Investment in subsidiaries	(38,014)	(38,014)
Inter-segment assets	(6,626)	(9,047)
	(44,640)	(47,061)

D The following items are deducted from segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

	2016 RM'000	2015 RM'000
Inter-segment liabilities	(6,327)	(8,934)
	(6,327)	(8,934)

E Non-cash items consist of:

	2016 RM'000	2015 RM'000
Property, plant and equipment written off	–*	2

* Represented by amount less than RM1,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. OPERATING SEGMENTS (CONTINUED)

Geographical information

In presenting the information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	Revenue	
	2016 RM'000	2015 RM'000
Australia	40,716	32,584
Brunei	26,834	24,777
China	116,971	103,164
France	12,671	11,396
India	29,567	32,217
Japan	167,853	170,595
Korea	28,209	28,377
Malaysia	13,646	35,694
United Arab Emirates	7,866	9,499
United Kingdom	13,245	12,742
Others	82,467	42,264
	540,045	503,309

Major customers

Two major customers with revenue equal to more than 31% (2015: 27%) of Group revenue, amounted to approximately RM167,906,000 (2015: RM146,427,000) arising from particleboards and ready-to-assemble furniture segments.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned:

(i) Loans and receivables ("L&R")
(ii) Fair value through profit or loss ("FVTPL")
- Held for trading ("HFT")
(iii) Other financial liabilities ("FL")

	Carrying amount RM'000	L&R/(FL) RM'000	FVTPL-HFT RM'000
At 31 December 2016			
Financial assets			
Group			
Trade and other receivables	71,059	71,059	–
Other investments	36,039	–	36,039
Cash and short-term deposits	94,312	94,312	–
	201,410	165,371	36,039

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/(FL) RM'000	FVTPL-HFT RM'000
Company			
Trade and other receivables	35,933	35,933	–
Other investments	36,039	–	36,039
Cash and short-term deposits	25,262	25,262	–
	97,234	61,195	36,039
At 31 December 2016			
Financial liabilities			
Group			
Trade and other payables	(69,074)	(69,074)	–
Loans and borrowings	(16,324)	(16,324)	–
	(85,398)	(85,398)	–
Company			
Trade and other payables	(41,345)	(41,345)	–
Loans and borrowings	(8,891)	(8,891)	–
	(50,236)	(50,236)	–
At 31 December 2015			
Financial assets			
Group			
Trade and other receivables	48,825	48,825	–
Other investments	2,500	–	2,500
Cash and short-term deposits	122,874	122,874	–
	174,199	171,699	2,500
Company			
Trade and other receivables	20,831	20,831	–
Cash and short-term deposits	64,363	64,363	–
	85,194	85,194	–
At 31 December 2015			
Financial liabilities			
Group			
Trade and other payables	(67,546)	(67,546)	–
Loans and borrowings	(58,772)	(58,772)	–
	(126,318)	(126,318)	–
Company			
Trade and other payables	(39,744)	(39,744)	–
Loans and borrowings	(47,423)	(47,423)	–
	(87,167)	(87,167)	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management

The Group's and the Company's activities are exposed to a variety of financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk, interest rate risk and market price risk. The Group's and the Company's overall financial risk management objective is to optimise value for their shareholders. The Group and the Company use derivative financial instruments, such as, foreign exchange contracts to hedge certain exposures. The Group and the Company do not trade in financial instruments.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management. The audit committee provides independent oversight to the effectiveness of the risk management process.

(i) Credit Risk

Trade and other receivables

Credit risk is the risk of financial loss to the Group and the Company that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. The Group and the Company have a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

As at the end of the reporting period, the maximum exposure to credit risk arising from trade and other receivables is represented by their carrying amounts in the statements of financial position.

The carrying amount of trade and other receivables are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group and the Company consider any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group and the Company have adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group and the Company use ageing analysis to monitor the credit quality of the trade receivables. The ageing of trade receivables as at the end of the financial year is disclosed in Note 10 to the financial statements. Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Company. A significant portion of these trade receivables are regular customers that have been transacting with the Group and the Company. Management has taken reasonable steps to ensure that trade receivables that are neither past due nor impaired are stated at their realisable values. Impairment are made on specific receivables when there is objective evidence that the Group and the Company will not be able to collect all amounts due.

The Group and the Company monitor the results of the subsidiaries and related companies in determining the recoverability of these intercompany balances.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (Continued)

(i) Credit Risk (Continued)

The exposure of credit risk for trade receivables by geographical region is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Australia	2,304	1,822	62	–
China	20,745	10,464	20,745	10,460
France	–	326	–	–
India	2,162	2,629	2,162	2,299
Indonesia	972	214	–	–
Korea	2,831	–	2,831	–
Japan	13,662	17,502	48	1,557
Malaysia	11,980	8,477	861	1,326
Portugal	–	252	–	–
United Arab Emirates	2,246	1,924	2,246	1,645
United States of America	40	185	–	–
Others	2,648	515	1,111	200
	59,590	44,310	30,066	17,487

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 10 to the financial statements. Deposits with banks that are neither past due nor impaired are placed with reputable financial institutions with no history of default.

Financial assets that are past due but not impaired

Information regarding financial assets that are past due but not impaired is disclosed in Note 10 to the financial statements. The Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

Other financial assets

For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's and the Company's maximum exposure to credit risk arising from other financial assets is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Financial guarantee contracts

The Company is exposed to credit risk in relation to financial guarantees given to banks for credit facilities granted to certain subsidiaries. The Company monitors the results of the subsidiaries and their repayment on an on-going basis. The maximum exposure to credit risks amounts to RM6,102,000 (2015: RM10,921,000) representing the maximum amount the Company could pay if the guarantee is called on as disclosed in Note 35(b)(iii) to the financial statements. As at the reporting date, there was no indication that the subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (Continued)

(ii) Foreign Currency Risk

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. The Group's and the Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's and the Company's operating activities (when sales, purchases and borrowings that are denominated in a foreign currency). The foreign currency in which these transactions are denominated is primarily United States Dollar, Chinese Yuan, Euro Dollar, Japanese Yen, Singapore Dollar and Indian Rupee.

Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. On occasion, the Group enters into forward foreign currency contracts to hedge against its foreign currency risk.

The Group's exposure to foreign currency (a currency which is other than currency of the Group entities) risk, based on carrying amounts as at the end of reporting period is as follows:

	Chinese Yuan RM'000	Indian Rupee RM'000	Euro Dollar RM'000	Japanese Yen RM'000	Singapore Dollar RM'000	United States Dollar RM'000
Group						
2016						
Trade and other receivables	1,293	–	3,682	–	56	48,735
Trade and other payables	–	–	(54)	(155)	–	(2,827)
Cash and short-term deposits	3,884	1	–	174	–	5,676
Loans and borrowings	–	–	–	–	–	(8,502)
	5,177	1	3,628	19	56	43,082
2015						
Trade and other receivables	–	–	-	–	–	31,428
Trade and other payables	–	–	(239)	(53)	(81)	(3,592)
Cash and short-term deposits	–	1	–	–	–	34,871
Loans and borrowings	–	–	–	–	–	(45,236)
	–	1	(239)	(53)	(81)	17,471
Company						
2016						
Trade and other receivables	1,293	–	1,109	–	52	28,957
Trade and other payables	–	–	(24)	(155)	–	(1,611)
Cash and short-term deposits	3,884	1	–	174	–	3,552
Loans and borrowings	–	–	–	–	–	(4,050)
	5,177	1	1,085	19	52	26,848
2015						
Trade and other receivables	–	–	–	–	–	16,622
Trade and other payables	–	–	(165)	(53)	(81)	(697)
Cash and short-term deposits	–	1	–	–	–	21,828
Loans and borrowings	–	–	–	–	–	(38,274)
	–	1	(165)	(53)	(81)	(521)

The Group's and the Company's principal foreign currency exposure relates mainly United States Dollar, Chinese Yuan, Euro Dollar, Japanese Yen, Singapore Dollar and Indian Rupee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (Continued)

(ii) Foreign Currency Risk (Continued)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currencies, with all other variables held constant on the Group's and the Company's total equity and profit for the financial year.

	Group		Company	
	2016 Increase/ (Decrease) RM'000	2015 Increase/ (Decrease) RM'000	2016 Increase/ (Decrease) RM'000	2015 Increase/ (Decrease) RM'000
Effects on profit or loss and equity				
Chinese Yuan:-				
- strengthened by 10%	518	–	518	–
- weakened by 10%	(518)	–	(518)	–
Euro Dollar:-				
- strengthened by 10%	363	(24)	109	(17)
- weakened by 10%	(363)	24	(109)	17
Japanese Yen:-				
- strengthened by 10%	2	(5)	2	(5)
- weakened by 10%	(2)	5	(2)	5
Singapore Dollar:-				
- strengthened by 10%	6	(8)	5	(8)
- weakened by 10%	(6)	8	(5)	8
United States Dollar:-				
- strengthened by 10%	4,308	1,747	2,685	(5)
- weakened by 10%	(4,308)	(1,747)	(2,685)	5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (Continued)

(iii) Liquidity Risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):

		Contractual cash flow		
	Carrying Amount RM'000	On demand or within 1 year RM'000	Between 1 and 5 year RM'000	Total RM'000
Group				
Financial Liabilities				
2016				
Trade and other payables	69,074	69,074	–	69,074
Loans and borrowings:				
- Bank overdraft	835	901	–	901
- Finance lease liabilities	6,171	2,845	3,809	6,654
- Term loan	9,318	5,418	4,381	9,799
	85,398	78,238	8,190	86,428
2015				
Trade and other payables	67,546	67,546	–	67,546
Loans and borrowings:				
- Finance lease liabilities	6,712	3,688	3,687	7,375
- Term loan	51,652	40,236	24,581	64,817
	125,910	111,470	28,268	139,738
Company				
Financial Liabilities				
2016				
Trade and other payables	41,345	41,345	–	41,345
Loans and borrowings:-				
- Finance lease liabilities	4,841	2,184	3,059	5,243
- Term loan	4,050	2,141	2,100	4,241
Financial guarantee contracts	–	6,102	–	6,102
	50,236	51,772	5,159	56,931
2015				
Trade and other payables	39,744	39,744	–	39,744
Loans and borrowings:-				
- Finance lease liabilities	4,229	1,547	3,106	4,653
- Term loan	43,194	36,639	19,317	55,956
Financial guarantee contracts	–	10,921	–	10,921
	87,167	88,851	22,423	111,274

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (Continued)

(iv) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from their deposits placed with licensed banks and loans and borrowings.

The Group and the Company manage the net exposure to interest rate risks by maintaining sufficient lines of credit to obtain acceptable lending costs and by monitoring the exposure to such risks on an on-going basis. Management does not enter into interest rate hedging transactions since it considers that the cost of such instruments outweigh the potential risk of interest rate fluctuation.

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as the end of the reporting period was:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Fixed rate instruments				
Financial liabilities				
Finance lease liabilities	6,171	6,712	4,841	4,229
Financial asset				
Short-term deposits placed with licensed banks	54,056	88,418	6,255	45,050
Floating rate instruments				
Financial liabilities				
Bank overdrafts	835	408	–	–
Term loan	9,318	51,652	4,050	43,194

The information on maturity dates and interest rate of financial assets and liabilities are disclosed in their respective notes.

Sensitivity analysis for interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Group and the Company do not account for any fixed rate financial assets at fair value through profit or loss and equity. Therefore, a change in interest rates at the reporting date would not affect profit or loss and equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss and Equity			
	2016		2015	
	Increase 1% RM'000	**Decrease 1% RM'000**	**Increase 1% RM'000**	**Decrease 1% RM'000**
Group				
Variable rate instruments	(102)	102	(521)	521
Company				
Variable rate instruments	(41)	41	(432)	432

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurement

The carrying amounts of cash and cash equivalents, short-term receivables and payables, bank overdraft and term loan are reasonable approximation of fair values, either due to their short term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date therefore the fair value hierarchy is not presented.

As at 31 December 2016, the fair value of other investments as disclosed in Note 11 to the financial statements is measured under Level 1, of which is determined directly by reference to prices provided by investment banks.

During the financial year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

	2016		2015	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Group				
Financial liabilities				
Level 3				
Financial instrument not carried at fair value:-				
Finance lease liabilities	6,171	6,220	6,712	6,165
Company				
Financial liabilities				
Level 3				
Financial instrument not carried at fair value:-				
Finance lease liabilities	4,841	4,853	4,229	3,798

Level 3 fair value

Fair value of financial instrument not carried at fair value

The fair value of finance lease liabilities are determined using the discounted cash flows method based on discount rates that reflects the issuer's borrowing rate as at the end of the reporting period.

36. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support their businesses and maximise shareholders value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio. The Group's strategies were unchanged from the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings less cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. CAPITAL MANAGEMENT (CONTINUED)

The debt-to-equity ratio of the Group and the Company as at the end of the reporting period was as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total borrowings	16,324	58,772	8,891	47,423
Less:				
Cash and short-term deposits	(94,312)	(122,874)	(25,262)	(64,363)
Add:				
Deposit placed with licensed banks held for employee benefits	1,074	1,242	276	476
Bank overdraft	835	408	–	–
Net cash	(76,079)	(62,452)	(16,095)	(16,464)
Equity attributable to owners of the Company	421,075	345,615	275,550	230,680
Debt-to-equity ratio (times)	N/A	N/A	N/A	N/A

There were no changes in the Group's approach to capital management during the financial year.

37. SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR

a) On 11 January 2017, HeveaPac Sdn. Bhd. ("HeveaPac"), a wholly-owned subsidiary of the Company has entered into a Sale and Purchase Agreement ("the SPA") with Mr Yee Kong Yin ("the Vendor") who is an Executive Director of HeveaPac for the acquisition of a leasehold vacant land ("the Land") located at Pajakan Negeri 38000 Lot 6246 Pekan Sungai Gadut, District of Seremban and State of Negeri Sembilan measuring approximately 3.127 Hectares (7.7269 acres) for a cash consideration of RM13,463,350 ("the Purchase Price").

b) The Minister of Domestic Trade, Co-operatives and Consumerism appointed 31 January 2017 as the date on which Companies Act 2016 comes into operation except for Section 241 and Division 8 of Part III.

Accordingly, the Group and the Company shall prepare the financial statements for the financial year ending 31 December 2017 in accordance with the requirements of Companies Act 2016 which will be applied prospectively.

Amongst the key changes introduced in the Companies Act 2016 which will affect the financial statements of the Group and of the Company are, where applicable:-

- the removal of the authorised share capital;
- shares issued will have no par or nominal value; and
- share premium and capital redemption reserve will become part of share capital.

In addition, the financial statements disclosure requirements under the Companies Act 2016 are different from those requirements set out in the Companies Act 1965. Consequently, items to be disclosed in the Group's and the Company's financial statements for the financial year ending 31 December 2017 may be different from those disclosed in the financial statements for the current financial year.

c) On 1 March 2017, the Company has incorporated a new wholly-owned subsidiary namely, HeveaGro Sdn. Bhd. ("HeveaGro").

HeveaGro is incorporated under the Companies Act 2016 with an initial share capital and issued shares represented by 1,000,000 ordinary shares, equivalent to RM1,000,000.

The principal activity of Heveagro is the cultivation of gourmet fungi, packing, distribution and trading of all kind of edible fungi and agro products.

SUPPLEMENTARY INFORMATION
ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the retained profits as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

Pursuant to the directive, the amounts of realised and unrealised profits or losses included in the retained profits of the Group and the Company as at 31 December 2016 are as follows:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
The retained profits of the Group and of the Company:-				
- Realised	279,786	230,101	131,550	112,599
- Unrealised	(2,200)	(12,620)	1,098	(9,281)
	277,586	217,481	132,648	103,318
Add: Consolidation adjustments	587	772	–	–
Total Group retained profits as per statements of financial position	278,173	218,253	132,648	103,318

The determination of realised and unrealised profits or losses is based on Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

STATEMENT BY DIRECTORS

We, **YOONG HAU CHUN** and **Y. BHG. DATO' LOO SWEE CHEW**, being two of the directors of HeveaBoard Berhad, do hereby state that, in the opinion of the directors, the financial statements set out on pages 52 to 57 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

The supplementary information set out on page 112 have been prepared in accordance with the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* as issued by the Malaysian Institute of Accountants and presented based on the format as prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:

YOONG HAU CHUN
Director

Y. BHG. DATO' LOO SWEE CHEW
Director

Kuala Lumpur
Date: 22 March 2017

STATUTORY DECLARATION

I, **YOONG HAU CHUN**, being the director primarily responsible for the financial management of HeveaBoard Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 52 to 57 and the supplementary information set out on page 112 are 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.

YOONG HAU CHUN

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 22 March 2017.

Before me,

Commissioner for Oaths
TAN KIM CHOOI
NO. W661

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HEVEABOARD BERHAD (Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HeveaBoard Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 52 to 111.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and cash flows for the financial year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and of the Company of the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventory (Note 9 to the financial statements)

We focused on this area because the review of saleability and valuation of inventories at the lower of cost and net realisable value are an area of significant judgement and estimate made by the management. Furthermore, the determination of standard costs for the products is based on management estimation.

Our response:-

Our audit procedures included, among others:-

- evaluating the design and assessing the implementation of controls associated with write down/off of slow moving inventories and standard costing;
- observing year end physical inventory count to examine physical existence and condition of the finished goods and evaluating the design and implementation of controls during the count;
- reviewing subsequent sales and evaluating the Group's and the Company's assessment on estimated net realisable value on selected inventory items;
- reviewing whether the inventories have been written down to their net realisable value for inventory items with net realisable value lower than their cost; and
- reviewing the Group's and the Company's estimations used in the standard cost calculations.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEVEABOARD BERHAD (INCORPORATED IN MALAYSIA) (CONTINUED)

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:-

- identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEVEABOARD BERHAD (INCORPORATED IN MALAYSIA) (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:-

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

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

(c) Our auditors' reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Companies Act, 1965 in Malaysia.

Other Reporting Responsibilities

The supplementary information set out on page 112 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the contents of this report.

Baker Tilly Monteiro Heng No. AF 0117 Chartered Accountants	Ong Teng Yan No. 3076/07/17(J) Chartered Accountant

Kuala Lumpur

Date: 22 March 2017

LIST OF PROPERTIES

Registered Owner	Location	Description/ existing use	Tenure of Land	Land Area	Net Book Value as at 31 December 2016 RM'000
HeveaBoard	Lot 1941 & 1942, Batu Tiga, Jalan Tampin, 73400 Gemas Negeri Sembilan Darul Khusus	Factory, Office and Warehouse	Freehold	31,580 sq. m	8,492
	Lot 4577/8, Batu Tiga, Jalan Tampin, 73400 Gemas Negeri Sembilan Darul Khusus	Factory and Warehouse	Leasehold (Expires on 13-8-2095)	81,824 sq. m	20,035
	19A-10-2, Level 10, UOA Centre, No 19 Jalan Pinang 50450 Kuala Lumpur	Office	Leasehold	1,862 sq. m	1,797
	Lot 4184, 4185 & 4186 Jalan Tampin, 73400 Gemas Negeri Sembilan Darul Khusus	Storage Yard for logs and wood slabs	Freehold	39,225 sq. m	2,740
	PT 2584/2585/2586/2587 Mukim of Gemas daerah Tampin Negeri Sembilan Darul Khusus	Staff Quarters	Leasehold (Expires on 21-2-2090)	1,104 sq. m	195
Hevea OSB	Lot 1943, Batu Tiga Jalan Tampin, 73400 Gemas Negeri Sembilan Darul Khusus	Vacant Land	Freehold	20,234 sq. m	1,429
HeveaPac	PT 414, Kawasan Perindustrian Sg. Gadut KM 11, Jalan Tampin, 71450 Seremban, Negeri Sembilan	Factory Buildings and Office Blocks	Leasehold (Expires on 22-1-2047)	39,659 sq. m	12,192
	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 sq. m	14,130
	PT 403, Kawasan Perindustrian Sg. Gadut KM 11, Jalan Tampin, 71450 Seremban, Negeri Sembilan Darul Khusus	Warehouse Hostel	Leasehold (Expires on 21-3-2045)	21,044sq. m	6,037

ANALYSIS OF SHAREHOLDINGS
AS AT 30 MARCH 2017

A. SHARE CAPITAL

Total Number of Issued Shares	: 536,039,890 shares*
Issued Share Capital	: RM134,155,222.50
Class of Shares	: Ordinary shares
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
No. of Treasury Shares Held	: 581,000 shares

**Excluding a total of 581,000 shares bought back by the Company and retained as treasury shares.*

B. DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Holders	%	No. of Shares	%
Less than 100	12	0.20	268	0.00
100 – 1,000	980	16.60	639,836	0.12
1,001 – 10,000	3,162	53.56	16,787,600	3.14
10,001 – 100,000	1,394	23.61	45,898,800	8.56
100,001 – 26,801,994 (less than 5% of issued holdings)	355	6.01	356,273,096	66.46
26,801,995 (5% of issued holdings) and above	1	0.02	116,440,290	21.72
Total	**5,904**	**100.00**	**536,039,890**	**100.00**

C. SUBSTANTIAL SHAREHOLDERS

	Name	Direct No. of Shares	%	Indirect No. of Shares	%	
1.	HeveaWood Industries Sdn. Bhd.	116,740,290	21.78	3,849,600	0.72	@
2.	Firama Holdings Sdn. Bhd.	19,770,000	3.69	134,721,890	25.13	*
3.	Liang Chong Wai	10,400	0.002	120,589,890	22.50	~
4.	Yoong Tein Seng @ Yong Kian Seng	-	-	182,937,090	34.13	***
5.	Yoong Hau Chun	600,000	0.11	172,871,090	32.25	#
6.	Dato' Loo Swee Chew	4,292,000	0.80	120,959,890	22.57	❖
7.	Tenson Holdings Sdn. Bhd.	15,300,000	2.85	154,491,890	28.82	**
8.	Mah Fah Victor Group Sdn. Bhd.	-	-	154,491,890	28.82	**
9.	Yoong Li Yen	1,639,200	0.31	170,491,890	31.81	****

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

* *Deemed interested by virtue of its substantial shareholdings in both HeveaWood Industries Sdn. Bhd. and Firama Engineering Bhd. pursuant to Section 8 of the Companies Act, 2016 ("the Act") and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

~ *Deemed interested by virtue of his substantial shareholdings in HeveaWood Industries Sdn. Bhd. pursuant to Section 8 of the Act and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

ANALYSIS OF SHAREHOLDINGS
AS AT 30 MARCH 2017 (CONTINUED)

C. SUBSTANTIAL SHAREHOLDERS (continued)

*** *Deemed interested by virtue of his family relationship with Yoong Hau Chun, his son, Yoong Li Yen, Yoong Li Mian, Yoong Li Bing and Yoong Li Xian, his daughters and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

Deemed interested by virtue of Section 8 of the Act (shareholdings held through Tenson Holdings Sdn. Bhd., a substantial shareholder of both Firama Holdings Sdn. Bhd. and HeveaWood Industries Sdn. Bhd.) and by virtue of his family relationship with Tan Ya Ling, his spouse and Yoong Li Yen, his sister and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.

❖ *Deemed interested by virtue of his substantial shareholdings in HeveaWood Industries Sdn. Bhd. pursuant to Section 8 of the Act and by virtue of his family relationship with Loo Chin Meng, his son and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

** *Deemed interested by virtue of its substantial shareholdings in HeveaWood Industries Sdn. Bhd., Firama Holdings Sdn. Bhd. and Firama Engineering Bhd. (shareholdings held through Firama Holdings Sdn. Bhd.) pursuant to Section 8 of the Act and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

**** *Deemed interested by virtue of her family relationship with Bailey Policarpio, her spouse, Yoong Hau Chun, her brother and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

D. DIRECTORS' SHAREHOLDINGS

	Name	Direct No. of Shares	%	Indirect No. of Shares	%
1.	Yoong Hau Chun	600,000	0.11	172,871,090 (1)	32.25
2.	Dato' Loo Swee Chew	4,292,000	0.80	120,959,890 (2)	22.57
3.	Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	-	-	252,000 (3)	0.05
4.	Lim Kah Poon	200,000	0.04	84,000 (4)	0.02
5.	Bailey Policarpio	100,000	0.02	1,639,200 (5)	0.31
6.	Yoong Li Yen	1,639,200	0.31	170,491,890 (6)	31.81
7.	Yoong Tein Seng @ Yong Kian Seng (Alternate Director to Yoong Hau Chun)	-	-	182,937,090 (7)	34.13
8.	Loo Chin Meng (Alternate Director to Dato' Loo Swee Chew)	370,000	0.07	4,292,000 (8)	0.80

(1) *Deemed interested by virtue of Section 8 of the Act (shareholdings held through Tenson Holdings Sdn. Bhd., a substantial shareholder of both Firama Holdings Sdn. Bhd. and HeveaWood Industries Sdn. Bhd.) and by virtue of his family relationship with Tan Ya Ling, his spouse and Yoong Li Yen, his sister and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

(2) *Deemed interested by virtue of his substantial shareholdings in HeveaWood Industries Sdn. Bhd. pursuant to Section 8 of the Act and by virtue of his family relationship with Loo Chin Meng, his son and deemed interested by virtue of HeveaWood Industries Sdn Bhd being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

(3) *Deemed interested by virtue of his family relationship with Dato' Philip Chan Hon Keong, his son.*

ANALYSIS OF SHAREHOLDINGS
AS AT 30 MARCH 2017 (CONTINUED)

D. DIRECTORS' SHAREHOLDINGS (CONTINUED)

(4) *Deemed interested by virtue of his family relationship with Chua Sew Yin @ Chuah Chai Ean, his spouse.*

(5) *Deemed interested by virtue of his family relationship with Yoong Li Yen, his spouse.*

(6) *Deemed interested by virtue of her family relationship with Bailey Policarpio, her spouse, Yoong Hau Chun, her brother and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

(7) *Deemed interested by virtue of his family relationship with Yoong Hau Chun, his son, Yoong Li Yen, Yoong Li Mian, Yoong Li Bing and Yoong Li Xian, his daughters and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

(8) *Deemed interested by virtue of his family relationship with Dato' Loo Swee Chew, his father.*

E. LIST OF THIRTY (30) LARGEST SHAREHOLDERS

	Name	No. of Shares Held	%
1.	HeveaWood Industries Sdn. Bhd.	116,440,290	21.72
2.	TA Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Firama Holdings Sdn. Bhd.	18,836,000	3.51
3.	Tenson Holdings Sdn. Bhd.	15,300,000	2.85
4.	Firama Engineering Berhad	14,150,000	2.64
5.	Citigroup Nominees (Tempatan) Sdn. Bhd. - Employees Provident Fund Board	10,653,300	1.99
6.	AmanahRaya Trustees Berhad - Public Islamic Opportunities Fund	10,177,600	1.90
7.	UOB Kay Hian Nominees (Asing) Sdn. Bhd. - Exempt AN for UOB Kay Hian Pte. Ltd. (A/C Clients)	10,000,000	1.87
8.	Affin Hwang Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Yap Kiew @ Yap Chin Fook	8,822,600	1.65
9.	HSBC Nominees (Asing) Sdn. Bhd. - Exempt AN for JPMorgan Chase Bank, National Association (Finland)	8,077,500	1.51
10.	RHB Capital Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Fong Siling	8,000,000	1.49
11.	HSBC Nominees (Asing) Sdn. Bhd. - Exempt AN for JPMorgan Chase Bank, National Association (JPMEL RE NIM AB)	6,971,500	1.30
12.	Amanah Raya Berhad - Kumpulan Wang Bersama Syariah	6,600,000	1.23
13.	Citigroup Nominees (Tempatan) Sdn. Bhd. - Universal Trustee (Malaysia) Berhad for CIMB Islamic Small Cap Fund	6,472,200	1.21
14.	Cartaban Nominees (Tempatan) Sdn. Bhd. - RHB Trustees Berhad for Manulife Investment Shariah Progress Fund	5,773,000	1.08
15.	Citigroup Nominees (Asing) Sdn. Bhd. - Exempt AN for Citibank New York (Norges Bank 14)	4,720,100	0.88

ANALYSIS OF SHAREHOLDINGS
AS AT 30 MARCH 2017 (CONTINUED)

E. LIST OF THIRTY (30) LARGEST SHAREHOLDERS (CONTINUED)

Name	No. of Shares Held	%
16. Loo Swee Chew	4,292,000	0.80
17. Ah Kayu Moy @ Lee Kay Moy	4,000,000	0.75
18. HSBC Nominees (Asing) Sdn. Bhd. - BBH and Co Boston for Daiwa Rising Asean Equity Fund (JTSB SMTB)	4,000,000	0.75
19. Yoong Li Bing	4,000,000	0.75
20. Yoong Li Xian	4,000,000	0.75
21. Yoong Kee Sin	3,980,000	0.74
22. Gemas Ria Sdn. Bhd.	3,849,600	0.72
23. DB (Malaysia) Nominee (Asing) Sdn. Bhd. - SSBT Fund 62L2 for USAA Emerging Markets Fund	3,826,900	0.71
24. Citigroup Nominees (Tempatan) Sdn. Bhd. - Kumpulan Wang Persaraan (Diperbadankan) (Affin Hwng SM CF)	3,699,700	0.69
25. Alliancegroup Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Ronie Tan Choo Seng	3,500,000	0.65
26. HSBC Nominees (Asing) Sdn. Bhd. - Morgan Stanley & Co. International PLC (Firm A/C)	3,380,300	0.63
27. Maybank Nominees (Tempatan) Sdn. Bhd. - Maybank Trustees Berhad for CIMB-Principal Small Cap Fund	3,208,400	0.60
28. DB (Malaysia) Nominee (Asing) Sdn. Bhd. - The Bank of New York Mellon for Acadian Emerging Markets Small Cap Equity Fund, LLC	3,160,000	0.59
29. Kumpulan Wang Simpanan Guru-Guru	3,030,000	0.57
30. DB (Malaysia) Nominee (Tempatan) Sendirian Berhad - Deutsche Trustees Malaysia Berhad for Hong Leong Penny Stock Fund	3,000,000	0.56
	305,920,990	57.09

ANALYSIS OF WARRANT B HOLDINGS
AS AT 30 MARCH 2017

A. WARRANTS 2010/2020

No. of Warrants 2010/2020 issued	: 170,666,664
No. of Warrants 2010/2020 outstanding	: 31,805,774
Exercise Price of Warrants	: RM0.25 per Warrant
Maturity Date of Warrants	: 01/03/2020

B. DISTRIBUTION OF WARRANTHOLDINGS

Size of Warrantholdings	No. of Holders	%	No. of Warrants	%
Less than 100	18	2.86	351	0.00
100 – 1,000	75	11.90	43,253	0.13
1,001 – 10,000	309	49.05	1,708,376	5.37
10,001 – 100,000	191	30.32	6,643,520	20.89
100,001 – 1,590,288 (less than 5% of issued holdings)	36	5.71	13,265,489	41.71
1,590,289 (5% of issued holdings) and above	1	0.16	10,144,785	31.90
Total	**630**	**100.00**	**31,805,774**	**100.00**

C. DIRECTORS' WARRANTHOLDINGS

	Name	Direct No. of Warrants	%	Indirect No. of Warrants	%
1.	Yoong Hau Chun	641,050	2.02	12,812,765[(1)]	40.28
2.	Dato' Loo Swee Chew	-	-	1,349,864[(2)]	4.24
3.	Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak	-	-	-	-
4.	Lim Kah Poon	-	-	-	-
5.	Bailey Policarpio	26,664	0.08	33,332[(3)]	0.10
6.	Yoong Li Yen	33,332	0.10	13,433,815[(4)]	42.24
7.	Yoong Tein Seng @ Yong Kian Seng (Alternate Director to Yoong Hau Chun)	39,800	0.13	13,400,811[(5)]	42.13
8.	Loo Chin Meng (Alternate Director to Dato' Loo Swee Chew)	-	-	-	-

(1) *Deemed interested by virtue of Section 8 of the Act (shareholdings held through Tenson Holdings Sdn. Bhd., a substantial shareholder of both Firama Holdings Sdn. Bhd. and HeveaWood Industries Sdn. Bhd.) and by virtue of his family relationship with Tan Ya Ling, his spouse, Yoong Tein Seng @ Yong Kian Seng, his father and Yoong Li Yen, his sister and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

(2) *Deemed interested by virtue of his substantial shareholdings in HeveaWood Industries Sdn. Bhd. pursuant to Section 8 of the Act and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

(3) *Deemed interested by virtue of his family relationship with Yoong Li Yen, his spouse.*

(4) *Deemed interested by virtue of her family relationship with Bailey Policarpio, her spouse, Yoong Hau Chun, her brother and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

(5) *Deemed interested by virtue of his family relationship with Yoong Hau Chun, his son, Yoong Li Yen and Yoong Li Mian, his daughters and deemed interested by virtue of HeveaWood Industries Sdn. Bhd. being entitled to control the exercise of 100 per cent of the votes attached to the voting shares in Gemas Ria Sdn. Bhd.*

ANALYSIS OF WARRANT B HOLDINGS
AS AT 30 MARCH 2017 (CONTINUED)

D. LIST OF THIRTY (30) LARGEST WARRANT B HOLDERS

	Name	No. of Warrants Held	%
1.	TA Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Firama Holdings Sdn. Bhd.	10,144,785	31.90
2.	Gemas Ria Sdn. Bhd.	1,349,864	4.24
3.	Liau Chern Yee	1,230,264	3.87
4.	Tenson Holdings Sdn. Bhd.	931,652	2.93
5.	Sung Lee Timber Trading Sdn. Bhd.	876,395	2.76
6.	Public Invest Nominees (Asing) Sdn. Bhd. - Exempt AN for Phillip Securities Pte. Ltd. (Clients)	680,000	2.14
7.	Yoong Hau Chun	641,050	2.02
8.	UOB Kay Hian Nominees (Asing) Sdn. Bhd. - Exempt AN for UOB Kay Hian Pte. Ltd. (A/C Clients)	600,000	1.89
9.	Yoong Kee Sin	600,000	1.89
10.	Maybank Nominees (Asing) Sdn. Bhd. - Pledged Securities Account for Rustom Framroze Chothia	580,000	1.82
11.	Citigroup Nominees (Tempatan) Sdn. Bhd - Pledged Securities Account for Susy Ding	578,000	1.82
12.	Leong Kok Cheong	422,600	1.33
13.	HLIB Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Law Sow Ling @ Ho Sow Ling (CCTS)	400,000	1.26
14.	Tam Kok Sew	390,100	1.23
15.	Chong Kwee Hiong	373,400	1.17
16.	Tey Yee Yee	316,400	0.99
17.	Firama Engineering Berhad	300,000	0.94
18.	Teng Lih Hong	250,000	0.79
19.	Lim Kian Joo	229,000	0.72
20.	Ho Phon Guan	225,000	0.71
21.	Tiow Choon Lan	214,664	0.67
22.	Goh Joo Fong	200,000	0.63
23.	Lim Yeok Beng	196,700	0.62
24.	Tiow Choon Lan	177,000	0.56
25.	Wong Ah Chai	145,000	0.46
26.	Maybank Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Chong Khong Shoong	134,900	0.42
27.	Teng Lih Hong	122,000	0.38
28.	Yong Tu Sang	122,000	0.38
29.	Lim Hwee Hoon	122,000	0.38
30.	Maybank Nominees (Tempatan) Sdn. Bhd. - Pledged Securities Account for Yeap Soon Aik	115,000	0.36
		22,665,774	71.28

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Third (23rd) Annual General Meeting ("AGM") of **HeveaBoard Berhad** will be held at The Royale Bintang Resort & Spa Seremban, Ampangan Room, Mezzanine Floor, Jalan Dato' A.S. Dawood, 70100 Seremban, Negeri Sembilan on Tuesday, 30 May 2017 at 10.00 a.m., for the purpose of considering the following businesses:

AGENDA

Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon. *[Please refer to Explanatory Note 6(i)]*

2. To approve a single-tier final dividend of 2.5 sen per ordinary share in respect of the financial year ended 31 December 2016. *Ordinary Resolution 1*

3. To approve the payment of Directors' fees amounting to RM668,000.00 per annum for the Non-Executive Directors in respect of the financial year ended 31 December 2016. *Ordinary Resolution 2*

4. To approve the payment of Directors' fees (inclusive of increment) amounting to RM787,200.00 per annum for the Non-Executive Directors in respect of the financial year ending 31 December 2017. *Ordinary Resolution 3*

5. To re-elect Mr Yoong Hau Chun, the Director who is retiring pursuant to Article 123 of the Company's Articles of Association, and being eligible, offered himself for re-election. *Ordinary Resolution 4*

6. To re-elect Mr Lim Kah Poon, the Director who is retiring pursuant to Article 123 of the Company's Articles of Association, and being eligible, offered herself for re-election. *Ordinary Resolution 5*

7. To re-appoint Messrs Baker Tilly Monteiro Heng as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. *Ordinary Resolution 6*

Special Business

To consider and if thought fit, to pass the following Ordinary Resolutions, with or without modifications:

8. **Re-appointment of Director**

   To re-appoint Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak who is retiring under the resolution passed at the last Annual General Meeting of the Company held on 30 May 2016 pursuant to Section 129(6) of the Companies Act, 1965 (which was then in force), to hold office from the date of this Annual General Meeting. *Ordinary Resolution 7*

9. **Authority to Issue Shares**

   "THAT subject always to the Companies Act, 2016 (the "Act"), Articles of Association of the Company and approvals from Bursa Malaysia Securities Berhad and any other governmental/ regulatory bodies, where such approval is necessary, authority be and is hereby given to the Directors pursuant to Section 75 of the Companies Act, 2016 to issue and allot not more than ten per centum (10%) of the total number of issued shares of the Company at any time upon any such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit or in pursuance of offers, agreements or options to be made or granted by the Directors while this approval is in force until the conclusion of the next Annual General Meeting of the Company AND THAT the Directors be and are hereby further authorised to make or grant offers, agreements or options which would or might require shares to be issued after the expiration of the approval hereof." *Ordinary Resolution 8*

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

10. **Proposed Renewal of Authority for Purchase of Own Shares by the Company ("Proposed Renewal of Authority")** *Ordinary Resolution 9*

"THAT subject to the Companies Act, 2016, rules, regulations and orders made pursuant to the Act, provisions of the Company's Memorandum and Articles of Association and the requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and any other relevant authorities, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such amount of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:

(i) the aggregate number of shares purchased does not exceed ten per centum (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase;

(ii) the maximum fund to be allocated by the Company for the purpose of purchasing the shares shall be backed by an equivalent amount of retained profits and share premium; and

(iii) the Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividends.

AND THAT the authority conferred by this resolution will commence after the passing of this ordinary resolution and will continue to be in force until:

(i) the conclusion of the next Annual General Meeting ("AGM") at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or

(ii) the expiration of the period within which the next AGM after that date is required by law to be held; or

(iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting,

whichever occurs first.

AND THAT the Directors of the Company be and are hereby authorised to take all such steps as are necessary or expedient to implement or to effect the purchase(s) of the shares with full power to assent to any condition, modification, variation and/or amendment as may be imposed by the relevant authorities and to take all such steps as they may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto."

11. **Retention of Independent Non-Executive Directors Pursuant to Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012**

"THAT subject to the passing of Resolution 5 and pursuant to Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012, Mr Lim Kah Poon who has served the Board as an Independent Non-Executive Director of the Company for a term of more than nine (9) years since 1 October 2004 be and is hereby retained as an Independent Non-Executive Director of the Company." *Ordinary Resolution 10*

"THAT subject to the passing of Resolution 7 and pursuant to Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak who has served the Board as an Independent Non-Executive Director of the Company for a term of more than nine (9) years since 1 October 2004 be and is hereby retained as an Independent Non-Executive Director of the Company." *Ordinary Resolution 11*

Any Other Business

12. To transact any other ordinary business of which due notice shall have been given.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN that subject to the approval of the shareholders at the Twenty-Third (23rd) AGM, a single-tier final dividend of 2.5 sen per ordinary share for the financial year ended 31 December 2016 will be payable on 29 June 2017 to holders of ordinary shares registered in the Record of Depositors at the close of business on 15 June 2017.

A depositor shall qualify for entitlement only in respect of:

a. Shares transferred into the Depositor's Securities Account on or before 4.00 p.m. on 15 June 2017 in respect of ordinary transfers; and

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

BY ORDER OF THE BOARD

WONG YOUN KIM (MAICSA 7018778)
Company Secretary

Kuala Lumpur
28 April 2017

Notes:

1. A member of the Company entitled to attend and vote at a meeting of the Company, or at a meeting of any class of members of the Company, shall be entitled to appoint any person as his/her proxy to attend and vote instead of the member at the meeting. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting.

2. The instrument appointing a proxy shall be in writing executed by or on behalf of the appointor or his/her 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. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, Wilayah Persekutuan at least forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

5. **GENERAL MEETING RECORD OF DEPOSITORS**

   For the purposes of determining a member who shall be entitled to attend this Twenty-Third (23rd) AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. in accordance with Article 74 of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 23 May 2017. Only a depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxies to attend and/or vote on his/her behalf.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

6. **EXPLANATORY NOTES ON ORDINARY/SPECIAL BUSINESS**

Item 1 of the Agenda

(i) This Agenda item is meant for discussion only, as the provision of Section 340(1)(a) of the Companies Act, 2016 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda item is not put forward for voting.

(ii) Ordinary Resolution 1 - Final dividend

With reference to Section 131 of the Companies Act, 2016 (the "Act"), a company may only make a distribution to the shareholders out of profits of the company available if the company is solvent. The Directors of the Company are satisfied that the Company will be solvent as it will be able to pay its debts as and when the debts become due within twelve (12) months immediately after the distribution is made on 29 June 2017 in accordance with the requirements under Section 132(2) and (3) of the Act.

(iii) Ordinary Resolution 3 – Directors' fees for the financial year ending 31 December 2017

The proposed Resolution 3 is to facilitate the payment of Directors' fees for the financial year ending 31 December 2017. The Board approved the recommendation of the Remuneration Committee that the Directors' fees for the financial year ending 31 December 2017 be increased by RM119,200.00, having regards to the various factors including the contribution and guidance of the Non-Executive Directors in overseeing the Group as well as the Directors' remuneration framework of other comparable public listed companies, to ensure that the Directors' fees are competitive and at par with the prevalent market rate.

(iv) Ordinary Resolutions 4 and 5 – Re-election of Directors pursuant to Article 123 of the Articles and Association

The details of Mr Yoong Hau Chun and Mr Lim Kah Poon who stand for re-election and their interest in the securities of the Company are set out on pages 6, 7 and 119 to 124 of the Annual Report.

(v) Ordinary Resolution 7 – Re-appointment of Director

The proposed Ordinary Resolution 7 is to seek shareholders' approval on the re-appointment of Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak who is over the age of seventy (70) years and had been re-appointed at the last AGM held on 30 May 2016 as Director pursuant to Section 129(6) of the former Companies Act, 1965 which was then in force, and whose term would expire at the conclusion of this AGM as Director of the Company. This resolution, if passed will authorise the continuation of the Director in office from the date of this AGM onwards and shall subject to retirement by rotation at a later date. His details and interest in the securities of the Company are set out on pages 6 and 119 to 124 of the Annual Report.

(vi) Ordinary Resolution 8 - Authority to Issue Shares

The proposed Ordinary Resolution 8, if passed, will give flexibility to the Directors of the Company to issue shares up to a maximum of ten per centum (10%) of the total number of issued shares of the Company at the time of such 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 AGM of the Company.

This is the renewal of the mandate obtained from the shareholders at the last AGM held on 30 May 2016 ("the previous mandate"). The purpose of this general mandate sought will provide flexibility to the Company for any possible fund raising activities but not limited for further placement of shares for purpose of funding current and/or future investment projects, working capital, repayment of borrowings and/or acquisitions.

As at the date of Notice of Meeting, no shares have been issued pursuant to the general mandate granted at the last AGM of the Company.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

(vii) Ordinary Resolution 9 - Proposed Renewal of Authority for Purchase of Own Shares by the Company

The proposed Ordinary Resolution 9, if passed, will empower the Company to purchase and/or hold up to ten per centum (10%) of the total number of issued shares of the Company. This authority unless revoked or varied by the Company at a general meeting will expire at the next AGM. Please refer to the Circular to Shareholders dated 28 April 2017 for further information.

(viii) Ordinary Resolutions 10 and 11 - Retention of Independent Non-Executive Directors Pursuant to Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012

The Nomination Committee has assessed the independence of Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak and Mr Lim Kah Poon, who both have served as Independent Non-Executive Directors of the Company for a term of more than nine (9) years and recommended both of them to continue to act as Independent Non-Executive Directors of the Company on the following justifications:-

(a) Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak and Mr Lim Kah Poon have fulfilled the criteria stated under the definition of Independent Director as defined in the Listing Requirements of Bursa Securities and they would be able to provide proper check and balance thus bringing an element of objectivity to the Board;

(b) Their length of services on the Board of more than nine (9) years each do not in any way interfere with the exercise of objective judgement or their ability to act in the best interest of the Group and the Company. In fact, Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak and Mr Lim Kah Poon, having been with the Company for more than nine (9) years, are familiar with the Group's business operations and have always actively participated in Board and Board Committee discussions and have continuously provided an independent view to the Board; and

(c) They have exercised due care during their tenures as Independent Directors of the Company and have discharged their duties with reasonable skill and competence, bringing independent judgement into the decision making of the Board and in the best interest of the Company and its shareholders.

7. **STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING**

Details of individual who is standing for election as Director

No individual is seeking for election as Director at the Twenty-Third (23rd) AGM of the Company.

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PROXY FORM

No. of shares held	
CDS Account No.	

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 him/her, ____
(full name)

of ____
(full address)

or failing which, the Chairman of the Meeting* as my/our proxy to attend and vote for me/us on my/our behalf at the Twenty-Third (23rd) Annual General Meeting of the Company to be held at The Royale Bintang Resort & Spa Seremban, Ampangan Room, Mezzanine Floor, Jalan Dato' A.S. Dawood, 70100 Seremban, Negeri Sembilan on Tuesday, 30 May 2017 at 10.00 a.m. or at any adjournment thereof and to vote as indicated below:-

Resolutions		For	Against
Ordinary Resolutions			
1	Approval of Single – Tier Final Dividend		
2	Approval of Directors' Fees for the financial year ended 31 December 2016		
3	Approval of Directors' Fees (inclusive of increment) for the financial year ending 31 December 2017		
4	Re-election of Mr Yoong Hau Chun as Director		
5	Re-election of Mr Lim Kah Poon as Director		
6	Re-appointment of Messrs Baker Tilly Monteiro Heng as Auditors		
7	Re-appointment of Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak as Director		
8	Authority to Issue Shares		
9	Proposed Renewal of Authority for Purchase of Own Shares by the Company		
10	Retention of Mr Lim Kah Poon as Independent Non-Executive Director		
11	Retention of Tan Sri Dato' Chan Choong Tack @ Chan Choong Tak as Independent Non-Executive Director		

* *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 casted 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 __________________ 2017

____
Signature/Common Seal of Shareholder

Notes:

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AFFIX
STAMP
HERE

HeveaBoard Berhad (275512-A)
Level 2, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur
Wilayah Persekutuan, Malaysia

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HeveaBoard Berhad (275512-A)

Registered Office
Level 2, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur
Wilayah Persekutuan
Malaysia

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F : +(60)3-2282 5022

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Business Suite 19A-10-2
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50450 Kuala Lumpur
Wilayah Persekutuan
Malaysia

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F : +(60)3-2166 3390

Factory
Lot 1942, Batu 3
Jalan Tampin
73400 Gemas
Negeri Sembilan Darul Khusus
Malaysia

T : +(60)7-948 4745/46
F : +(60)7-948 5192/3390

www.heveaboard.com.my

IT'S GOOD TO BE GREEN

In line with our company's sustainability thrust, this annual report cover is printed on environmentally-friendly paper. This is just one of the many initiatives being mobilised within **HeveaBoard Berhad** to help us play our part in preserving the environment. With your support, we will continue to uphold the highest standards of Quality, Health, Safety and Environment to deliver enhanced value to all our stakeholders.