ABRIC BERHAD

(187259-W)

annual report 2007

ABRIC™

new beginning

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ABOUT US

ABRIC is one of the top five global providers of security sealing solutions, with a presence in over 80 countries worldwide. Established 25 years ago, ABRIC is headquartered in Malaysia and is a public company listed on Bursa Malaysia Securities Berhad. Our history dates back to the founding of ABRIC in 1983 when we designed and patented our first security seal for the plantation sector in Malaysia – this seal design has since become a global industry standard. Renowned for one of the largest and strongest portfolio of trusted products in the industry, ABRIC security seals are used for a wide range of applications across industrial sectors to protect our customers' brands and products.

As ABRIC continues to grow and evolve, we continue to hold strong to our core mission of "sealing assets globally with quality and integrity". Our 800 employees located in 5 countries on 3 continents are committed to providing security sealing products of high quality and value to organizations worldwide. ABRIC's global sales and distribution centres in Asia Pacific, North America and Europe support a worldwide network of established distributors and customers who are testament to our responsive and superior customer service.

Product innovation is at the core of ABRIC's growth in the security seals industry. To ensure that our seals continue to meet the stringent requirements of today's increasingly demanding applications, our team of research and development engineers is constantly working on new product ideas that keep ABRIC at the forefront of this industry. We collaborate closely with our customers to ensure that ABRIC products are constantly being enhanced and take pride in our wide range of security sealing solutions that are easily customized to specific needs.

ABRIC seals are produced in our state-of-the-art plants in Thailand and Malaysia. These two plants rank amongst the largest and most modern in the industry and can produce more than 1 billion seals annually. To meet the growing demand for ABRIC seals, a third plant was commissioned in China in 2005, driven by our global customer requirements.

ABRIC seals are manufactured under stringent security and manufacturing standards, including the ISO 9001:2000 Quality Management System, ISO 14001:2004 Environmental Management Standards, ISO 17712 Freight Container-Mechanical Seal Standards and are C-TPAT compliant. ABRIC seals are also U.S. and U.K. customs approved. Complying with these international standards underscores ABRIC's total and uncompromising commitment to integrity, product quality and customer satisfaction.

ISO 9001 : 2000

MISSION

Sealing assets globally with quality and integrity

VISION

To be the world's leading provider of security sealing solutions by 2010

CORE VALUES

Shareholders Uphold commitment to growth and performance, while operating with complete integrity.

Stakeholders Treat stakeholders with professionalism and fairness to engender trust and create mutual benefits.

Customers Provide quality products and outstanding service in a professional manner to develop meaningful relationships.

Employees Instill passion and teamwork to encourage personal growth.

Environment Take responsibility for the society and environment in which we conduct our business.

CORPORATE IMAGE

A new beginning...

This year ABRIC embarks on a new brand image amplifying its leading position in the security seals industry and preparing itself for greater global expansion. The new corporate logo reinforces our corporate positioning and strengths in our core businesses - manufacturing, consumer and technology - as well as enhancing those strengths in the global arena to further tap international opportunities.

The new ABRIC logo embodies the spirit of a dynamic and forward-looking company that seeks excellence in delivering world-class products and services.

The glowing CORE symbolises STABILITY and strong fundamentals of the Group's operation. It represents the source of inspiration, creativity and growth of the organisation.

The three ARROWS personify DYNAMISM of the organisation in serving diverse industries covering Land, Sea and Air. The arrows move outwards reflecting business expansion into all corners of the world.

The complete RING speaks of CONSISTENT quality, synonymous to the security sealing business. It also represents the integrity of the people and company.

The new corporate colour, vibrant ORANGE, reflects the STRENGTH, DYNAMISM and COMMITMENT of the workforce in the pursuit of excellence.

CHAIRMAN'S STATEMENT

Dear Fellow Shareholders,

In this statement, I will focus on the general performance of ABRIC in 2007 and share with you some of our exciting ideas for the year ahead, mainly our innovative marketing and manufacturing strategies as well as the company's succession plan, which I am confident will deliver strong returns to all our stakeholders.

A REVIEW OF ABRIC IN 2007

ABRIC continued to consolidate its leading market position in the global security seals industry in 2007. The company's entry into blue ocean markets through new products catered for the gaming and shipping industries was successful. These products were developed after much consultation with our customers to understand their detailed needs. Two particular applications that ABRIC focused on in 2007 were high security cable seals and metal bolt seals, which complement ABRIC's long-standing market leadership in plastic seals. We believe that high sales growth for these products augur well for the company as their margins are generally higher than our range of plastic seals.

In terms of markets, ABRIC maintained its key accounts in security seals in the Asia Pacific region in 2007. My colleagues and I spent a significant amount of time visiting major customers in Taiwan, Macau and Australia, among other countries, and we managed to secure several major contracts that we have been negotiating for some time. In 2007, we also boosted our sales team in the United States to concentrate on developing our presence in the North and South American markets. Through our five regional sales vice presidents spread out across the United States, we believe that we are well-covered and that ABRIC can continue its growth in this region, especially in untapped markets in North and South America.

Abric Micromechanics Sdn Bhd (AMM)'s continued losses surely concern many of you. Since we acquired this Ipoh manufacturing facility in end 2005, we have yet to turn around the unit, mainly due to the steep learning curve for the precision component part business that makes up almost half of the facility's capacity. AMM incurred huge losses in 2007 which effectively wiped out the entire group's profit. We are still trying to get things right and we believe that with the aggressive cost-cutting measures and recent addition of some multinational customers, we will be able to turn around in the second half of 2008.

In 2007, ABRIC's manufacturing plants in Malaysia, Thailand and China were also badly affected by the strengthening of the Malaysian Ringgit, Thai Baht and Renminbi against the US Dollar. Given 60 percent of our global sales are denominated in US Dollar and some of our major contracts are locked in for two to three year periods, the decline of the greenback inevitably had a negative impact on our bottom-line. We are currently reviewing some of these contracts with our customers to negotiate for multi-currency payments.

Reflecting on the past few years for ABRIC, I must admit that there have been several unsuccessful attempts to diversify into unrelated industries. Our electronic sealing and tracking investments during the height of the dot-com bubble cost us dearly after the Nasdaq crash in 2000; as some of you might remember, our GEM listing in Hong Kong had to be terminated even though the listing status was already approved. Having written off a significant portion of these investments, I believe that ABRIC is ready to move forward in an industry it knows best and in which it is recognised as a market leader worldwide: security seals.

MOVING AHEAD IN 2008

In 2008, we commit to focusing our undivided attention on our core business in security seals. We will continue with our turnaround plan of implementing cost-cutting measures resulting from increased production efficiency and reduced general and administration expenses. Some of our new senior management colleagues, with extensive manufacturing experience in multinational corporations, will lead efforts to implement profit improvement program and lean manufacturing practices for our factories. We believe that with this team in place, we will be able to turnaround our loss-making operations in AMM and improve our performance in the Thailand and China plants.

Given our broad global coverage, we intend to leverage on this strength to further increase our global market share by entering rapidly-growing markets in South America and Europe. Our marketing team is currently actively working on several interesting initiatives to increase ABRIC's brand awareness especially among those in the shipping, logistics and airline industry. On the sales end, we have recently implemented an on-demand Customer Relationship Management (CRM) system, accessible anywhere in the world, to help us keep track of our several thousand global accounts, ranging from the very small to the multi-million dollar ones. I am proud to say that ABRIC is truly connected with the latest trends, leveraging on them to increase our productivity and provide value to our stakeholders.

One area that is of main concern to most manufacturing companies is the rising cost of raw materials due to huge consumption by China. In order to overcome this challenge, we have increased our focus on sourcing which will significantly reduce our production costs.

In view of our rapidly growing customer base in North and South America, we have recently relocated our American operations from Hackensack, New Jersey to Houston, Texas. Our much larger setup in Houston, with warehousing facilities, and proximity to emerging markets in South America will allow us to improve our customer service and reduce lead times. Houston is a central hub in the United States and we believe that our new Houston operations will enable us to further improve our logistic processes within the United States and significantly reduce domestic freight costs.

In Europe, our years of gradually building up our presence via targeted marketing and an extensive network of distributors has been fruitful. Our experienced team based in the United Kingdom has made headway into new markets in Europe. I am pleased to announce that our high security cable seals have recently passed stringent tests and have been approved in several European markets; I believe that the offtake of ABRIC seals in these markets will be tremendous in the second half of 2008.

Finally, the most promising news that I want to share with you is the succession plan that we have put in place at ABRIC. Over the past few months, I have effectively left the day-to-day operations of ABRIC to my eldest daughter, Adeline Ong. Her involvement frees me to focus on other areas of the business such as product development and the expansion of ABRIC's global presence. After graduating with a bachelor and masters degree in Manufacturing Engineering at Cambridge University, Adeline gained invaluable marketing and management experience in the consumer division of Citibank for five years before coming on board to head ABRIC. I am confident that Adeline, guided by experienced senior members of the organization in mentoring roles, will be able to take the company to greater heights.

PROSPECTS FOR ABRIC

After writing off several investments in non-core businesses over the past few years, I believe that the worst is over. Prospects for ABRIC in 2008 and beyond are bright and I am confident that we can all move forward in line with our vision to become the world's number one seal manufacturer by 2010. We have set lofty goals to achieve double digit growth for the next three years through organic growth as well as M&A opportunities, and we are confident of achieving these goals.

Demand for security seals is expected to continue to increase globally, in view of the higher security demands from the United States and EU countries. I expect the global business environment to remain highly competitive but I strongly believe that prices of raw material such as plastic resin and steel will stabilize in 2008 after the Beijing Olympics, if oil prices do not fluctuate too drastically. In terms of competition from low-priced seal manufacturers both in Malaysia and in China, many of our new and existing customers have voiced out their dissatisfaction with the low quality products from these manufacturers. Many of our customers today highly value the ISO 17712 standard for freight containers – mechanical seals which most of our seals have been certified. All our three plants are ISO 9001:2000 Quality Management System certified. In addition, our Thailand plant also has ISO 14001:2004 Environmental Management System certification. Given the importance of securing assets in any given organization, I believe that many of our global customers will grow with us due to our solid reputation as a quality security sealing solution provider with a worldwide sales and marketing network. I am confident that should there be any further cost increase, we will be able to pass them on to our customers.

I thank you for your continuous support and hope that you will continue to be with us as we take the company to the next level.

DATO' ONG ENG LOCK, JP
Executive Chairman

CEO OPERATIONAL REVIEW

Dear Fellow Shareholders,

2007 has been a year of change for ABRIC. As we move ahead, we are committed to bring value to shareholders and customers by building prudently on our strengths and opportunities. Our focus in 2007 and the years ahead is to continue to establish a global footprint for our core security seals business and build our ABRIC franchise to dominate this industry.

To achieve our vision to be the world's leading provider of security sealing solutions by 2010, we recognise that we need to transform the way in which we do our business today. One of the first key changes we made in 2007 was to design a new, more robust organisational structure – with new changes and additions to the senior management team as well as building bench strength across the various business units. In the security industry, where quality and integrity are our differentiators, we believe our people will be the key driver in the transformation of the Abric Group.

Below are highlights of the key focus areas for the various business units in 2007.

MANUFACTURING DIVISION

Security Seals

We have worked hard to increase our presence outside of the Asia Pacific (AP) region in the past few years. In 2007, ABRIC made significant inroads with strong revenue growth in the Europe, North America and South America regions. This robust growth was offset by a disappointing drop in AP revenues – resulting in overall revenue drop of 5% for the security seals division. With the pressure of escalating raw material and production costs as well as appreciation of the Malaysian Ringgit and Thai Baht against the US Dollar, we faced pressure on our already slim margins in the AP region. With the exception of key industrial sectors such as shipping and logistics, we lost ground in the fragmented AP market, predominantly to a number of smaller local players who were able to price very competitively, but have limited product portfolios and are mostly confined to local or regional markets.

This forced us to re-examine and refine our existing business model to compete more effectively. We embarked on the following key initiatives:

1. Improve operational efficiencies – We actively focused on reducing operating expenses, both at our sales centres and production plants. To counter the effects of rising costs, we also focused on revamping and improving our production processes to be more efficient. This is a continuous process and we will continue to benefit from improved operational efficiencies with more stringent internal process controls.

2. Automation of business processes – We have invested in a CRM system to eliminate the manual tracking of sales activities. As we deploy our ERP system, we will automate the order processing, inventory and production planning processes. This will allow us to be more responsive to our customers' needs whilst giving us an edge over our smaller competitors. Most importantly, automation of these processes will ultimately reduce the overall cost to process an order. At the production plants, we are also continuously introducing semi-automation as this allows us to reduce production costs while still allowing us some degree of flexibility in meeting our customers' demands.

3. Reduce exposure to US Dollar – We have been working actively with our customers and distributors to convert US Dollar transactions to local currency transactions. This exercise will be ongoing, particularly to review long-term contracts that are already in place.

4. Build ABRIC franchise in security seal industry – Our focus to build our brand in new markets is a strategy that has paid off in Europe and the Americas. We will continue to invest in our brand-building activities and improve our product range in line with international standards such as ISO 17712. Particularly in the AP region, these initiatives will help ABRIC to elevate the playing field and reduce the pressure on our profit margins.

ABRIC is now a truly global player in the security seal business. As one of the top five players in this industry, we have the knowledge and experience to further strengthen our position in the security seals business. With our unwavering focus in growing this core business, we are confident of double-digit revenue growth in the coming year and improved bottom line results.

Precision Metal Parts

This business continued to be a key contributor to the Group's losses, despite significantly improved utilisation rates. In the 2nd half of 2007, we focused to improve the technical competence levels of our core team and as a result, we aim to reduce the labour costs significantly by end 2008. We also set in place initiatives that will help us to further reduce operational costs in the next year. These key initiatives will bode well for the performance of this division in 2008.

TECHNOLOGY DIVISION

Revenue for the technology division grew by 4% whilst losses for this division reduced by 34% in 2007. Due to the project nature of this division, initiatives were carried out in 2007 to reduce the operational expenses of this division, including outsourcing of the system integration functions. In Q4 of 2007, we secured and commenced a major contract with an oil & gas company, which will ensure a healthy revenue growth for this division in 2008. We expect a much improved performance from this division in the coming years.

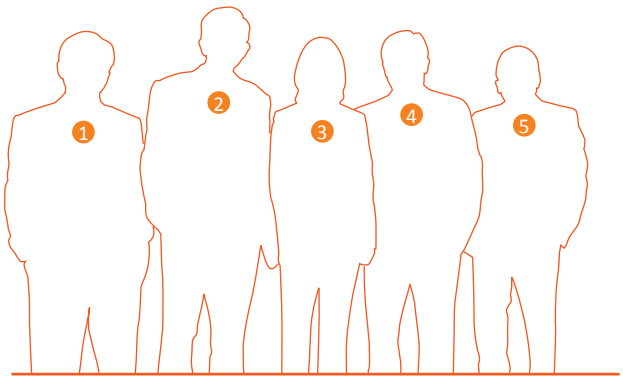
CONSUMER DIVISION

We continued to grow the presence of the 'Simple' brand in China, through increased distribution points and a more comprehensive advertising and promotion strategy. Simple products are currently distributed in 16 cities in China including major cities such as Shanghai, Beijing, Shenzhen and Chengdu. This division remains a small contributor at 4% of the Group's revenue.

ABRIC now have the people, structure and processes ready to drive the business forward. With the groundwork in place and initiatives that are underway, the management team is committed to the goal and confident of delivering a successful 2008.

ADELINE ONG YING HWEY
Chief Executive Officer

BOARD OF DIRECTORS



1. **IR HON HIN SEE**
   Independent Non-Executive Director

2. **DATO' ABU BAKAR BIN ABDUL HAMID,** DSDK, AMK, KMN
   Independent Non-Executive Director

3. **ADELINE ONG YING HWEY**
   Chief Executive Officer / Executive Director

4. **DATO' ONG ENG LOCK,** DIMP, JP
   Executive Chairman

5. **SOONG CHEE KEONG**
   Non-Independent Non-Executive Director

PROFILE OF DIRECTORS

DATO' ONG ENG LOCK, DIMP, JP

MBA, F.I.Mgt. (UK), FNZIM
Executive Chairman

Dato' Ong Eng Lock, aged 50, was appointed to the Board in September 1989. He heads the Executive Committee and is a member of the Option Committee. He started his career with Gadelius Sdn Bhd in 1979 before joining United Engineers (Malaysia) Berhad in 1982 where he was involved in industrial products and project management. He started Abric in 1983 when he successfully designed and patented plastic security seals for use in the petroleum and plantation industries.

ADELINE ONG YING HWEY

B.A., M.Eng, M.A.
Chief Executive Officer / Executive Director

Adeline Ong Ying Hwey, aged 27, was appointed to the Board in April 2007. She is also a member of the Option and Risk Management Committees. She started her career in 2002 when she joined Citibank Malaysia as a Management Associate. In 2003, she joined Citibank as a Product Manager in the Credit Card business. In 2006, she was appointed to head Credit Cards Portfolio Management, where she supervised the growth of customer receivables and credit lines resulting in increased profitablity of the credit card portfolio. Adeline holds both BA and MEng degrees in Manufacturing Engineering from Cambridge University. She also holds a MA from Cambridge University and has obtained the ACCA Certified Diploma in Accounting and Finance. Adeline is the daughter of Dato' Ong Eng Lock, the Executive Chairman of Abric Berhad.

DATO' ABU BAKAR BIN ABDUL HAMID, DSDK, AMK, KMN

B.A. Hons (Econs), Dip of Int'l Trade
Independent Non-Executive Director

Dato' Abu Bakar Bin Abdul Hamid, aged 64, was appointed to the Board in May 2001. He is the Chairman of the Audit Committee and member of Nomination, Remuneration and Risk Management Committees. He started his career as an Agricultural Economist in the Federal Agricultural Marketing Authority (FAMA) in 1967 and was its Director General from 1995 to 1998. Between 1996 and 1998, he was also Chairman of Koperasi Kakitangan Kementerian Pertanian Malaysia Berhad, the Deputy Chairman of the Association of Food Marketing Agencies in Asia and the Pacific; and a Board member of FAMA Corporation Sdn Bhd and Muda Agricultural Development Authority. He also sits on the Board of SAAG Consolidated (M) Berhad, a company listed on Bursa Malaysia.

IR HON HIN SEE

MIEM, P.Eng., MACEM
Independent Non-Executive Director

Ir Hon Hin See, aged 49, was appointed to the Board in May 2001. He is a professional engineer. He joined Hashim & NEH Sdn Bhd as a Mechanical Engineer in 1980. He was subsequently appointed as its Associate Director in 1991 and a Board Director in 1994. He currently serves on the Board of Perunding Hashim & NEH Sdn Bhd and SAAG Consolidated (M) Berhad, a company listed on Bursa Malaysia.

SOONG CHEE KEONG

CA(M), FCCA(UK)
Non-Independent Non-Executive Director

Soong Chee Keong, aged 38, joined Abric in March 1999 as General Manager of Corporate Finance and was subsequently appointed to the Board in February 2000. He is a member of the Audit, Option and Remuneration Committees. He started his career in financial audit in 1993 at BDO Binder. In 1995 he joined the Corporate Finance Department of Bumiputra Merchant Bankers Berhad. At the merchant bank he was involved in advising on mergers and acquisitions, initial public offerings, debt and equity restructuring and project feasibility studies.

SENIOR MANAGEMENT

Standing from left to right:
ALBERT TAN TIN YAU, ERIC AW CHONG HON, ONG KIM BOCK, NOR SUHANA BINTI SULAIMAN, CARL SALMONS, YAP CHOON ENG AND LUIS GRILO

Sitting from left to right:
TEE HIAP LEE, ADELINE ONG YING HWEY, DATO' ONG ENG LOCK AND YAP YOON LEAN

YAP YOON LEAN, Age 48

Dip. Com. (TARC, Malaysia)
Director - Head of Risk Management and Compliance

Yap Yoon Lean has vast accounting and finance experience in several industries, ranging from construction, engineering, manufacturing, trading to hotel management. Over the last 16 years in ABRIC, he has been assigned to various responsibilities in the Group. Yap now heads the Risk Management & Compliance department responsible for the internal audit function, treasury, credit control, risk management, legal and quality assurance.

ONG KIM BOCK, Age 55

B.Com, Post-grad Dip.Com (University of Otago, New Zealand)
Director - Head of Technology Division

Ong Kim Bock joined the Company in April 2003 as the Executive Director for the engineering subsidiary of ABRIC. He has over the years been assigned to oversee the security seals sales department in United Kingdom as well as manufacturing operations for the Group. Ong currently heads the Technology division which comprises of the international call centre business and project management services for the oil & gas industry.

CARL SALMONS, Age 58

HNC Mech Eng.
Chief Executive Officer – United Kingdom

Carl Salmons was recruited in 1998 to set up Abric Europe Ltd in the United Kingdom. Since 1971, Carl has been involved in sales and marketing to a wide range of industries at all levels. Prior to ABRIC, he was a General Manager with Hellermann Tyton, where he managed the sales of security, healthcare and packaging products in the UK. Carl currently drives local UK sales and heads UK operations.

LUIS GRILO, Age 47

B.A. (University of London)
Chief Executive Officer – America & Europe

Luis Grilo joined ABRIC as the Export Sales Director in 2005. He was the Export Sales Manager for Britton Decoflex Ltd and the International Sales Director for ITW Envopak. Luis has over twenty years experience in sales and marketing functions in different industries such as plastics, electronics and power. Based in the United Kingdom, he currently heads all export sales initiatives in Europe and heads ABRIC's operations in North America.

TEE HIAP LEE, Age 51

B.Sc. (Campbell University, USA)
Director - Head of Manufacturing Operations

Tee Hiap Lee joined ABRIC in November 2007 as the head of the Group's manufacturing division. He has over 20 years of working experience in various MNC manufacturing environments, specialising in manufacturing operations management. Tee currently oversees the manufacturing operations of the Group production facilities in Malaysia, Thailand and China.

AW CHONG HON, ERIC, Age 47

B.A., MBA (Wichita State University, USA)
Director - Head of Sales

Eric joined ABRIC as the Head of Sales since April 2008. Previously Eric was with Bemis Asia Pacific and the Hong Leong Group Malaysia. He has over twenty years of working experience in sales & marketing, construction and project management in the packaging industry and infrastructure development. Eric is currently in charge of sales for the Asia Pacific market.

ALBERT TAN TIN YAU, Age 32

B.Eng. (University of Malaya, Malaysia), MBA (University of Strathclyde, UK)
Vice President - Head of Marketing

Albert Tan joined ABRIC in December 2006 as Senior Manager - Business Development. He started his career as an engineer with Sime Darby oil & gas division and in the course of seven years advanced to be a Project Manager managing regional projects. Albert currently leads the Marketing team which drives product development and marketing initiatives. He also heads the Group Human Resources and Administration department.

YAP CHOON ENG, Age 32

B.Acc., M.Fin (RMIT University, Australia)
Vice President - Head of Profit Improvement

Yap Choon Eng was recruited in August 2002 as Assistant Finance Manager and over the course of five years was promoted to manage the finance and corporate affairs for the Group. Previously Yap was with Deloitte Malaysia Audit & Assurance division covering diverse range of industries including manufacturing, insurance, trading, retail and construction. Yap was recently appointed to head the profit improvement initiatives for the Group. He also oversees the Customer Support Unit.

NOR SUHANA BINTI SULAIMAN, Age 30

CA(M), B.Acc.(Hons) (University of Malaya, Malaysia)
Senior Manager - Head of Finance

Nor Suhana moved from being the Group Accountant to head the Finance department in 2007. She joined ABRIC in February 2007 from Deloitte Malaysia. Suhana has over six years of experience in Audit & Assurance division covering diverse range of industries including as manufacturing, banking, trading, retail, oil & gas and government agencies. A qualified accountant, she is a member of Malaysian Institute of Accountants (MIA).

CORPORATE INFORMATION

BOARD OF DIRECTORS

DATO' ONG ENG LOCK, DIMP, JP	Executive Chairman
ADELINE ONG YING HWEY	Chief Executive Officer/ Executive Director
DATO' ABU BAKAR BIN ABDUL HAMID, DSDK, AMK, KMN	Independent Non-Executive Director
IR HON HIN SEE	Independent Non-Executive Director
SOONG CHEE KEONG	Non-Independent Non-Executive Director

AUDIT COMMITTEE

DATO' ABU BAKAR BIN ABDUL HAMID – Chairman
Independent Non-Executive Director

IR HON HIN SEE
Independent Non-Executive Director

SOONG CHEE KEONG
Non-Independent Non-Executive Director

EXECUTIVE COMMITTEE

DATO' ONG ENG LOCK – Chairman
ADELINE ONG YING HWEY
YAP YOON LEAN
ONG KIM BOCK
CARL SALMONS
LUIS GRILO
TEE HIAP LEE
AW CHONG HON, ERIC
ALBERT TAN TIN YAU
YAP CHOON ENG
NOR SUHANA BINTI SULAIMAN

COMPANY SECRETARIES

KUAN HUI FANG (MIA 16876)
NG YEN HOONG (LS 008016)

REGISTERED OFFICE

Level 14, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7718 6188
Fax : 03-7725 7791

AUDITORS

Messrs Deloitte & Touche
Level 19, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

SHARE REGISTRAR

PFA Registration Services Sdn Bhd
Level 13, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7718 6000
Fax : 03-7722 2311

PRINCIPAL BANKERS

RHB ISLAMIC Bank Berhad
United Overseas Bank (Malaysia) Berhad
CIMB Bank Berhad

SOLICITORS

Messrs Long & Maduarin
Messrs Geraldine Yeoh, Arjunan & Associates

STOCK EXCHANGE LISTING

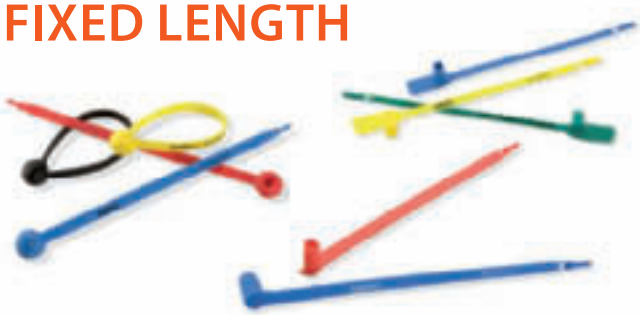
Second Board of Bursa Malaysia Securities Berhad
Stock Name : ABRIC
Stock Code : 7061
Warrant Code : 7061WA
Stock Sector : Industrial Products

ABRIC™

BARRIER

SEMI BARRIER

FIXED LENGTH



VARIABLE LENGTH

SPECIAL PURPOSE

Sealing Assets Globally with Quality and Integrity

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Abric Berhad is committed to ensure that high standards of corporate governance are practiced throughout the Group and that integrity and fair dealing are paramount in all its activities with the objective of protecting the Group's assets and enhancing shareholders' value.

In line with this commitment, the Board has taken and is continuously reviewing, where appropriate, the necessary steps to comply with the requirements on standard of corporate responsibility, integrity and accountability and provide greater disclosure and transparency by fully complying with all the Principles in Part 1 of the Malaysian Code on Corporate Governance ("the Code") and adopting the Best Practices as recommended in Part 2 of the Code.

The Principles of Corporate Governance have been implemented and put in practice in the following manner.

1. BOARD OF DIRECTORS

1.1 Composition of the Board and Board Balance

There were changes in the composition of the Board for the financial year ended 31 December 2007. Tan Sri Dato' Dr Mohamed Yusof Bin Hashim, aged 68, has indicated his intention to retire at the last Annual General Meeting held on June 29, 2007, and as such, did not seek for re-election. Effective the same date, Dato' Ong Eng Lock was redesignated to Executive Chairman whilst Adeline Ong Ying Hwey was appointed as Chief Executive Officer. Wong Kit-Leong resigned from the Board effective 30 September 2007.

As at the date of this report, the Board has five (5) members comprising of one (1) Executive Chairman, one (1) Chief Executive Officer, one (1) Non-Independent Non-Executive Director and two (2) Independent Non-Executive Directors.

The new composition complies with Paragraph 15.02 of Listing Requirements of Bursa Malaysia Securities Berhad which requires at least two or one-third of the members, whichever is the higher, to be Independent Directors.

The Board believes that the current composition and number of Directors reflects the fair representation of all shareholders' interest. The Non-Executive Directors with their different background and professions collectively form an effective Board with a mix of industry-specific knowledge and broad business and commercial experience. This balance enables the Board to provide strong and effective leadership and form an independent judgement with regards to various aspects of the Group's business strategies and performance so as to ensure that the highest standard of conduct and integrity are maintained by the Group on a holistic basis.

1.2 Re-election of Directors

In accordance with the Company's Articles of Association, at least one third of the Board members are required to retire from office by rotation annually and subject to re-election at each Annual General Meeting. Newly appointed Directors will hold office only until the next Annual General Meeting and be subject to re-election. The Directors seeking re-election at the forthcoming meeting are disclosed in the Statement accompanying the Notice of the Annual General Meeting on page 86 of this Annual Report.

1.3 Board Meeting

Board Meetings for each calendar year are scheduled at the beginning of the year. The Board meets regularly to consider business of the Group. During the financial year ended 31 December 2007, the Board met five (5) times. The record of attendance of each Director during the financial year ended 31 December 2007 is as follows:-

	Attendance
Dato' Ong Eng Lock	5/5
Soong Chee Keong	5/5
Dato' Abu Bakar Bin Abdul Hamid	5/5
Ir. Hon Hin See	5/5
Adeline Ong Ying Hwey (appointed on 16.4.2007)	4/5
Tan Sri Dato' Dr Mohamed Yusof Bin Hashim (resigned on 29.6.2007)	3/3
Yap Yoon Lean (resigned on 16.4.2007)	1/1
Wong Kit-Leong (resigned on 30.9.2007)	4/5

1.4 Role and Responsibilities

The role of the Executive Chairman and the Chief Executive Officer are separate and clearly defined, so as to ensure that there is a balance of power and authority. The Executive Chairman is responsible for ensuring Board effectiveness and conduct, whilst the Chief Executive Officer has overall responsibility for the operating units, organisational effectiveness and implementation of Board policies and decisions.

The Non-Executive Directors contribute considerably to the formulation of policies and decision making through their knowledge and experience from other businesses and sectors.

A profile of each Director is published on pages 8 and 9 of this Annual Report.

The Board assumes full responsibility for the overall performance of the Company and the Group. In discharging this duty, the Board is guided by these six specific responsibilities:

- review and adopt a strategic plan for the Company;
- oversee the conduct of the Company's business to ensure the business is being properly managed;
- identify principal risks and set up appropriate systems to manage these risks;
- succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management;
- develop and implement shareholder communication and investor relations programme; and
- review the adequacy and the integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

1.5 Access to information

It is crucial that relevant information required to make informed decisions are provided in a timely manner. Recognising that fact, the Board and its Committees are supplied with an agenda and relevant up-to-date information in good time prior to each meeting to enable them to make informed decisions.

All Directors have access to the advice and services of the Company Secretaries. Procedures are in place for Directors and Board Committees to seek independent professional advice, in the course of fulfilling their responsibilities at the Company's expense.

1.6 Directors' Training

All the Directors have completed the Mandatory Accreditation Programme as prescribed by Bursa Malaysia Securities Berhad.

The Company presently does not have an orientation and education program for new recruits to the Board as the Board is of the opinion that the Group is not that diversified to warrant such a program.

All Board members are encouraged to attend any relevant training programmes to further enhance their knowledge and enable them to discharge their responsibilities more effectively.

1.7 Board Committees

To assist the Board in discharging its duties, committees delegated with specific authority were formed. Presently, six (6) committees have been established. They are: the Executive Committee, the Credit Control Committee, the Nomination Committee, the Remuneration Committee, the Option Committee and the Risk Management Committee.

2. DIRECTORS' REMUNERATION

The Remuneration Committee deliberates on the remuneration packages for the Directors taking into consideration the market rate, their performance and the need to retain them. The Committee also deliberates on the remuneration package for senior executives of the Group.

Non-Executive Directors are paid a fee, which reflects their experience and level of responsibilities undertaken by the particular non-executive concerned.

The Directors' fees, are approved by shareholders at the Annual General Meeting. Details of Directors remuneration are as follows:-

	Fees	Salaries	Other Emoluments*	Benefits-In-Kind	Total
Executive Directors	-	995,500	153,960	35,200	1,184,660
Non-Executive Directors	48,000	-	-	-	48,000

* Other Emoluments includes bonus and the Company's contribution to Employees Provident Fund.

The number of Directors of the Company whose total remuneration falls within the following bands:

Range of Remuneration RM	No. of Directors Executive	Non-Executive
1 - 50,000		3
150,001 - 200,000	1	
200,001 - 250,000	1	
500,001 - 550,000	1	
Total	3	3

3. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

3.1 Annual Report and General Meeting

In addition to quarterly financial results and various other announcements made during the financial year, the Company communicates with shareholders and investors through its annual report, with comprehensive and sufficient details about financial results and activities of the Group.

The Annual General Meeting remains the principal forum for dialogue with shareholders and provides an open forum at which shareholders and investors are informed of current developments and shareholders are given the opportunity to ask questions about the resolutions being proposed or about the Company's operations in general.

3.2 Investor Relations

The Board recognises there is a need to maintain an open and continuous communication outside the general meetings. It has entrusted the Company's Corporate Affairs Department with the responsibility of maintaining ongoing communication with not only existing shareholders and investors but also investment analysts, fund managers and the media. The Executive Chairman participate in this on-going investor-relations programme by briefing fund managers and analysts regularly.

3.3 Website Information

In addition to the annual report, the Company maintains a website at www.abric.com as a medium of communication and source of information to shareholders and the general public. The Company website provides, *inter alia* Corporate Profile, Products and Services, Corporate Video and News/Announcements released to Bursa Malaysia Securities Berhad and contact information.

4. ACCOUNTABILITY AND AUDIT

4.1 Financial Reporting

In presenting the annual financial statements and quarterly consolidated results, the Directors ensure they provide a true and fair view of the state of affairs and operations of the Group and of the Company, as well as the financial results and cash flows of the Group and of the Company. In the preparation of the financial statements, the Group has used and applied on a consistent basis, the appropriate accounting policies and practices under the applicable approved accounting standards. The annual financial statements are set out on page 24 to 77 of this Annual Report.

4.2 Internal Control

The Board acknowledges its responsibility for maintaining a sound system of internal control, and for reviewing its adequacy and integrity. The Board recognises that internal control is a concerted and continuous process, designed to manage and minimise rather than eliminate the risk that may impede the achievement of the Group's business objectives.

Key elements of the Group's systems of internal control are:

- Operating Procedures and Guidelines issued and updated from time to time;
- Monitoring of monthly results against the comprehensive annual budgets and business plans prepared by the business units;
- Regular internal audit on the business units by independent professionals, provide reasonable assurance to the Board that the internal control systems of the Group are adhered to; and
- Well defined organisational structure with clear lines of responsibility.

4.3 Relationship with Auditors

Key features underlying the relationship of the Audit Committee with the external auditor are included in Audit Committee's terms of reference as detailed on pages 19 to 20 of this Annual Report.

ADDITIONAL COMPLIANCE STATEMENT

The information provided in the Additional Compliance Statement is in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad for the financial year ended 31 December 2007.

ADDITIONAL INFORMATION ON THE BOARD OF DIRECTORS

- **Family Relationships with any Director and/or Major Shareholder**
  With the exception of Dato' Ong Eng Lock whose spouse is indirectly a major shareholder of the Company via Abric Capital Sdn Bhd pursuant to Section 6A of the Companies Act, 1965 and daughter, Adeline Ong Ying Hwey who is Executive Director of Abric Berhad, none of the Directors have family relationship with any other Directors or major shareholders of the Company.

- **Convictions for Offences (within the past 10 years, other than traffic offences)**
  None of the Directors have any convictions for offences other than traffic offences.

OTHER INFORMATION

- **Options, Warrants or Convertible Securities**
  The Executives' Share Options Scheme ('ESOS'), established on 15 May 2002 for a duration of five (5) years expired during the financial year on 14 May 2007. In accordance with Bye-Law 4.1 of the ESOS Bye-Laws and upon recommendation by the Option Committee, the Board has approved the extension of the ESOS for another five (5) years to 14 May 2012. Details of the ESOS are disclosed in the Directors' report on page 29 of this Annual Report. No options have been exercised by the eligible executives and executives directors for the financial year ended 31 December 2007.

  There were no warrants or convertible securities exercised during the financial year.

- **Sanctions and/or Penalties Imposed**
  No sanction/penalty was ever imposed on the Group, directors or management by the relevant regulatory bodies.

- **Non-Audit Fees**
  No non-audit fee was paid to the external auditors for the financial year ended 31 December 2007.

- **Material Contracts**
  No material contract was entered into by the Company and its subsidiaries involving the directors and substantial shareholders of the Company.

- **Revaluation Policy on Landed Properties**
  None of the landed properties owned by the Company and its subsidiary companies had been revalued except for Investment Properties as disclosed in Notes 2 of the Financial Statements.

- **Share Buybacks**
  The Company did not carry out any share buybacks during the financial year.

- **American Depository Receipt (ADR) or Global Depository Receipt (GDR)**
  During the financial year, the Company did not sponsor ADR or GDR Programme.

- **Variation in Results**
  There were no material variation between the audited results for the financial year ended 31 December 2007 and the unaudited results previously released for the financial quarter ended 31 December 2007.

- **Profit Guarantees**
  During the year, there were no profit guarantees given by the Company.

- **Recurrent Related Party Transactions of a Revenue or Trading Nature**
  During the year, the Company did not enter into any recurrent related party transactions of a revenue or trading nature.

AUDIT COMMITTEE REPORT

1. MEMBERS AND MEETINGS

A total of six (6) meetings were held during the year. The membership status and attendance record of each of the members are as follows:

Name	Membership Status	Attendance
Dato' Abu Bakar Bin Abdul Hamid	Chairman, Independent Non-Executive Director	6/6
Ir Hon Hin See	Independent Non-Executive Director	6/6
Soong Chee Keong	Non-Independent Non-Executive Director	6/6

2. TERMS OF REFERENCE

2.1 Composition of Audit Committee

The Audit Committee shall be appointed from amongst the Board of Directors and shall:-

(a) consist of not less than 3 members;
(b) all members must be non-executive directors, with a majority of them being Independent Directors; and
(c) at least one member of the Committee must be a member of the MIA or such other qualifications or experience as approved by Bursa Malaysia Securities Berhad.

The Chairman of the Committee shall be an Independent Director.

In the event of any vacancy in the audit committee resulting in the non-compliance of the above, the Board shall within three (3) months appoint new members as required to make up the minimum numbers.

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2.2 Authority and Duties

(a) The Committee is authorised to investigate any activity within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group. The Committee is also authorised by the Board to obtain external legal or other independent professional advice as necessary.

(b) To review:-
- With the external auditors, the audit plan; their evaluation of the system of internal controls; and their audit report;
- The assistance given by the employees to the external auditors;
- The adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
- The internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function.
- The quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
  (i) changes in or implementation of major accounting policy changes;
  (ii) significant and unusual events; and
  (iii) compliance with accounting standards and other legal requirements;
- Any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity;
- Any letter of resignation from the external auditors of the Company; and
- Whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment.

(c) Recommend the nomination of a person or persons as external auditors;

(d) Such other matters as the Committee may from time to time determine.

2.3 Meetings

The Committee shall meet on at least four (4) occasions each year. The Chairman shall convene a meeting of the Committee if requested to do so by any member, the management or the internal or external auditors to consider any matter within the scope and responsibilities of the Committee.

In order to form a quorum in respect of a meeting of an audit committee, the majority of members present must be Independent Directors. Any questions arising at any meeting shall be decided by a majority of votes and in case of equality of votes the Chairman shall have a second or casting vote.

The Company Secretary shall act as the Secretary of the Committee and shall be responsible for sending out notices of meetings and preparing and keeping the minutes of meetings.

Except in the case of any emergency, reasonable notice of every meeting shall be given in writing and the notice of each meeting shall be served to any member entitled personally or by sending it via fax or through post or by courier or by email to such member to his registered address as appearing in the Register of Directors, as the case may be.

Participants may be invited from time to time to attend the meetings depending on the nature of the subject under review. These participants may include the Director, General Managers, Division Heads, representatives from the Finance and Internal Audit Departments, external auditors and officers of subsidiary companies.

The Committee should meet with the external auditors without executive board members present at least twice a year.

3. SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The Audit Committee carried out its duties in accordance with its terms of reference during the year.

The main activities undertaken by the Committee during the year were as follows:

3.1 Financial Results

- Reviewed the annual financial statements of the Group prior to submission to the Board for their consideration and approval focusing particularly on any changes of accounting policy, significant and unusual event and compliance with applicable accounting standards approved by MASB and other legal requirements.
- Reviewed quarterly unaudited financial results prior to recommending them for approval by the Board.

3.2 External Audit

- Reviewed with external auditors the audit planning memorandum covering the audit objectives and approach, audit plan, key audit areas and relevant technical pronouncements and accounting standards issued by MASB.
- Reviewed with external auditors the results of the audit and the audit report in particular, reviewed accounting issues and significant audit adjustments arising from the external audit.
- Evaluate the performance of the external auditor and make recommendations to the Board on their re-appointment and remuneration.

3.3 Internal Audit

- Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Group taking into consideration the assessment of the key risks areas.
- Reviewed the internal audit reports, audit recommendations made and management response to those recommendations and actions taken to improve system of internal control and procedures.
- Monitored the implementation of the audit recommendations to ensure that all key risks and controls been addressed.
- Evaluate the performance of the internal auditor and make recommendations to the Board on their re-appointment and remuneration.

3.4 Others

- Reviewed the Report of the Audit Committee and recommended to the Board for inclusion in the 2006 Annual Report.
- Reviewed the Statement on Internal Control and recommended to the Board for inclusion in the 2006 Annual Report.

4. INTERNAL AUDIT FUNCTION

The Group has outsourced its internal audit function to a professional services firm whose primary responsibility is to independently assure the Board, through the Audit Committee, that the systems of internal control are functioning effectively and reliably.

The outsourced Internal Audit function focuses on the key areas of operations, adopting a risk-based approach in the planning and conduct of its audits.

The Internal Audit reports, incorporating the audit recommendations and management responses with regards to audit findings relating to the weaknesses in the systems and controls of the respective operations audited, were issued to the Audit Committee and the management of the respective operations.

The Internal Audit function also followed up with management on the implementation of the agreed audit recommendations. The extent of compliance is reported to the Audit Committee on a regular basis. The Audit Committee in turn reviews the effectiveness of the system of internal controls in operation and reports the results thereon to the Board.

The Board, in striving for continuous improvement, will put in place appropriate action plans, where necessary, to further enhance the Group's system of internal control.

Business functions under review for the financial year ended 31 December 2007 are as follows:

Company	Auditable Functions
Abric Worldwide Sdn Bhd	Sales and Order Management
Abric PSP Sdn Bhd	Inventory Management & Logistics
Abric Micromechanics Sdn Bhd	• Production Planning & Forecasting • Inventory Management & Logistics • Facility Management

5. STATEMENT IN RELATION TO THE ALLOCATION OF OPTIONS PURSUANT TO ESOS BYE-LAWS

The Audit Committee reports that they have verified that no options were allocated to during the financial year 31 December 2007.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

Pursuant to Paragraph 15.27(b) of the Listing Requirements of the Bursa Malaysia Securities Berhad and the Malaysian Code of Corporate Governance ("the Code"), the Board of Directors ("the Board") is pleased to provide the following statement, which outlines the nature and scope of the Group's system of internal controls for the financial year ended 31 December 2007.

BOARD RESPONSIBILITY

The Board recognises the importance of good practice of corporate governance and is committed to maintaining a sound system of internal controls. This includes the establishment of an appropriate control environment and framework as well as reviewing the adequacy and integrity of the said systems to safeguard shareholders' investment and the Group's assets.

As there are limitations that are inherent in any systems of internal control, such systems are designed to manage rather than eliminate risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide reasonable assurance against material misstatement or losses, fraud or breaches of laws or regulations.

The Group's system of internal control has been in place for the entire year under review. The key processes that have been established in reviewing the adequacy and integrity of the said systems are as follows:

Organisational Structure with Defined Roles and Responsibilities

- The Group has in place a clearly defined organisation structure with lines of responsibility and delegated authority up to the Board and its Committees to ensure accountability and segregation of duties.
- The structure will continue to be fine-tuned for more effective and efficient support to the business operations.
- Corporate values and a code of conduct, which emphasises ethical behavior, are set out in Group's Employee Handbook.

Formalised Budget Planning Processes

- There is budgeting system with an annual budget approved by the Board each year in order to establish targets against which performance can be monitored on an ongoing basis.
- Marketing and sales plans are developed by the management to provide clear direction and guidance to the sales teams in working towards the Group's business objectives.

Reporting and Review

- Management accounts containing actual and budget results are prepared and reported to the management. These management reports analyse and explain variances against plan.
- The management team regularly review, identify, discuss and formulate action plans to address strategic, operational, financial and key management issues.

Documented Policies and Procedures

- The Group has formulated various departmental operational manuals that define the operational procedures as well as the monitoring and managing of control processes establshed.
- The manufacturing plants have established through a series of documented procedures in conjunction to ISO 9001: 2000 and ISO 14001: 2004 requirements. Conformance to the system and procedures is further ensured by periodic internal quality audit and surveillance audit.

Quality Control

- The Group emphasises continuous effort in maintaining the quality of products. The Directors have ensured that Safety and Health regulations, environmental controls and all other legislations in connection with the industry have been considered and complied with.

Financial Performance

- Quarterly results as well as the state of affairs are reviewed and approved by the Board. The financial statements are also audited by the external auditors.

CONCLUSION

The Board is of the view that the system of internal controls is satisfactory and has not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

CORPORATE SOCIAL RESPONSIBILITY ("CSR") STATEMENT

The Group is driven by the belief that in pursuit of our business objectives, we need to strike a balance between profitability and our contribution to the environment and society in which we operate. With such belief, the Group is committed and uses its best endeavour to integrate CSR practices into its day to day business operations and they form our core values which govern they way in which we operate.

OUR ENVIRONMENT

It is our responsibility to apply our capabilities towards creating a better and safer world. The Group is very committed to achieve excellence in manufacturing and manage our operations in an environmentally sustainable manner. Our products are manufactured under stringent environmental and manufacturing standards including ISO 14001:2004 Environmental Management Standards.

The Group undertakes to:
- Minimise raw material wastages wherever feasible, whilst ensuring product quality;
- Ensure compliance to all relevant environmental laws and raise the environmental awareness levels among employees; and
- Continuously improve and maintain our environmental and quality management systems.

At ABRIC, we take our responsibility as a corporate citizen very seriously and contributes to the society in which we conduct our business. The Group assists in providing industrial training for students from local universities and technical schools. The Group also makes donation to charitable organizations from time to time.

OUR STAKEHOLDERS

We are committed to the interests of all our stakeholders – our shareholders, customers and suppliers. The Group emphasise on good corporate governance practices to meet shareholder's expectations.

Our seals are manufactured under stringent security and manufacturing standards, including ISO 9001:2000 Quality Management System, ISO 14001:2004 Environmental Management Standards, ISO 17712 Freight Container-Mechanical Seal Standards and are C-TPAT compliant. ABRIC seals are U.S. and U.K. customers approved. Complying with these international standards underscores the Group's total and uncompromising commitment to integrity, product quality and customer satisfaction.

For our suppliers, we practise transparent and fair procurement policies. We ensure that our suppliers not only meet our stringent technical requirements but that their business practices are aligned with ABRIC's core values.

OUR EMPLOYEES

We recognise that human capital is our primary driver for success. The main activities undertaken by the Group during the year were as follows:

- Organised Team Building Programme at Gopeng, Perak in the month of October 2007;
- Conducted various In-House training and sharing programmes;
- Conducted On-the-job training for all new employees;
- Promote participation in external training, conducted by professional trainers to enhance skills and knowledge of the employees; and
- Dedicated long service award to employees.

Creating a safe working environment and ensuring adherence to safety practices is of the paramount importance to the Group. Our Group's Occupational Safety and Health Policy is actively and effectively implemented to ensure that the safety and health of all employees are not compromised. As part of our commitment to provide a safe workplace, we have initiated health and safety programmes such as fire drills, safety checks on equipment, first aid training, and plant evacuation exercise.

Recognising that employees are important assets, our Group shall continue to care for the welfare of all employees and shall constantly upgrade employee skill sets to meet changing requirements of the corporate world.