



LION FOREST INDUSTRIES BERHAD

A Member of The Lion Group

(82056-X)

Laporan Tahunan
2006
Annual Report

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Fourth Annual General Meeting of Lion Forest Industries Berhad will be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 13 November 2006 at 10.45 am for the following purposes:

AGENDA

1. To receive and adopt the Directors' Report and Audited Financial Statements for the financial year ended 30 June 2006. **Resolution 1**
2. To approve the payment of Directors' fees amounting to RM176,000 (2005 : RM184,000). **Resolution 2**
3. To re-elect Directors:

In accordance with Article 98 of the Company's Articles of Association, the following Directors retire by rotation and, being eligible, offer themselves for re-election:

Y. Bhg. Tan Sri William H.J. Cheng **Resolution 3**
Y. Bhg. Dato' Mohamad bin Haji Ahmad **Resolution 4**
4. To re-appoint Auditors to hold office until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration. **Resolution 5**
5. Special Business

To consider and if thought fit, pass the following resolutions as ordinary resolutions:
 - 5.1 Authority to Directors to issue shares

"THAT pursuant to Section 132D of the Companies Act, 1965 and subject to the approval of all relevant authorities being obtained, the Directors be and are hereby empowered to issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next annual general meeting of the Company." **Resolution 6**
 - 5.2 Proposed Shareholders' Mandate for Recurrent Related Party Transactions

"THAT approval be given for the Company and its subsidiaries to enter into the recurrent related party transactions of a revenue or trading nature which are necessary for its day-to-day operations as detailed in paragraph 3.3 ("Recurrent Transactions") and with those related parties as detailed in paragraph 3.2 of the Circular to Shareholders of the Company dated 20 October 2006 subject to the following:
 - (i) the transactions are in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and

- (ii) disclosure is made in the annual report of the breakdown of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year where:
 - (a) the consideration, value of the assets, capital outlay or costs of the aggregated transactions is equal to or exceeds RM1 million; or
 - (b) any one of the percentage ratios of such aggregated transactions is equal to or exceeds 1%,

whichever is the lower;

and it is made amongst others, based on the following information:

- (a) the nature of the Recurrent Transactions entered into; and
- (b) the class of related parties involved in the Recurrent Transactions and their relationship with the Company;

AND THAT authority conferred by this ordinary resolution shall continue to be in force until:

- (i) the conclusion of the next annual general meeting of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;
- (ii) the expiration of the period within which the next annual general meeting after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (iii) revoked or varied by resolution passed by the shareholders in general meeting;

whichever is the earlier,

AND THAT the Directors be authorised to complete and do all such acts and things to give effect to the transactions contemplated and/or authorised by this ordinary resolution."

6. To transact any other business for which due notice shall have been given.

By Order of the Board

WONG PHOOI LIN
YASMIN WEILI TAN BINTI ABDULLAH
Secretaries

Kuala Lumpur
20 October 2006

Notes:

1. Proxy

- *A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or the hand of an officer or attorney duly authorised.*
- *An instrument appointing a proxy executed in Malaysia need not be witnessed. The signature to an instrument appointing a proxy executed outside Malaysia shall be attested by a solicitor, notary public, consul or magistrate.*
- *The instrument of proxy shall be deposited at the Registered Office of the Company, Level 46, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting.*
- *Form of Proxy sent through facsimile transmission shall not be accepted.*

2. Resolution 6

This authorisation will empower the Directors of the Company to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next annual general meeting of the Company.

3. Resolution 7

This approval will allow the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with those related parties as set out in paragraph 3.2 of the Circular to Shareholders dated 20 October 2006, which are necessary for the Group's day-to-day operations and are in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Details on the proposal are set out in the Circular to Shareholders dated 20 October 2006 enclosed together with the 2006 Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

I. Directors standing for re-election at the Twenty-Fourth Annual General Meeting of the Company

- Pursuant to Article 98 of the Company's Articles of Association
(Retirement by rotation)

Y. Bhg. Tan Sri William H.J. Cheng
Y. Bhg. Dato' Mohamad bin Haji Ahmad

- Further details of Directors standing for re-election are set out in the Directors' Profile on pages 6 to 8 of the 2006 Annual Report.

II. Details of attendance of Directors at Board Meetings

There were six (6) Board Meetings held during the financial year ended 30 June 2006. Details of attendance of the Directors are set out in the Directors' Profile on pages 6 to 8 of the 2006 Annual Report.

III. Place, date and time of the Twenty-Fourth Annual General Meeting

The Twenty-Fourth Annual General Meeting of the Company will be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 13 November 2006 at 10.45 am.

CORPORATE INFORMATION

Board of Directors	: Y. Bhg. Tan Sri William H.J. Cheng (<i>Chairman</i>) Mr Ngan Yow Chong (<i>Executive Director</i>) Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim Y. Bhg. Dato' Mohamad bin Haji Ahmad Y. Bhg. Dato' Dali Mahmud Hashim Y. Bhg. Dato' Kalsom binti Abd. Rahman Cik Zainab binti Dato' Hj. Mohamed
Secretaries	: Ms Wong Phooi Lin Puan Yasmin Weili Tan binti Abdullah
Company No.	: 82056-X
Registered Office	: Level 46, Menara Citibank 165 Jalan Ampang 50450 Kuala Lumpur Tel Nos : 03-21622155, 03-21613166 Fax No : 03-21623448 Homepage : http://www.lion.com.my
Share Registrar	: Secretarial Communications Sdn Bhd Level 46, Menara Citibank 165 Jalan Ampang 50450 Kuala Lumpur Tel Nos : 03-21622155, 03-21648411 Fax No : 03-21623448
Auditors	: Deloitte KassimChan Level 19, Uptown 1 1 Jalan SS 21/58, Damansara Uptown 47400 Petaling Jaya Selangor Darul Ehsan
Principal Bankers	: CIMB Bank Berhad Affin Bank Berhad HSBC Bank Malaysia Berhad Malayan Banking Berhad EON Bank Berhad Bank Muamalat Malaysia Berhad China Construction Bank Corporation
Stock Exchange Listing	: Bursa Malaysia Securities Berhad ("Bursa Securities") Second Board
Stock Name	: LIONFIB
Bursa Securities Stock No.	: 8486
Reuters Code	: LIOF.KL
ISIN Code	: MYL8486OO002

DIRECTORS' PROFILE

Tan Sri William H.J. Cheng

Non-Independent Non-Executive Chairman

Y. Bhg. Tan Sri William H.J. Cheng, a Malaysian, aged 63, was appointed to the Board on 15 January 1991 and has been the Chairman of the Company since 27 August 1997.

Tan Sri William Cheng has more than 30 years of experience in the business operations of the Lion Group encompassing steel, motor, tyre, computer, retail, trading, pulp and paper, plantation, and property and community development.

Tan Sri William Cheng is the President of The Associated Chinese Chambers of Commerce and Industry of Malaysia and The Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor.

Tan Sri William Cheng's other directorships in public companies are as follows:

- Chairman of Lion Diversified Holdings Berhad and Silverstone Corporation Berhad, both public listed companies
- Chairman and Managing Director of Lion Corporation Berhad, a public listed company
- Managing Director of Amalgamated Containers Berhad, a public listed company
- Director of Amsteel Corporation Berhad, a public listed company
- Chairman and Managing Director of Silverstone Berhad, a public company

Tan Sri William Cheng has an indirect shareholding of 170,488,512 ordinary shares of RM1.00 each in the Company. His shareholdings in the subsidiaries of the Company are disclosed in page 84 of this Annual Report. He also has interests in certain companies which conduct similar business with the Company in the plantation and tyre sectors.

Tan Sri William Cheng is the uncle of Y. Bhg. Datuk Cheng Yong Kim, a major shareholder of the Company.

Tan Sri William Cheng attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2006.

Ngan Yow Chong

Executive Director

Mr Ngan Yow Chong, a Malaysian, aged 49, was appointed the Executive Director of the Company on 22 August 2001. He is also a member of the Company's Remuneration Committee and Executive Share Option Scheme Committee.

Mr Ngan obtained his Bachelor of Engineering (First Class Honours) degree in Mechanical Engineering from the University of Malaya in 1981.

Mr Ngan has about 25 years of experience in manufacturing, trading, industries and commerce. He was appointed the Group Director - Brewery Division in the People's Republic of China under the Lion Group from February 2001 to January 2004. He has served the Hong Leong Group in various positions ranging from Project/Maintenance Manager, Operation Manager, Sales Manager (Import/Export) and General Manager of a number of subsidiaries within the Hong Leong Group during the period from March 1981 to March 1996. He was the Group Executive Director of Mah Sing Group Berhad and the Chief Executive Officer of Berger International Ltd, a company listed on the Stock Exchange of Singapore, before joining the Lion Group.

He is also the Executive Director of Silverstone Corporation Berhad, a public listed company.

Mr Ngan attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2006.

Jen (B) Tan Sri Dato' Zain Mahmud Hashim

Non-Independent Non-Executive Director

Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim, a Malaysian, aged 76, was appointed to the Board on 15 January 1991. He is also the Chairman of the Company's Nomination Committee and Executive Share Option Scheme Committee.

Tan Sri Dato' Zain is a graduate of the Royal Military Academy Sandhurst, United Kingdom and Harvard Business School's Advanced Management Programme. He is a retired Chief of Army in the Malaysian Armed Forces with 36 years of experience in the military and has more than 20 years of experience in the private sector.

Tan Sri Dato' Zain's other directorships in public companies are as follows:

- Chairman of Amsteel Corporation Berhad and Amalgamated Containers Berhad, both public listed companies
- Director of Hy-Line Berhad and Silverstone Berhad, both public companies

Tan Sri Dato' Zain is the half brother of Y. Bhg. Dato' Dali Mahmud Hashim, a Director of the Company.

Tan Sri Dato' Zain attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2006.

Tan Sri Dato' Zain who is above the age of 70 years will be retiring at the forthcoming Annual General Meeting and does not seek re-appointment as Director of the Company.

Dato' Mohamad bin Haji Ahmad

Independent Non-Executive Director

Y. Bhg. Dato' Mohamad bin Haji Ahmad, a Malaysian, aged 62, was appointed to the Board on 28 March 1991. He is also a member of the Company's Audit Committee.

Dato' Mohamad obtained his Certificate in Business Feasibility Studies and Management Practice from Japan. He is a businessman and served as Chairman and Director of his private companies which are involved in building and construction, property development and agriculture.

Dato' Mohamad has a direct shareholding of 12,000 ordinary shares of RM1.00 each in the Company.

Dato' Mohamad attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2006.

Dato' Dali Mahmud Hashim

Independent Non-Executive Director

Y. Bhg. Dato' Dali Mahmud Hashim, a Malaysian, aged 65, was appointed to the Board on 22 August 2001. He is also the Chairman of the Company's Audit Committee and Remuneration Committee and a member of the Company's Nomination Committee.

Dato' Dali obtained his Bachelor of Arts (Honours) degree in Economics from the University of Malaya. He joined the Ministry of External Affairs in August 1963 and served as the Malaysian Ambassador to Pakistan, the Soviet Union, Sweden, Belgium, the European Communities, Indonesia and the United States of America. In December 1998, he retired from the administrative and diplomatic service.

He is the half brother of Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim, a Director of the Company.

Dato' Dali attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2006.

Dato' Kalsom binti Abd. Rahman

Independent Non-Executive Director

Y. Bhg. Dato' Kalsom binti Abd. Rahman, a Malaysian, aged 58, was appointed to the Board on 23 August 2004. She is also a member of the Company's Audit Committee.

Dato' Kalsom received her Bachelor of Economics (Honours) degree from the University of Malaya, Malaysia and Masters degree in Business Administration (Finance) from the University of Oregon, the United States of America. She served in various capacities in the Ministry of International Trade and Industry both at headquarters and overseas offices. Currently, Dato' Kalsom is the Chairman of the Executive Committee of Invest-In-Penang Berhad.

Dato' Kalsom is also a Director of Malaysian Industrial Development Finance Berhad, Chemical Company of Malaysia Berhad, MISC Berhad and BSL Corporation Berhad, all public listed companies.

Dato' Kalsom attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2006.

Zainab binti Dato' Hj. Mohamed

Independent Non-Executive Director

Cik Zainab binti Dato' Hj. Mohamed, a Malaysian, aged 48, was appointed to the Board on 10 December 2001. She is also a member of the Company's Audit Committee, Nomination Committee and Remuneration Committee.

Cik Zainab obtained her Diploma in Accountancy from the Universiti Teknologi MARA (UiTM) in 1978 and she studied at the London School of Accountancy, England for the Association of Chartered Certified Accountants qualification from 1979 to 1981. She is a Fellow Member of the Association of Chartered Certified Accountants and a Chartered Accountant with the Malaysian Institute of Accountants.

Cik Zainab has more than 20 years' experience in the audit and finance fields holding various positions in an audit firm, commercial bank, investment and holding company, petroleum multinational company, general insurance company and solid waste management concessionaire.

Currently, she is a Director of her own management and consultancy practice, ANZ Management and Consultancy Services Sdn Bhd.

Cik Zainab attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2006.

Save as disclosed, none of the Directors has (i) any interest in shares in the Company or its subsidiaries; (ii) any family relationship with any Director and/or major shareholder of the Company; (iii) any conflict of interest with the Company; and (iv) any conviction for offences within the past 10 years.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors (“Board”) recognises the importance of practising good corporate governance to direct the businesses of the Group towards enhancing business prosperity and long term value for its shareholders. The Board is fully committed in ensuring that the highest standard of corporate governance is practised throughout the Group as the underlying principle in discharging its responsibilities.

The Board is pleased to present below a description of how the Group has applied the principles of good governance and the extent to which it has complied with the best practices set out in the Malaysian Code on Corporate Governance (“Code”). These principles and best practices have been applied consistently throughout the financial year ended 30 June 2006 except where otherwise stated herein.

1. DIRECTORS

The Board

The Board is entrusted with the responsibility in leading and directing the Group towards realising long term shareholders’ values. The Board retains full and effective control of the Group’s strategic plans, overseeing the conduct of the Group’s businesses, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Group’s system of internal control.

The Board meets on a quarterly basis, with additional meetings convened as and when necessary. During the financial year ended 30 June 2006, six (6) Board Meetings were held and each Director has attended all Board Meetings held during the financial year. Details of attendance and a brief profile of each member of the Board are set out in the Directors’ Profile section of this Annual Report.

Board Composition and Balance

The Board comprises seven (7) Directors, six (6) of whom are non-executive. The current Board composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”). The broad range of experience, skills and knowledge of the Directors facilitate the discharge of the Board’s stewardship effectively.

Represented on the Board are four (4) independent non-executive Directors who bring their independent advice, views and judgement to bear on the decision-making process of the Group to ensure that a balanced and unbiased deliberation process is in place to safeguard the interests of other stakeholders. As and when a potential conflict of interest arises, it is mandatory practice for the Directors concerned to declare their interests and abstain from the decision-making process.

There is a clear division of responsibilities between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Managing Director is responsible for the overall operations of the Group and the implementation of the Board’s strategies and policies.

Board Committees

The Board delegates certain functions to several committees, namely Audit Committee, Nomination Committee and Remuneration Committee to support and assist in discharging its fiduciary duties and responsibilities. The respective committees report to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

The Board may form other committees delegated with specific authorities to act on their behalf whenever required. These committees operate under approved terms of reference or guidelines set out by the Board.

Supply of Information

The Board members in their individual capacities have unrestricted access to complete information on a timely basis in the form and quality necessary for the discharge of their duties and responsibilities. Prior to each Board meeting, all Board members are furnished with the relevant documents and sufficient information to enable them to obtain a comprehensive understanding of the issues to be deliberated upon in order to arrive at an informed decision.

Besides direct access to management staff, external independent professional advisers are also made available to render their independent views and advice to the Board, whenever deemed necessary and in appropriate circumstances, at the Company's expense.

The Directors also have access to the advice and services of the Company Secretaries, who are responsible in ensuring that Board meeting procedures are followed and that applicable rules and regulations are complied with.

Appointments to the Board

The Nomination Committee is responsible for recommending the right candidates with the necessary mix of skills, experience and competencies to be appointed to the Board. The members and terms of reference of the Nomination Committee are presented on page 17 of this Annual Report.

Re-election of Directors

In accordance with the Company's Articles of Association, one-third (1/3) of the Directors shall retire from office at every annual general meeting and all Directors shall retire from office at least once in every three (3) years. Retiring Directors can offer themselves for re-election. Directors who are appointed by the Board during the financial year are subject to re-election by the shareholders at the next annual general meeting following their appointment.

Directors' Training

All members of the Board have attended Bursa Securities' Mandatory Accreditation Programme and have subsequently accumulated the requisite points under the Continuing Education Programme ("CEP") as specified by Bursa Securities up to 31 December 2005.

The Directors are also encouraged to attend various external professional programmes necessary to keep abreast on issues facing the changing business environment within which the Group operates.

During the financial year, an in-house seminar entitled "Impact of Financial Reporting Standards on Corporate Malaysia" conducted by Messrs Ernst & Young, Malaysia ("Seminar"), on the new Financial Reporting Standards ("FRS") and a detailed briefing by the Company's Auditors on the FRS and the possible impact of the same on the financials of the Group moving forward ("Briefing") were attended by the Directors. The FRS would be effective in the next financial reporting year for the Group. The objective of the Seminar and the Briefing was to provide Directors with an overview on the updates and impact of the new and revised FRS and was aimed at helping Directors understand the business and financial implications on the adoption of the new and revised FRS on the financials of the Group.

Certain Directors have also attended other seminars and programmes other than that in relation to the FRS in furtherance of the CEP.

In addition, the Company arranges site visits for the Directors, whenever necessary, to enhance their understanding of the Group's businesses and have a better awareness of the risks associated with the Group's operations.

The Board views the attendance of the Directors at the aforementioned seminars, programmes, Briefing and site visits as adequate to enhance their skills and knowledge to carry out their duties as Directors.

The Board will, on a continuous basis, evaluate and determine the training needs of each Director, particularly on relevant new laws and regulations, essential practices for effective corporate governance and risk management to enable the Directors to effectively discharge their duties.

2. DIRECTORS' REMUNERATION

The Company has adopted the objective as recommended by the Code in determining the remuneration of Executive Directors so as to ensure that it attracts and retains the Directors needed to manage the Company and the Group effectively. Directors do not participate in decisions regarding their own remuneration. The responsibilities for developing the remuneration policy and determining the remuneration packages of Executive Directors lie with the Remuneration Committee. Nevertheless, it is the ultimate responsibility of the Board to approve the remuneration of these Directors. The members and terms of reference of the Remuneration Committee are presented on page 17 of this Annual Report.

Directors' fees are recommended by the Board for the approval by shareholders of the Company at annual general meetings.

For confidentiality, the details of the Directors' remuneration are not disclosed for each individual Director. The transparency and accountability aspects of corporate governance applicable to Directors' remuneration recommended by the best practice of the Code are deemed appropriately served by the following disclosures.

The aggregate remuneration of Directors who served during the financial year ended 30 June 2006 are categorised as follows:

	Fees RM	Salaries & Other Emoluments RM	Total RM
Executive Directors	19,500	277,480	296,980
Non-Executive Directors	164,000	24,104	188,104
	<u>183,500</u>	<u>301,584</u>	<u>485,084</u>

The number of Directors whose total remuneration fall into the respective bands are as follows:

Range of Remuneration (RM)	Number of Directors*	
	Executive	Non-Executive
25,000 & below	-	1
25,001 – 50,000	-	4
50,001 – 100,000	1	1
100,001 – 150,000	-	-
150,001 – 200,000	-	-
200,001 – 250,000	1	-

* Including a Director who resigned during the financial year ended 30 June 2006.

3. SHAREHOLDERS

The annual general meeting is the principal forum for dialogue with shareholders. Shareholders are provided with an opportunity to participate in the question and answer session in which shareholders may raise questions regarding the proposed resolutions at the meeting as well as on matters relating to the Group's businesses and affairs. The Chairman and the Board members are in attendance to respond to shareholders' queries.

The Group also values dialogues with investors. The Group has been practising open discussions with investors/analysts upon request. In this regard, information is disseminated with strict adherence to the disclosure requirements of Bursa Securities.

The Board has identified the Company Secretaries to whom concerns may be conveyed and who would bring the same to the attention of the Board.

4. ACCOUNTABILITY AND AUDIT

The Audit Committee supports the Board in its responsibility to oversee the financial reporting and the effectiveness of the internal controls of the Group. The Audit Committee comprises four (4) Directors, all of whom are independent. The terms of reference and activities of the Audit Committee are set out in the Audit Committee Report on pages 14 to 16 of this Annual Report.

Financial Reporting

The Board aims to present a balanced and clear assessment of the Group's position and prospect through the annual financial statements and quarterly announcements to the Company's shareholders. The Board is also responsible in ensuring that the accounting records of the Group are properly kept. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to adoption of the financial statements of the Group and of the Company.

Directors' Responsibility in Financial Reporting

The Board is satisfied that for the financial year ended 30 June 2006, the financial statements presented give a true and fair view of the state of affairs of the Group and of the Company and of the results and cash flows of the Group and of the Company. In preparing the financial statements, the Group has applied, on a consistent basis, the applicable approved accounting standards and provisions of the Companies Act, 1965.

Internal Control

The Board has overall responsibility in maintaining a sound internal control system for the Group to achieve its objectives within an acceptable risk profile as well as safeguarding shareholders' investment and the Group's assets. An overview of the state of internal control within the Group is set out in the Statement on Internal Control on page 13 of this Annual Report.

Relationship with the Auditors

The Board has established a formal and transparent relationship with the auditors. The Audit Committee recommends the appointment of the external auditors and their remuneration. The appointment of the external auditors is subject to the approval of shareholders at the annual general meeting whilst their remuneration is determined by the Board. The roles of both the external and internal auditors are further described in the Audit Committee Report.

STATEMENT ON INTERNAL CONTROL

Introduction

The Board of Directors (“Board”) acknowledges the importance of maintaining a sound system of internal control to safeguard shareholders’ investments and the Group’s assets. Guided by the *Statement on Internal Control: Guidance for Directors of Public Listed Companies*, the Board is pleased to present the Statement on Internal Control of the Group (excluding associated companies, as the Board does not have control over their operations) pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad.

Board Responsibility

The Board affirms its overall responsibility for the Group’s system of internal control and risk management, and for reviewing the adequacy and integrity of these systems. However, in view of the inherent limitations in any system, such internal control systems are designed to manage rather than to eliminate risks that may impede the achievement of the Group’s objectives. The systems can therefore only provide reasonable and not absolute assurance against material misstatements, frauds or losses. The system of internal control covers risk management and financial, organisational, operational and compliance controls.

The Board confirms that there is an on-going process of identifying, evaluating and managing significant risks by the management. This process has been put in place for the year and is reviewed periodically by the Board through its Audit Committee which is supported by the Internal Auditors.

Risk Management

The Board regards risk management as an integral part of business operations. A Corporate Risk Management Framework was developed and documented via a Corporate Risk Management Manual which sets out in a comprehensive manner the process adopted by the Group towards risk identification, evaluation, control and monitoring. The Risk Management Committee continues to play a pivotal role in overseeing the implementation of the risk management framework, periodically reviewing the risk management scorecards and reporting the status to the Audit Committee.

Control and Monitoring Process

The Board is committed to maintaining a strong internal control structure for the proper conduct of the Group’s business operations. The key elements include:

- An operational structure with defined lines of responsibility and delegation of authority together with a hierarchical structure of reporting and accountability
- Internal policies and procedures that are regularly updated to reflect changing risks or resolve operational deficiencies including to clearly define limits of authority
- A detailed budgeting process which requires all business units to prepare budget and business plan on an annual basis
- Review of key business variables and the monitoring of the achievements of the Group’s performance on a quarterly basis by the Board and the Audit Committee
- Confirmation of the effectiveness of internal control and risk assessment process by the chief executive officer or general manager of key operating companies by way of completion of the Internal Control – Self-Assessment Questionnaire on an annual basis
- Periodic examination of business processes and systems of internal control by the internal audit function which regularly submits its reports to the Audit Committee

The system of internal control was generally satisfactory and has not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group’s Annual Report.

AUDIT COMMITTEE REPORT

COMPOSITION

As at the date of this Annual Report, the composition of the Audit Committee is as follows:

- **Members**

Y. Bhg. Dato' Dali Mahmud Hashim
(Chairman, Independent Non-Executive Director)

Y. Bhg. Dato' Mohamad bin Haji Ahmad
(Independent Non-Executive Director)

Y. Bhg. Dato' Kalsom binti Abd. Rahman
(Independent Non-Executive Director)

Cik Zainab binti Dato' Hj. Mohamed
(Independent Non-Executive Director)

The composition of the Audit Committee complies with paragraphs 15.10 and 15.11 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

- **Secretaries**

The Secretaries of Lion Forest Industries Berhad, Ms Wong Phooi Lin and Puan Yasmin Weili Tan binti Abdullah, are also Secretaries of the Audit Committee.

TERMS OF REFERENCE

- **Membership**

The Audit Committee shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, a majority of whom shall be independent directors. The composition of the Audit Committee shall fulfill the requirements as prescribed in the Listing Requirements of Bursa Securities. The Chairman of the Audit Committee shall be an independent director appointed by the Board.

- **Meetings and Minutes**

The Audit Committee shall meet at least four (4) times annually and the Chief Internal Auditor and the Chief Financial Officer shall normally be invited to attend the meetings. At least once a year, the Audit Committee shall meet with the external auditors without the non-independent directors being present. A majority of independent directors present shall form a quorum.

Minutes of each meeting shall be kept and distributed to each member of the Audit Committee and the Board. The Chairman of the Audit Committee shall report on each meeting to the Board.

- **Authority**

In conducting its duties and responsibilities, the Audit Committee shall have:

- (a) the authority to investigate any matter within its terms of reference.
- (b) the resources which are required to perform its duties.
- (c) full and unrestricted access to any information pertaining to the Company and the Group.
- (d) direct communication channels with the external and internal auditors.
- (e) the right to obtain independent professional or other advice as necessary.
- (f) the right to invite other Directors and/or management of the Company to attend any particular Audit Committee meeting to discuss specific issues.

- **Duties**

The duties of the Audit Committee are:

- (i) To consider the appointment, resignation and dismissal of external auditors and the audit fee.
- (ii) To discuss with the external auditors, prior to the commencement of audit, the nature and scope of audit and to ensure co-ordination of audit where more than one audit firm is involved.
- (iii) To review and assess the annual and quarterly financial statements prior to the approval of the Board, focusing on:
 - going concern assumption
 - compliance with accounting standards and regulatory requirements
 - changes in accounting policies and practices
 - significant issues arising from audit
- (iv) To discuss problems and reservations arising from the interim and final external audits, and any matter the external auditors may wish to discuss (in the absence of management, where necessary).
- (v) To review the external auditors' management letter and management's response thereto.
- (vi) To establish the following with the internal audit function:
 - review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work
 - review internal audit programme
 - ensure co-ordination of external audit with internal audit
 - consider the major findings of internal audit reviews/investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function
- (vii) To review any related party transaction and conflict of interest situation that may arise within the Company and the Group.
- (viii) To consider the appointment of independent advisers for corporate proposals involving related parties.
- (ix) To assess the quality and effectiveness of the system of internal control and efficiency of operations, and to review the risk policy and implementation of the risk management framework.
- (x) To promptly report to Bursa Securities on any matter where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Securities.
- (xi) To review any appraisal or assessment of the performance of the members of the internal audit function, approve any appointment or termination of senior staff members of the internal audit function and be informed of any resignation of internal audit staff members and reasons thereof.
- (xii) To perform any other such function as may be agreed to by the Audit Committee and the Board.

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year under review, six (6) Audit Committee Meetings were held for which full attendance were recorded for all the members of the Audit Committee.

The Audit Committee carried out its duties in accordance with its Terms of Reference during the year.

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

- **Financial Results**
 - (a) Reviewed the interim unaudited financial statements of the Group prior to recommending them for approval by the Board.
 - (b) Reviewed the annual financial statements of the Group prior to submission to the Board for their consideration and approval focusing particularly on changes in accounting policies, significant and unusual events and compliance with applicable accounting standards approved by the Malaysian Accounting Standards Board (“MASB”) and other legal requirements.
- **Internal Audit**
 - (a) Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Group, taking into consideration the assessment of key risk areas.
 - (b) Reviewed the audit programmes, resource requirements and skill levels of the internal auditors for the year and assessed the performance of the internal audit function.
 - (c) Reviewed the internal audit reports, audit recommendations made and management response to these recommendations and actions taken to improve the system of internal control and procedures.
 - (d) Monitored the implementation of the audit recommendations to ensure that all key risks and controls have been addressed.
 - (e) Reviewed the Internal Control – Self-Assessment ratings submitted by the respective operations management.
- **External Audit**
 - (a) 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.
 - (b) Reviewed with external auditors the results of the audit and the audit report in particular, accounting issues and significant audit adjustments arising from the external audit.
 - (c) Reviewed with external auditors the memorandum of comments and recommendations arising from their study and evaluation of the system of internal and accounting controls together with management’s response to the findings of the external auditors.
 - (d) Evaluated the performance of the external auditors and made recommendations to the Board on their appointment and remuneration.
 - (e) Convened a meeting with the external auditors without the non-independent directors being present to discuss issues arising from their review.
- **Risk Management**

Reviewed the Corporate Risk Scorecard of key operations and the mitigating controls to address identified risks.
- **Related Party Transactions**

Reviewed related party transactions entered into by the Group. Reviewed recurrent related party transactions of a revenue or trading nature on a quarterly basis for compliance with the Shareholders’ Mandate.
- **Allocation of Share Options**

Verified the allocation of options pursuant to the Executive Share Option Scheme of the Company.

NOMINATION COMMITTEE

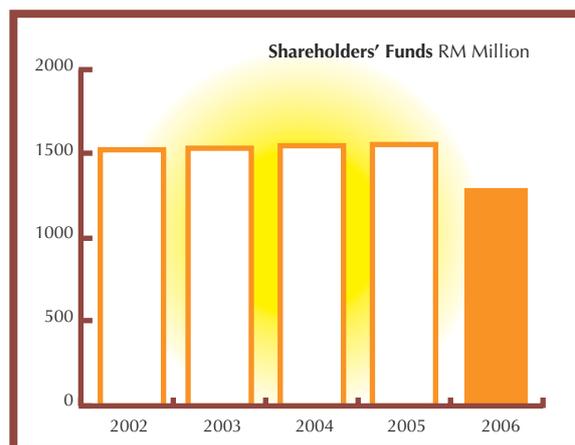
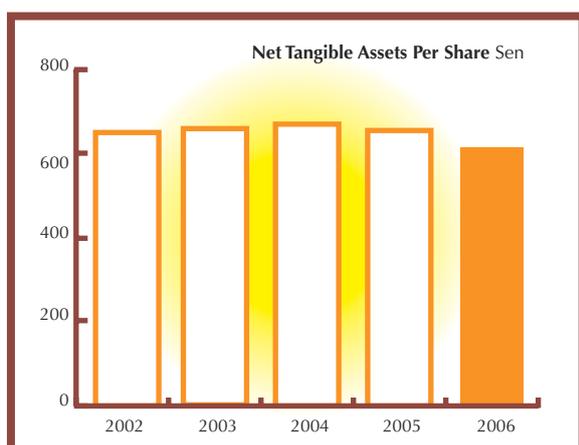
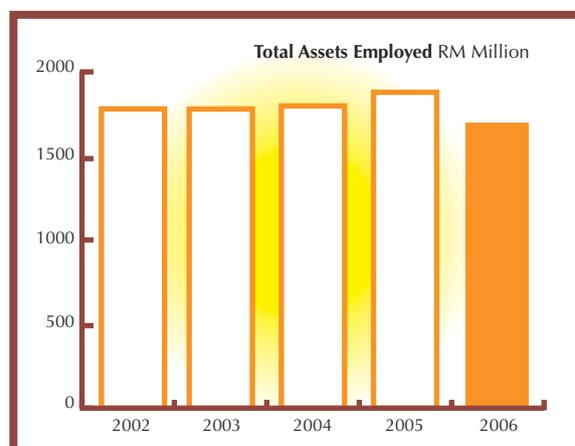
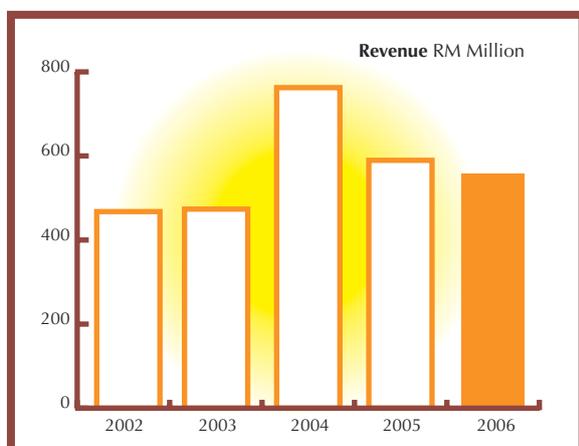
Chairman	:	Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim <i>(Non-Independent Non-Executive Director)</i>
Members	:	Y. Bhg. Dato' Dali Mahmud Hashim <i>(Independent Non-Executive Director)</i> Cik Zainab binti Dato' Hj. Mohamed <i>(Independent Non-Executive Director)</i>
Terms of Reference	:	<ul style="list-style-type: none"> • To recommend to the Board, candidates for directorships in Lion Forest Industries Berhad • To consider, in making its recommendations, candidates for directorships proposed by the Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any director or shareholder • To recommend to the Board, directors to fill the seats on Board Committees • To assist the Board in reviewing on an annual basis, the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board • To assess, on an annual basis, the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual director, based on the process and procedure laid out by the Board

REMUNERATION COMMITTEE

Chairman	:	Y. Bhg. Dato' Dali Mahmud Hashim <i>(Independent Non-Executive Director)</i>
Members	:	Mr Ngan Yow Chong <i>(Non-Independent Executive Director)</i> Cik Zainab binti Dato' Hj. Mohamed <i>(Independent Non-Executive Director)</i>
Terms of Reference	:	<ul style="list-style-type: none"> • To recommend to the Board the remuneration of the Executive Directors in all its forms, drawing from outside advice as necessary • To carry out other responsibilities, functions or assignments as may be defined by the Board from time to time

5 YEARS' GROUP FINANCIAL HIGHLIGHTS

Financial years ended 30 June	2002	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	468,074	475,150	765,096	590,388	559,755
Profit/(Loss) before taxation	1,556	10,368	39,351	36,071	(238,833)
Profit/(Loss) after taxation	(33)	7,386	34,312	29,744	(240,922)
Dividends:					
Rate (%)	0.1	8.0	17.5	16.0	-
Amount (net of tax)	146	12,104	35,563	33,586	-
Total assets employed	1,804,562	1,792,951	1,818,872	1,897,843	1,709,113
Shareholders' funds	1,526,655	1,531,593	1,539,606	1,552,019	1,295,136
Net tangible assets	1,324,744	1,339,828	1,357,987	1,380,546	1,294,491
	Sen	Sen	Sen	Sen	Sen
Net tangible assets per share	652	659	668	658	616
Earnings/(Loss) per share	(0.1)	3.4	16.5	14.0	(111.5)



THE GROUP'S BUSINESSES



- Sabah Forest Industries Sdn Bhd, our integrated pulp & paper mill in Sipitang, produces (from top left, clockwise) quality printing and writing paper, plywood, sawn timber and veneer.
- Sabah Forest Industries Sdn Bhd, kilang pulpa dan kertas bersepadu di Sipitang mengeluarkan (dari atas, arah jam) kertas cetak dan tulis berkualiti, papan lapis, balak bergergaji dan venir.



- The Group's investment in Shandong Silverstone LuHe Rubber & Tyre Co., Ltd in China which produces all-steel radial truck tyres.
- Pelaburan Kumpulan dalam Shandong Silverstone LuHe Rubber & Tyre Co., Ltd di China mengeluarkan tayar trak radial keluli.



- Posim Petroleum Marketing Sdn Bhd distributes the Hi-Rev range of motor oil and lubricants, and automotive components and accessories such as 4W Grandprix Battery, Engine Flush, Fuel Injection Cleaner and Smoke Supressant.
- Posim Petroleum Marketing Sdn Bhd mengedar rangkaian minyak motor dan pelincir berjenama Hi-Rev, serta komponen dan aksesori automotif seperti 4W Grandprix Battery, Engine Flush, Fuel Injection Cleaner dan Smoke Supressant.

PENYATA Pengerusi

Bagi pihak Lembaga Pengarah, saya dengan ini membentangkan Laporan Tahunan dan Penyata Kewangan Beraudit Lion Forest Industries Berhad bagi tahun kewangan berakhir pada 30 Jun 2006.

PRESTASI KEWANGAN

Kumpulan mencatatkan perolehan yang rendah berjumlah RM560 juta bagi tahun dalam kajian, berikutan penurunan jualan produk-produk kertas oleh operasi pulpa dan kertas kita. Selain berhadapan dengan kekurangan balak berikutan keadaan cuaca hujan yang luar biasa di kawasan-kawasan pembalakan, kilang kertas kita juga mengalami kelewatan untuk meneruskan pengeluarannya kerana masalah-masalah teknikal yang berlaku selepas aktiviti tahunan menyelenggara dan meningkatkan taraf logi. Bahagian Bahan Binaan kita juga melaporkan permintaan yang rendah akibat daripada pasaran pembinaan yang lemah sementara Bahagian Tayar di China pula merekodkan perolehan berjumlah RM42 juta dalam tahun pertama operasinya.

Seiring dengan perolehan yang rendah, Kumpulan mencatatkan kerugian operasi berjumlah RM72 juta berbanding keuntungan RM38 juta pada tahun lalu berikutan prestasi yang kurang memuaskan terutamanya oleh Bahagian Pengekstrakan Kayu Balak, serta Pulpa dan Kertas dan kerugian awal oleh Bahagian Tayar China dalam operasi sulungnya. Bahagian-bahagian lain melaporkan keuntungan lebih rendah apabila margin keuntungan menyusut akibat kos yang meningkat. Bagi tahun kajian, Kumpulan juga telah membuat peruntukan perakaunan berjumlah RM161 juta khususnya ke atas muhibbah susulan daripada hasrat untuk melupuskan perniagaan perhutannya. Oleh yang demikian, Kumpulan merekodkan kerugian sebelum cukai yang agak tinggi berjumlah RM239 juta berbanding keuntungan sebelum cukai berjumlah RM36 juta pada tahun lalu.

PERKEMBANGAN KORPORAT

Pada akhir tahun kewangan, Syarikat telah memeterai perjanjian bagi melupuskan keseluruhan pegangan ekuiti sebanyak 97.78% dalam Sabah Forest Industries Sdn Bhd ("SFI") kepada JP Morgan Special Situations Asia Corporation dan Ballarpur Industries Limited untuk imbalan tunai berjumlah AS\$261 juta (dianggarkan berjumlah RM944.8 juta). Cadangan pelupusan ini adalah tertakluk pada kelulusan pihak berkuasa berkaitan dan para pemegang saham Syarikat.

Selain daripada memberi penghargaan kepada para pemegang sahamnya melalui cadangan pengagihan modal, Kumpulan berhasrat untuk menggunakan sebahagian dana daripada cadangan pelupusan tersebut bagi meningkatkan kemudahan pengeluaran operasi tayar di China dan membangunkan perniagaan perladangannya di Indonesia.

KAJIAN OPERASI

Pengekstrakan Kayu Balak, serta Pulpa dan Kertas

Tahun kewangan dalam kajian merupakan tempoh yang sukar dan mencabar bagi Bahagian ini. Bahagian, yang berada di bawah SFI, mengalami kerugian disebabkan oleh beberapa faktor dalaman dan luaran yang kurang menggalakkan. SFI mencatatkan perolehan yang rendah sebanyak 15% daripada RM384 juta yang dicapai pada tahun lalu kepada RM326 juta apabila jumlah jualan barangan kertas menyusut daripada 118,100 tan metrik ("TM") kepada 111,300 TM pada tahun ini. Peningkatan kapasiti pengeluaran oleh para pesaing di China dan Indonesia serta harga pulpa global yang rendah telah menghangatkan persaingan dalam tahun kewangan. Permintaan kertas yang rendah dipengaruhi oleh ketidakpastian terhadap pengukuhan harga pasaran telah menyebabkan para pedagang dan pengedar mengurangkan tempahan pukat mereka.

Pada tahun ini, purata harga jualan bagi kertas adalah AS\$715 se TM. Namun begitu, dalam terma Ringgit, purata harga jualan kertas adalah lebih rendah iaitu pada RM2,665 se TM berbanding RM2,715 se TM pada tahun lepas susulan daripada nilai Dolar AS yang lemah berbanding Ringgit. Pengeluaran kertas menurun sebanyak 15% terutamanya disebabkan oleh kekurangan balak berikutan cuaca lembap yang luar biasa di Sabah serta kelewatan dalam meneruskan operasi akibat masalah teknikal yang dihadapi selepas penyelenggaraan dan peningkatan taraf logi tahunan berjadual pada bulan April 2006.

Kos pengeluaran kertas se TM telah meningkat sebanyak 24% dalam tahun kewangan akibat daripada jumlah pengeluaran yang rendah dan kenaikan kos bahan mentah dan bahan boleh guna, terutamanya minyak yang digunakan dalam penjanaan logi stim milik sendiri.

Dengan harga jualan yang rendah dan peningkatan kos pengeluaran, SFI menanggung kerugian sebelum cukai berjumlah RM51.5 juta bagi tahun kewangan dalam tinjauan berbanding keuntungan RM38.1 juta pada tahun lalu.

Bahan Binaan dan Lain-lain

Permintaan bagi bahan binaan adalah lemah berikutan kelembapan sektor pembinaan. Bagi tahun kewangan dalam kajian, jumlah perolehan adalah RM136 juta berbanding RM154 juta pada tahun lalu, terutamanya disebabkan oleh pemberhentian perniagaan barangan keluli bermargin rendah. Pelaksanaan Rancangan Malaysia Ke-9 yang bakal dilaksanakan dijangka akan merangsang industri pembinaan dan meningkatkan permintaan bagi bahan-bahan binaan. Kedudukan daya saing kita akan membolehkan kita berada dalam landasan betul sejajar dengan rancangan dan hasrat untuk mempertingkatkan prestasi kewangan.

Di sebalik suasana persekitaran perniagaan yang lemah dan peningkatan kos bahan mentah, Bahagian Minyak Pelincir dan aksesori Kenderaan terus mencatat keputusan baik sekali lagi pada tahun ini. Ia mencatat keuntungan sebelum cukai berjumlah RM5.9 juta, meningkat 12% daripada RM5.3 juta pada tahun kewangan sebelumnya. Langkah berterusan yang sedang diambil untuk meningkatkan kecekapan operasi dan usaha-usaha mempelbagaikan rangkaian produknya telah menyumbang kepada peningkatan prestasi.

Dalam tahun kewangan, Kumpulan telah memperbadankan P.T. Lion Intimung Malinau untuk mengusahakan cadangan pembangunan ladang kelapa sawit seluas 40,000 hektar dan pembinaan dua buah kilang memproses minyak sawit di Wilayah Malinau, Indonesia. Pembangunan projek ini masih tertakluk kepada kelulusan pihak berkuasa berkaitan di Indonesia.

Tayar

Bahagian Tayar, di bawah Shandong Silverstone LuHe Rubber & Tyre Co Ltd, mempunyai sebuah kilang pengeluaran yang terletak di Zhucheng dalam Wilayah Shandong, China dengan kapasiti pengeluaran tahunan sehingga 300,000 buah tayar trak radial keluli sepenuhnya.

Bahagian ini telah mula mengeluarkan tayar secara komersial pada bulan Julai 2005. Sebagai peserta baru dalam industri tayar China yang amat kompetitif, Bahagian ini lebih menekankan kepada pengeluaran pelbagai jenis tayar berkualiti yang memenuhi piawai pasaran antarabangsa dan melaksanakan strategi-strategi pemasaran yang agresif untuk mempromosi barangannya.

Dalam tahun kewangan, Bahagian telah mengeluarkan sejumlah 77,500 buah tayar trak, mewakili hampir 26% daripada kapasiti penuhnya. Disebabkan tahap pengeluarannya yang masih awal serta berdepan dengan kenaikan tinggi kos bahan mentah, terutamanya harga getah dan karbon dalam tahun kewangan semasa, Bahagian ini telah mengalami kerugian berjumlah RM22 juta untuk keseluruhan tahun pertama operasinya dengan bersandarkan perolehan berjumlah RM42 juta.

Dengan perkembangan ekonomi yang terus kukuh, China telah menjadi salah sebuah negara pengeluar automotif terbesar di dunia. Pembangunan pesat dalam pasaran automotif China dipacu oleh peningkatan taraf

hidup pengguna dan permintaan tinggi bagi kereta penumpang. Untuk memenuhi keperluan pasaran, Bahagian ini bercadang untuk memasang kemudahan pengeluaran tayar penumpang radial semi-keluli bagi melengkapkan kilang yang sedia ada. Kemudahan pengeluaran baru ini tidak hanya akan menyediakan ekonomi bidang tetapi juga memberi lebih pilihan kepada para pelanggan terhadap rangkaian produknya.

PROSPEK

Dengan pelaksanaan pelupusan Bahagian Pengekstrakan Balak, serta Pulpa dan Kertas, Kumpulan berhasrat untuk menumpukan sumber-sumbernya bagi mempertingkatkan pulangan kepada para pemegang saham menerusi segmen-segmen perniagaan yang baru diambil alih. Walaupun perniagaan sedia ada dijangka akan terus menguntungkan, namun usaha sedang dibuat untuk meningkatkan produktiviti dan paras kecekapan dalam menghadapi cabaran akan datang.

LEMBAGA PENGARAH

Pada Mesyuarat Agung Tahunan akan datang, Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim akan bersara sebagai Pengarah Syarikat dan tidak bercadang untuk dilantik semula. Bagi pihak Lembaga Pengarah, saya ingin mengambil peluang ini untuk mengucapkan terima kasih kepada beliau di atas sumbangan yang tidak ternilai kepada Syarikat sepanjang tempoh lebih dari 15 tahun beliau bertugas.

PENGHARGAAN

Bagi pihak Lembaga Pengarah, saya mengambil peluang ini untuk merakamkan penghargaan saya kepada pihak pengurusan dan para pekerja Kumpulan di atas kesungguhan dan komitmen yang telah diberikan. Saya juga ingin merakamkan penghargaan Lembaga Pengarah kepada para pelanggan, pembiaya, sekutu perniagaan, Kerajaan dan para pemegang saham yang dihargai atas sokongan dan keyakinan yang berterusan yang diberikan kepada Kumpulan.

TAN SRI WILLIAM H.J. CHENG

Pengerusi

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I hereby present to you the Annual Report and Audited Financial Statements of Lion Forest Industries Berhad for the financial year ended 30 June 2006.

FINANCIAL PERFORMANCE

The Group recorded a lower revenue of RM560 million for the year under review due to the lower sales of paper products by our pulp and paper operations. Besides facing a shortage of logs due to the exceptionally wet weather conditions at the logging areas, our paper plant also encountered a delay in the resumption of production due to technical problems arising after its scheduled annual plant maintenance and upgrading. Our Building Materials Division also reported lower demand due to the weak construction market while our Tyre Division in China recorded a revenue of RM42 million in its first year of operation.

In tandem with the lower revenue, the Group recorded an operational loss of RM72 million as against a profit of RM38 million last year on account of lower performance mainly by the Timber Extraction and Pulp and Paper Division and the recognition of an initial loss incurred by the China Tyre Division in its maiden operation. Other Divisions reported lower profits as margins were squeezed by higher production costs. For the year under review, the Group has also made a one-off accounting allowance of RM161 million in respect of its goodwill in view of its intention to divest the forestry business. As such, the Group recorded a considerably higher loss before taxation of RM239 million as against a profit before tax of RM36 million last year.

CORPORATE DEVELOPMENT

At the end of the financial year, the Company entered into an agreement for the disposal of its entire shareholding of approximately 97.78% equity interest in Sabah Forest Industries Sdn Bhd ("SFI") to JP Morgan Special Situations Asia Corporation and Ballarpur Industries Limited for a total cash consideration of USD261 million (approximately RM944.8 million). The proposed disposal is subject to the approvals of the relevant authorities and the shareholders of the Company.

Apart from rewarding its shareholders by way of a proposed capital distribution, the Group intends to utilise part of the proceeds from the proposed disposal to further expand the production facility of its tyre operations in China and develop its plantation business in Indonesia.

REVIEW OF OPERATIONS

Timber Extraction and Pulp and Paper

The financial year under review has been a difficult and challenging one for the Division. The Division, under SFI, suffered a loss caused by several unfavourable external and internal factors. SFI registered a 15% decline in revenue from RM384 million achieved last year to RM326 million as sales volume of paper products decreased from 118,100 metric ton ("MT") to 111,300 MT this year. Increased production capacities by competitors in China and Indonesia as well as the softening of the global pulp prices have intensified market competition throughout the year. Demand for paper was lower on the back of uncertainties as to the sustainability of prices thereby leading to merchants and distributors cutting back on their bulk orders.

During the year, the average selling prices for paper was USD715 per MT. However, in Ringgit terms, the average selling price for paper was lower at RM2,665 per MT as compared to RM2,715 per MT last year due to the weakening of the US Dollar against the Ringgit. Production of paper declined by 15% mainly due to the shortage of logs caused by the exceptionally wet weather in Sabah and the delay in resumption of operations as a result of technical difficulties encountered subsequent to the scheduled annual plant maintenance and upgrading in April 2006.

The production costs per MT of paper had increased by 24% during the financial year as a result of the lower production volume and increase in raw materials and consumable costs, especially on the fuel oil, which is used in its own steam generating plant.

With the lower selling prices and increase in production costs, SFI incurred a loss before taxation of RM51.5 million for the financial year under review as against a profit of RM38.1 million last year.

Building Materials and Others

Demand for building materials was weak due to the sluggish construction sector. For the financial year under review, total revenue was RM136 million as compared to RM154 million last year mainly due to the cessation of trading of lower margin steel products. The impending implementation of 9th Malaysia Plan is expected to offer some impetus to lift the construction industry and stimulate the demand for building materials. Our competitive positioning will enable us to stay on track with our plans and initiatives to improve our financial performance.

Despite the soft business environment and escalation in the cost of raw materials, our Lubricant and Motor Accessories Division continued to register another year of commendable results. It registered a pre-tax profit of RM5.9 million, a 12% increase from RM5.3 million in the previous financial year. Ongoing measures to enhance operational efficiency and continuing efforts to expand its products range had contributed to improvements in its performance.

During the financial year, the Group incorporated P.T. Lion Intimung Malinau to undertake the proposed development of 40,000 hectares of oil palm plantation and the construction of two crude palm oil mills in the Malinau Regency, Indonesia. The development of this project is pending approval from the relevant authorities in Indonesia.

Tyre

The Tyre Division, under Shandong Silverstone LuHe Rubber & Tyre Co Ltd, has a tyre manufacturing plant located in Zhucheng in Shandong Province, China with an annual production capacity of up to 300,000 pieces of all steel radial truck tyres.

The Division commenced commercial production of tyres in July 2005. As a new player in a highly competitive tyre industry in China, the Division focused on producing the right mix of quality tyres complying to international market standards and implemented various aggressive marketing strategies to promote its products.

During the financial year, the Division produced a total of 77,500 pieces of truck tyres, representing approximately 26% of its full capacity. Being at the preliminary stages of production and facing a significant increase in raw material costs, especially rubber and carbon black prices, the Division incurred a loss of RM22 million for its first full year of operation on the back of RM42 million revenue.

With the continued strong growth in its economy, China has become one of the largest automobile manufacturers in the world. The rapid development in China's automotive market was driven by the rising consumer affluence and the high demand for passenger cars. To meet the needs of the market, the Division plan to install a semi-steel radial passenger tyre production

facility to complement the existing line. The new production facility will not only provide economies of scale but also a wider choice of product range for its customers.

PROSPECTS

With the impending divestment of its Timber Extraction, and Pulp and Paper Division, the Group intends to focus its resources towards enhancing returns to shareholders in its newly acquired business segments. While its remaining business is expected to remain profitable, efforts are being undertaken to raise productivity and efficiency levels to meet the challenges ahead.

BOARD OF DIRECTORS

At the forthcoming Annual General Meeting, Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim will retire as a Director of the Company and will not seek re-appointment. On behalf of the Board of Directors, I would like to express my sincere appreciation and gratitude for his invaluable contributions during his term of office of more than 15 years.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to thank the management team and staff at all level for their untiring efforts and dedication. I also wish to extend the Board's appreciation to our valued customers, bankers, business associates, the Government and shareholders for the continued support and confidence in the Group.

TAN SRI WILLIAM H.J. CHENG
Chairman

主席报告

我谨代表董事部，欣然向您提呈金狮森林工业有限公司，截至2006年6月30日止财政年度内的常年报告及已审核财务报表。

财务表现

本集团在本财政年度内取得5亿6千万令吉的较低收入，主要是因为林业业务的纸品销售走低造成。除了面对伐木地区出现异常潮湿的天气造成圆木短缺之外，我们的造纸厂在年度的定期维修和提升素质而停机后，也因出现技术问题而造成机器延迟恢复操作。我们的建材业务也因为萧条的建筑业而面对较低的市场需求，而中国的轮胎业务则在首年运作中取得4千200万令吉的销售收入。

鉴于销售收入较低，本集团蒙受7千200万令吉的营运亏损，比较去年则为3千800万令吉的盈利，主要是因为林业业务的表现欠佳，而中国的轮胎业务首年运作中蒙受初期亏损。其他业务同样取得较低的盈利，主要是因为生产成本增加。检讨年度内，由于计划脱售林业业务，本集团也作出一次性的1亿6千100万令吉的减值准备。因此，本集团蒙受2亿3千900万令吉的较高税前亏损，比较去年则为3千600万令吉的税前盈利。

企业发展

财政年度结束时，本公司和 JP Morgan Special Situations Asia Corporation 和 Ballarpur Industries Limited 签署合约，以现金2亿6千100万美元(约9亿4千480万令吉)，完全脱售持有的沙巴森林工业有限公司(Sabah Forest Industries Sdn Bhd) 97.78%股权。这项脱售建议仍取决于相关当局和公司股东的批准。

除了通过建议中的资本派发方式以回馈股东，本集团也计划使用脱售建议所得，进一步扩张中国轮胎业务的生产设施，同时也用来扩展印尼的种植业务。

业务检讨

伐木业和纸浆及纸张业

本财政年度是伐木业和纸浆及纸张业务困难重重和充满挑战的一年。这些沙巴森林工业属下的业务，受到一些不利的内在和外在因素影响而蒙受亏损。沙巴森林工业的收入比去年减少15%，从3亿8千400万令吉减至3亿2千600万令吉，主要是因为今年的纸品销售量从去年的11万8千100公吨减少至11万1千400公吨。由于竞争对手中国和印尼增产，加上全球纸浆价格走软，加剧了全年的市场竞争。由于市场情绪疲弱，商家和分销商对价格的持续稳定信心不足，纷纷减少大宗订单，造成纸张需求走低。

本财政年度内，纸张的市场价格为每公吨715美元。不过，由于美元对令吉疲弱，以令吉计算，纸张的每公吨平均价却从去年的2千715令吉跌至2千665令吉。

由于伐木地区出现异常潮湿的天气造成圆木短缺，加上纸厂于2006年4月在进行年度定期维修和提升素质而停机后，出现技术问题造成机器延迟恢复操作，导致纸张产量下跌15%。

纸张的每公吨生产成本在本财政年度内扬升24%，主要是因为较低的产量及原料和耗材成本增加，尤其是公司本身的蒸气发电厂所消耗的燃油价格大起。

面对较低的售价及走高的生产成本，沙巴森林工业在本财政年度内蒙受5千150万令吉的税前亏损，去年则取得3千810万令吉的盈利。

建筑材料和其他

建筑业的不景造成建筑材料的需求保持疲弱。本财政年度内，这个项目的销售收入为1亿3千600万令吉，去年则为1亿5千400万令吉，主要是因为集团终止较低利润的钢铁产品销售。正在落实中的第九大马计划料将推动建筑领域，进而有助刺激建材的需求。我们的竞争优势将让我们有能力按照定下的计划和措施向前迈进，以改善财务表现。

尽管商业环境趋软及原料成本剧增，我们的润滑油和汽车配件业务继续取得标青表现，达到590万令吉的税前盈利，比前财政年度的530万令吉增加。本集团不断加强其运作效率，及扩大产品种类的努力，也为润滑油和汽车配件业务的较佳表现做出贡献。

本财政年度内，本集团成立了P.T. Lion Intimung Malinau 以在印尼的 Malinau Regency 进行建议中，占地4万公顷的油棕种植和两间棕油厂发展计划。这项发展计划目前仍取决于印尼各相关当局的批准。

轮胎

山东银石泸河橡胶轮胎有限公司 Shandong Silverstone LuHe Rubber & Tyre Co Ltd 属下的轮胎业务，在中国山东省诸城市设有轮胎制造厂，年产量高达30万个各类全钢卡车子午轮胎。

轮胎业务的商业性生产是从2005年7月开始。由于是竞争激烈的中国轮胎市场新手，公司专注生产一些符合国际市场标准的高品质的轮胎种类，同时也实行各种积极的营销策略，以促销产品。

本财政年度内，轮胎业务共生产7万7千500个卡车轮胎，相等于其全面产能的约26%。由于在投产初期就面对原料成本的显著扬升，尤其是橡胶价格在财政年度内大起，导致轮胎业务在全面操作的首年度，蒙受2千200万令吉的亏损，销售收入则为4千200万令吉。

持续强劲的经济成长，使中国成为全球最大的汽车制造商之一。中国汽车市场的迅速发展，是由于消费人日益富裕及轿车需求日增所推动。为了应付市场需求，本组建议安装半钢轿车子午轮胎生产设备，以便能够和现有的厂房相辅相成。新的生产设施不仅可带来经济效益，也能够为客户提供更多样化的产品种类选择。

展望

本集团计划脱售伐木、纸浆和造纸业务，把资源专注在能够为股东加强回酬的新收购业务方面。余下的业务料将继续取得盈利，因此本集团正在致力提高生产力和效率，以应付未来的挑战。

董事部

在即将召开的常年股东大会上，Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim 将退休并决定不再寻求委托以重选为本公司董事。我谨代表董事部，对他过去超过15年在位期间所做出的贡献，向他表达致诚感激和谢意。

鸣谢

我谨代表董事部，衷心感谢管理层和全体职员尽忠职守和为工作献身的精神，同时也要感谢珍贵的客户、银行机构、商业伙伴、政府当局及股东对本集团的持续支持和信心。

主席
丹斯里钟廷森

FINANCIAL STATEMENTS

2006

For The Financial Year Ended 30 June 2006

DIRECTORS' REPORT

The directors of **LION FOREST INDUSTRIES BERHAD** hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding, trading and distribution of building materials, and trading of steel products.

The principal activities of the subsidiary companies and of the associated company are as listed in Notes 15 and 16 to the Financial Statements respectively.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year other than as disclosed in Note 15 to the Financial Statements.

SIGNIFICANT CORPORATE EVENTS

- (a) On 31 January 2005, the Company and its wholly-owned subsidiary, Quay Class Ltd ("QCL"), entered into a conditional sale and purchase of shares agreement ("SPA") with Silverstone Corporation Berhad ("SCB") to acquire the entire issued and paid-up share capital of Silverstone Berhad ("SB"), a wholly-owned subsidiary of SCB, for a purchase consideration of RM225,000,000. The purchase consideration was proposed to be satisfied by a combination of RM72,610,000 via the issue and allotment of 26,500,000 new ordinary shares of RM1.00 each in the Company at an issue price of RM2.74 each and the balance of RM152,390,000 in deferred cash payments ("Proposed Acquisition").

During the financial year, the Company had been advised by the Securities Commission ("SC") vide its letter dated 16 September 2005 that the SC was unable to consider the Company's application for the Proposed Acquisition as SCB's application in respect of its proposed disposal of SB to QCL was not approved by the SC.

In view that SCB's subsequent appeal was not approved by the SC and after further consideration in respect of the Proposed Acquisition, the parties to the SPA had on 28 July 2006 mutually agreed that the conditional period of the SPA would not be extended and hence, the SPA was terminated on 28 July 2006.

- (b) On 4 August 2005, Posim EMS Sdn Bhd ("Posim EMS"), a wholly-owned subsidiary of the Company, and Digital Engines Sdn Bhd ("Digital Engines") entered into an agreement wherein Digital Engines agreed to provide the relevant technology to Posim EMS to undertake the business of the provision of energy management and conservation services.

Pursuant to the agreement, Posim EMS issued and allotted 300,000 and 200,000 ordinary shares of RM1.00 each to the Company and Digital Engines on 29 August 2005 and 30 August 2005 respectively. Consequent thereto, the Company's equity interest in Posim EMS was reduced from 100% to 80%.

- (c) On 17 March 2005, the Company entered into an agreement with Pemerintah Kabupaten Malinau to set up a company for the proposed development of 40,000 hectares of oil palm plantation and the construction of two crude palm oil mills in the Malinau Regency, Kalimantan Timur, the Republic of Indonesia ("Indonesia") ("Plantation Development Project"). The aforesaid agreement was superseded by an agreement entered into between LFIB Plantations Sdn Bhd ("LFIB Plantations"), a wholly-owned subsidiary of the Company, and Perusahaan Daerah Intimung Kabupaten Malinau ("PD Intimung") on 20 June 2005 to undertake the Plantation Development Project.

On 19 April 2006, P.T. Lion Intimung Malinau (“P.T. Lion”) was incorporated with LFIB Plantations and PD Intimung holding 95% and 5% of its equity interest respectively. P.T. Lion is currently dormant as the Plantation Development Project is pending approval from the relevant authorities in Indonesia.

- (d) On 4 June 2006, the Company entered into a conditional share purchase agreement with JP Morgan Securities (Asia Pacific) Limited (“JP Morgan Securities”), a company incorporated in Hong Kong (“Agreement”), and a deed of adherence (“Deed of Adherence”) with JP Morgan Securities and Ballarpur Industries Limited (“Ballarpur”), a company incorporated in India, for the disposal by the Company of its entire 97.78% shareholding in Sabah Forest Industries Sdn Bhd comprising 752,532,412 class A ordinary shares of RM1.00 each and 7,525,324,120 class B ordinary shares of RM0.10 each for a total cash consideration of USD261 million (approximately RM944.82 million) (“Proposed Disposal”).

On 5 July 2006, the Company announced the proposed utilisation of the cash proceeds to be derived from the Proposed Disposal (“Proposed Utilisation”) which involved, amongst others, a cash capital distribution of RM1.20 for every existing ordinary share of RM1.00 each held in the Company (“LFIB Share”) (“Proposed Capital Distribution”).

On 28 July 2006, the Company, JP Morgan Securities, Ballarpur and JP Morgan Special Situations Asia Corporation (“JP Morgan SSAC”), a company incorporated in the United States of America, entered into a deed of novation and amendment wherein JP Morgan Securities novates its obligations under the Agreement and the Deed of Adherence to JP Morgan SSAC as if JP Morgan SSAC was named as a party in place of JP Morgan Securities.

On 19 September 2006, the Company announced the revisions to the Proposed Utilisation which, amongst others, revised the Proposed Capital Distribution from RM1.20 per LFIB Share to RM2.00 per LFIB Share.

The Proposed Disposal is subject to the approvals of the relevant authorities and the shareholders of the Company.

RESULTS OF OPERATIONS

The results of operations of the Group and of the Company for the financial year are as follows:

	The Group RM'000	The Company RM'000
Loss before tax	(238,833)	(256,353)
Income tax expense	(2,089)	(1,640)
Loss after tax	(240,922)	(257,993)
Minority interests	6,727	-
Net loss for the year	(234,195)	(257,993)

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than the impairment loss on goodwill on consolidation and investment in a subsidiary company as disclosed in the income statements.

DIVIDEND

A final dividend of 11%, tax exempt, amounting to RM23,093,463 proposed in respect of the previous financial year and dealt with in the previous directors’ report was paid by the Company during the current financial year.

The directors do not recommend any dividend payment in respect of the current financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

During the current financial year, the issued and paid-up share capital of the Company was increased from RM209,940,571, comprising 209,940,571 ordinary shares of RM1.00 each to RM210,153,371, comprising 210,153,371 ordinary shares of RM1.00 each, by way of the issue of 212,800 new ordinary shares of RM1.00 each pursuant to the exercise of 212,800 options under the Company's Executive Share Option Scheme at an issue price of RM3.00 per share.

The resulting share premium of RM425,600 arising from the issue of shares has been credited to the share premium account.

The new shares issued rank *pari passu* in all material respects with the then existing shares of the Company.

The Company has not issued any debentures during the financial year.

EXECUTIVE SHARE OPTION SCHEME

An Executive Share Option Scheme ("ESOS") was implemented for the benefit of eligible executive employees and executive directors of the Group with effect from 1 September 2005.

The main features of the ESOS are as follows:

- (a) Executive directors and confirmed executive employees of the Group who have been employed on a continuous full-time basis for a period of not less than six months on the date of offer shall be eligible to participate in the ESOS.
- (b) The aggregate number of options exercised and options offered and to be offered under the ESOS shall not exceed 15% of the issued and paid-up share capital of the Company at any one time during the duration of the ESOS subject to the following being complied with:
 - (i) not more than 50% of the shares available under the scheme shall be allocated, in aggregate, to executive directors and senior management; and
 - (ii) not more than 10% of the shares available under the scheme shall be allocated to any eligible executive who, either singly or collectively through persons connected with him or her (as defined in paragraph 1.01 of the Listing Requirements of Bursa Malaysia Securities Berhad), holds 20% or more of the issued and paid-up capital of the Company.
- (c) No options shall be granted for less than 100 ordinary shares nor more than the maximum allowable allotment and each grant of options shall be in multiples of 100 ordinary shares.
- (d) The subscription price of each ordinary share under the ESOS shall be the weighted average market price of the shares for the five market days immediately preceding the date of offer on which the shares were traded with a discount of not more than 10%, or the par value of the shares, whichever is the higher.
- (e) The ESOS shall continue to be in force for a period of five years and the Company may, if the Board deems fit upon the recommendation of the Option Committee, renew the ESOS for a further five years, without further approval of the relevant authorities.

The persons to whom the options have been granted have no right to participate, by virtue of the options, in any share issue of any other company.

The movements of number of options granted, exercised and lapsed pursuant to the ESOS during the financial year are as follows:

Exercisable From	Subscription Price Per Share	Balance as of 1.9.2005	Granted	Exercised	Lapsed	Unissued Shares as of 30.6.2006
10.5.2006	RM3.00	-	4,078,600	(212,800)	(286,100)	3,579,700
26.6.2006	RM2.67	-	22,400	-	-	22,400
		-	4,101,000	(212,800)	(286,100)	3,602,100

During the financial year, the Company offered a grant of options to eligible executives and an executive director of the Company on 10 May 2006 ("1st Option") and made amendments to the 1st Option on 26 June 2006. The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of eligible employees who have been granted less than 80,000 options under the ESOS. The eligible employee (excluding the executive directors) who was granted 80,000 options or more during the financial year is as follows:

Name of Employee	Number of Options Granted at the Subscription Price of RM3.00 on 10.5.2006
Teo Chor Pheow	<u>87,500</u>

OTHER FINANCIAL INFORMATION

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

- (a) to ascertain that proper 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 that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances:

- (a) which 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; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

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

In the opinion of the directors, 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 operations of the Group and of the Company for the succeeding financial year.

DIRECTORS

The following directors served on the Board of the Company since the date of the last report:

Tan Sri William H.J. Cheng
 Ngan Yow Chong
 Jen (B) Tan Sri Dato' Zain Mahmud Hashim
 Dato' Mohamad bin Haji Ahmad
 Dato' Dali Mahmud Hashim
 Dato' Kalsom binti Abd. Rahman
 Zainab binti Dato' Hj. Mohamed

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Tan Sri William H.J. Cheng and Y. Bhg. Dato' Mohamad bin Haji Ahmad retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim, being over the age of seventy years, retires pursuant to Section 129(2) of the Companies Act, 1965 at the forthcoming Annual General Meeting and will not seek re-appointment as director.

DIRECTORS' INTERESTS

The shareholdings in the Company of those who were directors at the end of the financial year are as follows:

	Number of Ordinary Shares of RM1.00 each			Balance as of 30.6.2006
	Balance as of 1.7.2005	Bought	Sold	
Shares in the Company				
Direct Interest				
Dato' Mohamad bin Haji Ahmad	12,000	-	-	12,000
Indirect Interest				
Tan Sri William H.J. Cheng	170,488,512	-	-	170,488,512

In addition to the above, the following director is deemed to have interest in shares in the Company, by virtue of options granted to him pursuant to the ESOS of the Company which became effective on 1 September 2005:

	Options over Ordinary Shares of RM1.00 each			Balance as of 30.6.2006
	Balance as of 1.9.2005	Granted	Lapsed/ Exercised	
Ngan Yow Chong	-	94,500	-	94,500

The shareholdings in related companies of those who were directors at the end of the financial year are as follows:

	Nominal Value Per Ordinary Share	Balance as of 1.7.2005	Number of Shares		Balance as of 30.6.2006
			Bought	Sold	
Direct Interest					
Dato' Mohamad bin Haji Ahmad					
Lion Industries Corporation Berhad	RM1.00	3,276	-	-	3,276
Indirect Interest					
Tan Sri William H.J. Cheng					
Lion Industries Corporation Berhad	RM1.00	323,938,625	-	-	323,938,625
LLB Enterprise Sdn Bhd	RM1.00	690,000	-	-	690,000
LLB Strategic Holdings Berhad	RM1.00	4,050,000	-	-	4,050,000
Marvenel Sdn Bhd	RM1.00	100	-	-	100
Ototek Sdn Bhd	RM1.00	1,050,000	-	-	1,050,000
Posim EMS Sdn Bhd	RM1.00	500,000	300,000	-	800,000
P.T. Lion Intimung Malinau	USD1.00	-	4,750,000	-	4,750,000
Sabah Forest Industries Sdn Bhd					
- ordinary shares Class 'A'	RM1.00	752,532,412	-	-	752,532,412
- ordinary shares Class 'B'	RM0.10	7,525,324,120	-	-	7,525,324,120
Soga Sdn Bhd	RM1.00	4,332,078	-	-	4,332,078
Steelcorp Sdn Bhd	RM1.00	99,750	-	-	99,750
Holdsworth Investment Pte Ltd	*	4,500,000	-	-	4,500,000
Zhongsin Biotech Pte Ltd	*	1,000,000	-	-	1,000,000

* Shares in companies incorporated in Singapore do not have a par value.

	Nominal Value Per Deferred Share	Balance as of 1.7.2005	Number of Shares		Balance as of 30.6.2006
			Bought	Sold	
Sabah Forest Industries Sdn Bhd	RM1.00	146,000,000	-	-	146,000,000

Investments in the People's Republic of China	Currency	Balance as of 1.7.2005	Bought	Sold	Balance as of 30.6.2006
Beijing Trostel Property Development Co Ltd	USD	6,650,000	-	-	6,650,000
Shandong Silverstone LuHe Rubber & Tyre Co Ltd	USD	26,064,000	3,936,000	-	30,000,000
Shanghai Lion Plastic Industrial Co Ltd	USD	3,690,000	-	-	3,690,000
Tianjin Baden Real Estate Development Co Ltd	USD	5,000,000	-	-	5,000,000
Tianjin Hua Shi Auto Meter Co Ltd (Under liquidation)	USD	10,878,944	-	-	10,878,944

Other than those as stated above, the directors do not have any interest in shares in the Company or in its related companies during and at the end of the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit, other than those disclosed as directors' remuneration in 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 he is a member, or with a company in which he has a substantial financial interest, except for any benefit which may be deemed to have arisen by virtue of the transactions between the Company and its related companies and certain companies in which certain directors of the Company and/or its subsidiary companies or persons connected to such directors and/or substantial shareholders have interest as disclosed in Note 22 to the Financial Statements.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate except for the share options granted pursuant to the Company's ESOS as disclosed under Directors' Interests.

HOLDING COMPANY

The Company is a subsidiary of Lion Industries Corporation Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad, which is also regarded by the directors as the ultimate holding company.

AUDITORS

The auditors, Messrs Deloitte KassimChan, have indicated their willingness to continue in office.

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

TAN SRI WILLIAM H.J. CHENG

NGAN YOW CHONG

Kuala Lumpur,
2 October 2006

REPORT OF THE AUDITORS TO THE MEMBERS OF LION FOREST INDUSTRIES BERHAD

We have audited the accompanying balance sheets as of 30 June 2006 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

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

In our opinion:

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 ("Act") and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Group and of the Company as of 30 June 2006 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' reports of the subsidiary companies, of which we have not acted as auditors, as mentioned in Note 15 to the Financial Statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements, and we have received satisfactory information and explanations as required by us for these purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act.

DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants

LAI CAN YIEW
2179/09/07 (J)
Partner

Petaling Jaya
2 October 2006

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note(s)	The Group		The Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Revenue	4	559,755	590,388	134,073	170,623
Changes in inventories of finished goods, trading merchandise and work-in-progress		(6,200)	(9,074)	(136)	(22,149)
Raw materials and consumables used		(269,196)	(213,993)	-	-
Purchase of trading merchandise		(147,696)	(143,666)	(107,875)	(117,220)
Staff costs		(45,450)	(45,424)	(2,167)	(3,940)
Extraction fees		(7,209)	(13,544)	-	-
Timber royalties		(3,005)	(6,241)	-	-
Other production expenses		(70,308)	(57,069)	-	-
Depreciation of property, plant and equipment	11	(56,655)	(45,059)	(128)	(134)
Amortisation of:					
Intangible assets	12	(46)	-	-	-
Forest concessions	13	(10,796)	(10,796)	-	-
Goodwill on consolidation	18	(10,146)	(10,146)	-	-
Impairment loss on:					
Goodwill on consolidation	18	(161,076)	-	-	-
Investment in a subsidiary company	15	-	-	(279,421)	-
Other operating expenses		(24,916)	(19,419)	(6,254)	(1,779)
Other operating income		19,421	21,865	15,811	17,431
Profit/(Loss) from operations	5 & 6	(233,523)	37,822	(246,097)	42,832
Finance costs	7	(3,706)	(1,079)	(10,256)	(12,768)
Share in results of associated company		(1,604)	(672)	-	-
Profit/(Loss) before tax		(238,833)	36,071	(256,353)	30,064
Income tax expense	8	(2,089)	(6,327)	(1,640)	(1,421)
Profit/(Loss) after tax		(240,922)	29,744	(257,993)	28,643
Minority interests		6,727	(764)	-	-
Net profit/(loss) for the year		(234,195)	28,980	(257,993)	28,643
Earnings/(Loss) per ordinary share	9	(111.5) sen	14.0 sen		

The accompanying Notes form an integral part of the Financial Statements.

BALANCE SHEETS

AS OF 30 JUNE 2006

	Note	The Group		The Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
ASSETS (Notes 26 & 28)					
Property, plant and equipment	11	837,608	825,743	7,309	7,435
Intangible assets	12	454	-	-	-
Forest concessions	13	290,136	300,932	-	-
Plantation development expenditure	14	152,139	146,859	-	-
Investment in subsidiary companies	15	-	-	952,954	1,232,075
Investment in associated company	16	603	2,375	603	4,684
Other investments	17	99	302	39	242
Goodwill on consolidation	18	191	171,473	-	-
Deferred tax assets	19	319	419	-	155
Amount owing by holding company					
- non-current	22	50,000	70,000	50,000	70,000
Amount owing by subsidiary company					
- non-current	15	-	-	18,200	-
Current Assets					
Inventories	20	105,154	105,184	-	136
Trade receivables	21	80,759	93,912	9,818	16,031
Other receivables and prepaid expenses	21	21,861	15,081	1,088	2,231
Amount owing by holding company	22	20,000	17,480	20,000	17,480
Amount owing by subsidiary companies	15	-	-	37,864	33,515
Amount owing by other related companies	22	110,343	104,953	109,383	104,048
Fixed deposits with licensed banks	23	23,476	24,061	-	-
Cash and bank balances	24	15,971	19,069	2,172	2,291
		377,564	379,740	180,325	175,732
Current Liabilities					
Trade payables	25	51,075	30,377	14,232	16,499
Other payables and accrued expenses	25	95,928	83,711	787	1,216
Amount owing to subsidiary companies	15	-	-	37,329	35,965
Amount owing to other related companies	22	1,766	1,457	1,766	1,457
Bank borrowings	26	29,905	15,133	10,422	8,811
Tax liabilities		1,637	3,058	1,204	590
		180,311	133,736	65,740	64,538
Net Current Assets		197,253	246,004	114,585	111,194
Non-Current and Deferred Liabilities					
Hire-purchase payables	27	144	208	-	-
Long-term borrowings	28	27,093	-	-	-
Deferred tax liabilities	19	418	265	153	-
Amount owing to subsidiary company					
- non-current	15	-	-	68,200	70,000
		(27,655)	(473)	(68,353)	(70,000)
		1,501,147	1,763,634	1,075,337	1,355,785
Represented by:					
Issued capital	29	210,153	209,941	210,153	209,941
Reserves	30	1,084,983	1,342,078	865,184	1,145,844
Shareholders' Equity					
Minority interests	22	1,295,136	1,552,019	1,075,337	1,355,785
		206,011	211,615	-	-
		1,501,147	1,763,634	1,075,337	1,355,785

The accompanying Notes form an integral part of the Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

The Group	Note	Issued capital RM'000	Share premium RM'000	Translation adjustment account RM'000	Capital reserve RM'000	Capital redemption reserve RM'000	Unappropriated	Total shareholders' equity RM'000
							profit/ loss RM'000	
Balance as of 1 July 2004		203,219	1,100,200	(46)	49,189	9	187,035	1,539,606
Net profit for the year		-	-	-	-	-	28,980	28,980
Dividends	10	-	-	-	-	-	(30,915)	(30,915)
Issue of shares	29	6,722	7,626	-	-	-	-	14,348
Balance as of 30 June 2005		209,941	1,107,826	(46)	49,189	9	185,100	1,552,019
Net loss for the year		-	-	-	-	-	(234,195)	(234,195)
Dividends	10	-	-	-	-	-	(23,093)	(23,093)
Issue of shares	29	212	426	-	-	-	-	638
Translation adjustment for the year		-	-	(233)	-	-	-	(233)
Balance as of 30 June 2006		210,153	1,108,252	(279)	49,189	9	(72,188)	1,295,136

The Company	Note	Issued capital RM'000	Share premium RM'000	Unappropriated profit/ loss RM'000	Total shareholders' equity RM'000
Balance as of 1 July 2004		203,219	1,100,200	40,290	1,343,709
Net profit for the year		-	-	28,643	28,643
Dividends	10	-	-	(30,915)	(30,915)
Issue of shares	29	6,722	7,626	-	14,348
Balance as of 30 June 2005		209,941	1,107,826	38,018	1,355,785
Net loss for the year		-	-	(257,993)	(257,993)
Dividends	10	-	-	(23,093)	(23,093)
Issue of shares	29	212	426	-	638
Balance as of 30 June 2006		210,153	1,108,252	(243,068)	1,075,337

The accompanying Notes form an integral part of the Financial Statements.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

The Group	2006 RM'000	2005 RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Profit/(Loss) before tax	(238,833)	36,071
Adjustments for:		
Impairment loss on:		
Goodwill on consolidation	161,076	-
Property, plant and equipment	1,089	-
Other investments	203	-
Depreciation of property, plant and equipment	56,655	45,059
Amortisation of:		
Forest concessions	10,796	10,796
Goodwill on consolidation	10,146	10,146
Intangible assets	46	-
Finance costs	3,706	1,079
Share in results of associated company	1,604	672
Allowance for slow-moving and obsolete inventories	1,233	90
Allowance for doubtful debts	1,139	1,849
Inventories written down	477	36
Loss on striking off of a subsidiary company	131	-
Write-off of property, plant and equipment	-	43
Interest income	(16,113)	(18,132)
Allowance for doubtful debts no longer required	(332)	(901)
(Gain)/Loss on disposal of:		
Property, plant and equipment	(70)	(438)
Other investments	-	1
Operating Profit/(Loss) Before Working Capital Changes	(7,047)	86,371
(Increase)/Decrease in:		
Inventories; adjusted for depreciation of property, plant and equipment of RM2,788,000 (RM2,670,000 in 2005) and amortisation of plantation development expenditure of RM996,000 (RM102,000 in 2005)	2,104	4,794
Trade receivables	12,346	(25,146)
Other receivables and prepaid expenses	(6,779)	6,751
Increase in:		
Trade payables	20,698	7,376
Other payables and accrued expenses; excluding hire-purchase payables	13,251	32,233
Cash Generated From Operations	34,573	112,379
Interest received	616	1,472
Income tax paid	(3,089)	(8,991)
Net Cash From Operating Activities	32,100	104,860

(Forward)

The Group	Note	2006 RM'000	2005 RM'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Intangible assets acquired		(500)	-
Purchase of property, plant and equipment (Note)		(72,243)	(124,472)
Addition to other investments		-	(52)
Proceeds from disposal of property, plant and equipment		172	465
(Increase)/Decrease in:			
Amount owing by holding company		27,016	3,914
Amount owing by other related companies		(5,390)	(3,378)
Plantation development expenditure; adjusted for depreciation of property, plant and equipment of RM156,000 (RM325,000 in 2005)		(6,120)	(5,812)
Cash at banks held under Escrow Account and fixed deposits pledged		(1,027)	(61)
Interest received from other related companies		5,961	5,368
Net Cash Used In Investing Activities		<u>(52,131)</u>	<u>(124,028)</u>
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts and current portion of term loan		6,187	(407)
Amount owing to other related companies		309	523
Proceeds from term loan		34,883	-
Proceeds from issue of shares		638	14,348
Payment of hire-purchase payables		(225)	(184)
Dividends paid		(23,093)	(46,156)
Dividends paid to minority shareholder of subsidiary company		(536)	(585)
Finance costs paid		(3,667)	(1,079)
Net Cash From/(Used In) Financing Activities		<u>14,496</u>	<u>(33,540)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,535)	(52,708)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		40,939	93,647
Effect of exchange differences		30	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	35	<u>35,434</u>	<u>40,939</u>

Note: During the financial year, the Group acquired property, plant and equipment at an aggregate cost of RM72,508,000 (RM169,593,000 in 2005) of which RM265,000 (RM156,000 in 2005) was acquired under hire-purchase arrangements and RM Nil (RM37,443,000 in 2005) was contributed by a corporate shareholder of a subsidiary company in the People's Republic of China as capital injection in the subsidiary company. Cash payments for the acquisition of property, plant and equipment amounted to RM72,243,000 (RM124,472,000 in 2005) [net of finance costs of RM Nil (RM7,522,000 in 2005)].

(Forward)

The Company	2006	2005
	RM'000	RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Profit/(Loss) before tax	(256,353)	30,064
Adjustments for:		
Impairment loss on:		
Investment in a subsidiary company	279,421	-
Investment in associated company	4,081	-
Other investments	203	-
Finance costs	10,256	12,768
Allowance for doubtful debts	262	691
Depreciation of property, plant and equipment	128	134
Dividend income	(23,765)	(25,905)
Interest income	(15,773)	(17,231)
Allowance for doubtful debts no longer required	(111)	(596)
Loss on disposal of other investments	-	1
	<hr/>	<hr/>
Operating Loss Before Working Capital Changes	(1,651)	(74)
Decrease in:		
Inventories	136	22,149
Trade receivables	6,127	8,045
Other receivables and prepaid expenses	1,078	14,889
Increase/(Decrease) in:		
Trade payables	(2,267)	4,014
Other payables and accrued expenses	(429)	(994)
	<hr/>	<hr/>
Cash Generated From Operations	2,994	48,029
Interest received	163	483
Income tax paid	(681)	(2,642)
	<hr/>	<hr/>
Net Cash From Operating Activities	2,476	45,870
	<hr/>	<hr/>
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2)	(84)
Addition to investment in subsidiary companies	(300)	-
(Increase)/Decrease in:		
Amount owing by holding company	27,016	3,914
Amount owing by subsidiary companies	(22,549)	(13,529)
Amount owing by other related companies	(5,335)	(2,847)
Cash at banks held under Escrow Account	(27)	(61)
Interest received from:		
Subsidiary companies	113	88
Other related companies	5,961	5,368
Dividend received from subsidiary companies	23,728	25,860
	<hr/>	<hr/>
Net Cash From Investing Activities	28,605	18,709
	<hr/>	<hr/>

(Forward)

The Company	Note	2006 RM'000	2005 RM'000
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts		1,070	(4,328)
Amount owing to subsidiary companies		(436)	(40,763)
Amount owing to other related companies		309	563
Proceeds from issue of shares		638	14,348
Dividends paid		(23,093)	(46,156)
Finance costs paid		(10,256)	(12,768)
Net Cash Used In Financing Activities		(31,768)	(89,104)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(687)	(24,525)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		472	24,997
CASH AND CASH EQUIVALENTS AT END OF YEAR	35	(215)	472

The accompanying Notes form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Second Board of Bursa Malaysia Securities Berhad.

The Company is principally involved in investment holding, trading and distribution of building materials, and trading of steel products.

The principal activities of the subsidiary companies and of the associated company are as listed in Notes 15 and 16, respectively.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year other than as disclosed in Note 15.

The total number of employees of the Group and of the Company at the end of the financial year was 2,383 (2,156 in 2005) and 50 (70 in 2005), respectively.

The Company's registered office is located at Level 46, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur.

The Company's principal place of business is located at Wisma Posim, Lot 72, Persiaran Jubli Perak, 40000 Shah Alam, Selangor Darul Ehsan.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been approved by the Board of Directors for issuance on 2 October 2006.

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

Basis of Consolidation

The Group financial statements incorporate the financial statements of the Company and of all the subsidiary companies made up to the end of the financial year as listed in Note 15. Subsidiary companies are consolidated using the acquisition method of accounting.

Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

The interest of minority shareholders is stated at the minority's proportion of the assets and liabilities recognised.

All significant intercompany transactions and balances are eliminated on consolidation.

Goodwill on consolidation, which represents the excess of the cost of investment over the fair values attributable to the related net assets of the subsidiary companies at the effective date of acquisition, is amortised evenly over 25 years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Revenue Recognition

Revenue of the Company consists of gross invoice value of sales, net of discounts and returns, and gross dividend income from subsidiary companies, associated company and quoted investments.

Revenue of the Group consists of gross invoice value of goods supplied to third parties, net of discounts and returns and gross dividend income from quoted investments.

Revenue from sales of goods is recognised upon delivery of products and when the risks and rewards of ownership have passed.

Dividend income is recognised when the shareholder's right to receive payment is established.

Income Tax

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

Deferred tax is provided for, using the 'liability' method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that 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 goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statements, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

Foreign Currency Conversion

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates prevailing at the transaction dates or, where settlement has not been made at the end of the financial year, at the approximate exchange rates prevailing at that date. Gains and losses arising from conversion of foreign currency amounts are reflected in the income statements.

For the purpose of consolidation, the financial statements of the foreign incorporated subsidiary companies have been translated into Ringgit Malaysia as follows:

Assets and liabilities	-	at year-end rate
Share capital	-	at historical rate
Revenue and expenses	-	at average rate for the year

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal closing rates used in the conversion of foreign currency amounts are as follows:

<u>Foreign currency</u>	<u>30.6.2006</u> RM	<u>30.6.2005</u> RM
1 United States Dollar	3.67	3.80
1 Chinese Renminbi	0.46	0.46
1 Singapore Dollar	2.31	2.24

All translation gains or losses are taken up and reflected in translation adjustment account under shareholders' equity.

Employee Benefits

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

The Company and certain subsidiary companies make statutory contributions to approved provident funds and contributions are charged to the income statements. Once the contributions have been paid, there are no further payment obligations. The approved provident funds are defined contribution plans.

Associated Company

An associated company is a non-subsiary company in which the Group or the Company holds as long-term investment not less than 20% of the equity voting rights and in which the Group or the Company is in a position to exercise significant influence in its management.

The Group's investment in associated company is accounted for under the equity method of accounting based on audited or management financial statements of the associated company made up to the end of the financial year. Under this method of accounting, the Group's interest in the post-acquisition profit/loss of the associated company is included in the consolidated results while dividend received is reflected as a reduction of the investment in the consolidated balance sheet.

Impairment of Assets

The carrying amounts of property, plant and equipment, intangible assets, forest concessions, plantation development expenditure, investment in subsidiary companies, investment in associated company, other investments and goodwill on consolidation are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statements.

An impairment loss in respect of goodwill is not reversed unless the loss is caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of the event. In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is only reversed 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. Reversals of impairment loss are recognised in the income statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

Freehold land and capital work-in-progress are not depreciated.

Depreciation of other property, plant and equipment is computed on the straight-line method to write off the cost of the various property, plant and equipment over their estimated useful lives at the following annual rates:

Buildings	2%	-	18%
Leasehold land	1.65%	-	2%
Pulp and paper mill	2.85%	-	10%
Plant and machinery	3.70%	-	25%
Office equipment	18%	-	20%
Furniture and fittings	10%	-	20%
Motor vehicles	18%	-	25%
Office renovation			20%
Computer equipment	18%	-	20%
Housing colony and infrastructures	2%	-	4%
Jetty and access roads	2%	-	4.17%

Assets Acquired Under Hire-Purchase Arrangements

Assets acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

Capitalisation of Borrowing Cost

Borrowing cost incurred on the construction of property, plant and equipment which require a period of time to get them ready for their intended use is capitalised and included as part of the cost of the related property, plant and equipment.

Intangible Assets

Intangible assets, which represent the technical know-how in the design of a subsidiary company's product, are stated at cost less accumulated amortisation and any impairment losses. The said intangible assets are amortised over a period of ten years on a straight-line method upon commencement of commercial production.

Forest Concessions

Forest concessions, which consist of two forest areas of 158,623 hectares and 118,000 hectares, are stated at cost less accumulated amortisation and any impairment losses. The said concessions are amortised evenly over their estimated useful lives of 16 years and 99 years, respectively.

Plantation Development Expenditure

Plantation development and planting expenditure incurred in the cultivation and reforestation of tree plantations, including a proportion of the Group's forestry division general charges incurred in relation to the planting of trees, are deferred and charged to plantation development expenditure. This expenditure is charged to the income statements when the trees are harvested upon maturity based on the volume of timber produced.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investment in unquoted shares in subsidiary companies, which is eliminated on consolidation, and investment in unquoted shares in associated company are stated at cost less any impairment losses in the Company's financial statements.

Other investments in quoted and unquoted corporations are stated at cost less any impairment losses.

Inventories

Trading merchandise, finished goods, work-in-progress, raw materials, engineering spares, fuel and lubricants and other inventories are valued at the lower of cost (determined principally on the weighted average basis) and net realisable value. Cost represents the original purchase price plus the incidental cost incurred in bringing the inventories to their present location and condition. The cost of finished goods and work-in-progress includes cost of raw materials, direct labour and an appropriate proportion of manufacturing overheads.

Log inventories are valued at the lower of cost (determined principally on the 'first-in, first-out' method) and net realisable value. The cost of commercial timber logs represents extraction fees and timber royalties accrued. The cost of pulp and fuel logs represents extraction fees and cost incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

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

Receivables

Trade and other receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

Provisions

Provisions are made when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Cash Flow Statements

The Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

4. REVENUE

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Sales of goods:				
External customers	559,755	590,388	18,094	62,210
Subsidiary company	-	-	92,214	82,508
Gross dividend income from subsidiary companies	-	-	23,765	25,905
	559,755	590,388	134,073	170,623

5. PROFIT/(LOSS) FROM OPERATIONS

This is arrived at after the following credits/(charges):

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Interest income on:				
Advances to holding company	9,536	11,292	9,536	11,292
Advances to other related companies	5,961	5,368	5,961	5,368
Fixed deposits with licensed banks	168	918	-	-
Advances to subsidiary companies	-	-	113	88
Others	448	554	163	483
Rental income	404	487	14	3
Realised gain on foreign exchange	333	6	-	-
Allowance for doubtful debts no longer required	332	901	111	596
Gain on disposal of property, plant and equipment	70	438	-	-
Bad debts recovered	19	192	19	190
Hire of plant and machinery	(1,403)	(1,509)	-	-
Impairment loss on:				
Investment in associated company (Note 16)	-	-	(4,081)	-
Property, plant and equipment (Note 11)	(1,089)	-	-	-
Other investments (Note 17)	(203)	-	(203)	-
Allowance for slow-moving and obsolete inventories	(1,233)	(90)	-	-
Allowance for doubtful debts	(1,139)	(1,849)	(262)	(691)
Rental of premises payable to:				
Subsidiary company	-	-	(64)	(64)
Others	(933)	(811)	(73)	(92)
Directors' remuneration (Note 22)	(485)	(737)	(452)	(677)
Inventories written down	(477)	(36)	-	-
Lease rental	(328)	(348)	(88)	(111)
Auditors' remuneration:				
Current year	(189)	(149)	(31)	(30)
Underprovision in prior year	(7)	(5)	(2)	(4)
Loss on striking-off of a subsidiary company	(131)	-	-	-
Write-off of property, plant and equipment	-	(43)	-	-
Loss on disposal of other investments	-	(1)	-	(1)

Staff costs include salaries, bonuses, contributions to defined contribution plans and all other staff related expenses. Contributions to defined contribution plans of the Group and of the Company amounted to RM4,730,000 and RM227,000 (RM4,730,000 and RM399,000 in 2005), respectively.

6. DISCONTINUING OPERATIONS

On 4 June 2006, the Company entered into a conditional share purchase agreement and a deed of adherence for the proposed disposal of its entire 97.78% shareholding in Sabah Forest Industries Sdn Bhd ("SFI") as disclosed in Note 36. The proposed disposal of SFI is expected to be completed in the next financial year.

The effects of the proposed disposal of SFI, which carried out the Group's timber extraction and pulp and paper production, are as follows:

	Continuing operations		Discontinuing operations		The Group	
	2006	2005	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	233,538	206,800	326,217	383,588	559,755	590,388
Other operating income	16,678	17,641	2,743	4,224	19,421	21,865
Impairment loss on goodwill on consolidation	-	-	(161,076)	-	(161,076)	-
Other operating expenses	(261,783)	(214,483)	(391,444)	(360,620)	(653,227)	(575,103)
Finance costs	(3,345)	(655)	(361)	(424)	(3,706)	(1,079)
Profit/(Loss) before tax	(14,912)	9,303	(223,921)	26,768	(238,833)	36,071
Income tax credit/(expense)	(2,158)	(2,631)	69	(3,696)	(2,089)	(6,327)
Profit/(Loss) after tax	(17,070)	6,672	(223,852)	23,072	(240,922)	29,744
Cash flows from/(used in):						
Operating activities	(8,595)	56,961	40,695	47,899	32,100	104,860
Investing activities	(24,312)	(88,277)	(27,819)	(35,751)	(52,131)	(124,028)
Financing activities	9,922	(34,798)	4,574	1,258	14,496	(33,540)
Net cash flows	(22,985)	(66,114)	17,450	13,406	(5,535)	(52,708)

At balance sheet date, the carrying amounts of the total assets and total liabilities of SFI to be disposed of are the amounts disclosed as the segment assets and segment liabilities of the Timber Extraction and Pulp and Paper Segment in Note 34.

7. FINANCE COSTS

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
Advances from corporate shareholder of a subsidiary company (Note 25)	2,326	-	-	-
Bank overdrafts and other borrowings	1,341	1,045	520	487
Hire-purchase	39	34	-	-
Advances from subsidiary companies	-	-	9,736	12,281
	3,706	1,079	10,256	12,768

8. INCOME TAX EXPENSE

Income tax expense consists of the following:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Current taxation:				
Estimated tax payable	2,929	6,243	1,284	1,337
Under/(Over)provision in prior years	(1,261)	51	48	46
	1,668	6,294	1,332	1,383
Deferred tax (Note 19):				
Current year	(76)	38	(21)	38
Underprovision in prior years	329	-	329	-
	253	38	308	38
Share in income tax of associated company	168	(5)	-	-
	2,089	6,327	1,640	1,421

A reconciliation of income tax expense applicable to profit/(loss) before tax at the applicable statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Profit/(Loss) before tax	(238,833)	36,071	(256,353)	30,064
Tax at applicable tax rate of 28% (28% in 2005)	(66,873)	10,100	(71,779)	8,418
Tax effects of (non-taxable)/non-deductible items:				
Dividend income	-	-	(6,654)	(7,286)
Depreciation of non-qualifying capital expenditure	398	321	30	34
Utilisation of:				
Unabsorbed tax losses	-	(186)	-	-
Reinvestment allowances	-	(73)	-	-
Investment tax credits	-	(18,263)	-	-
Other non-deductible items	63,250	6,450	79,666	349
Other non-taxable items	(88)	(1,364)	-	(140)
Effects of different tax rates in other countries	2,034	-	-	-
Double deduction of expenses	(1,933)	(1,604)	-	-
Deferred tax assets not recognised	6,233	10,895	-	-
Under/(Over)provision of				
current tax payable in prior years	(1,261)	51	48	46
Underprovision of deferred tax in prior years	329	-	329	-
	2,089	6,327	1,640	1,421

8. INCOME TAX EXPENSE (continued)

As of 30 June 2006, the balances in the tax-exempt accounts of the Company are as follows:

	The Company	
	2006	2005
	RM'000	RM'000
Tax-exempt accounts in respect of:		
Income tax waived in accordance with the Income Tax (Amendment) Act, 1999	7,579	7,579
Tax-exempt dividends received	27,398	26,858
	34,977	34,437
	34,977	34,437

The above balances in the tax-exempt accounts, if agreed with the tax authorities, will enable the Company to distribute tax-exempt dividends up to the same amounts.

9. EARNINGS/(LOSS) PER ORDINARY SHARE
Basic

The basic earnings/(loss) per ordinary share of the Group has been calculated based on the Group's net loss of RM234,195,000 (net profit of RM28,980,000 in 2005) and on the weighted average number of ordinary shares in issue of 209,956,000 during the financial year (206,937,000 in 2005).

	2006	2005
	'000	'000
Number of shares in issue at beginning of year	209,941	203,219
Effects of exercise of shares options	15	3,718
Weighted average number of ordinary shares	209,956	206,937
	(111.5)	14.0

Fully diluted

As of 30 June 2006, the options over 3,602,100 unissued ordinary shares granted to confirmed executive employees and the Executive Director pursuant to the Company's ESOS have an anti-dilutive effect and therefore the fully diluted loss per ordinary share is not presented. The terms of the unexercised options are set out in Note 29.

The exercise period for the options in 2005 expired on 30 May 2005 and therefore there were no dilutive effect per ordinary share as of 30 June 2005.

10. DIVIDENDS

	The Group and The Company	
	2006 RM'000	2005 RM'000
Interim dividend - Nil, in 2006; 5%, tax-exempt, in 2005	-	10,492
Final dividend - 11%, tax exempt, in 2005; 10%, tax exempt, in 2004	23,093	20,423
	23,093	30,915

A final dividend of 11%, tax exempt, amounting to RM23,093,463 proposed in respect of the previous financial year and dealt with in the previous directors' report was paid by the Company during the current financial year. Gross dividend per share is 11 sen.

The directors do not recommend any dividend payment in respect of the current financial year.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

2006 The Group	COST						At end of year RM'000
	At beginning of year RM'000	Currency translation differences RM'000	Additions RM'000	Disposals RM'000	Write-offs RM'000	Reclassifications RM'000	
Freehold land	5,227	-	-	-	-	-	5,227
Freehold buildings	7,813	-	20	-	-	-	7,833
Long leasehold land and buildings	51,983	61	39,917	-	-	2,659	94,620
Short leasehold land and buildings	75,021	-	22	-	-	(2,659)	72,384
Pulp and paper mill	768,464	-	-	-	-	-	768,464
Plant and machinery	374,417	85	18,209	(597)	-	14,419	406,533
Office equipment	832	-	91	(29)	(1)	-	893
Furniture and fittings	19,315	-	557	(866)	-	1,105	20,111
Motor vehicles	8,050	-	552	(959)	-	273	7,916
Motor vehicles under hire-purchase	856	-	-	-	-	(273)	583
Office renovation	674	-	53	-	-	-	727
Computer equipment	1,977	1	468	-	-	-	2,446
Housing colony and infrastructures	116,419	-	55	-	-	-	116,474
Jetty and access roads	100,834	-	282	-	-	-	101,116
Capital work-in-progress	4,598	-	12,282	-	-	(15,524)	1,356
	1,536,480	147	72,508	(2,451)	(1)	-	1,606,683

11. PROPERTY, PLANT AND EQUIPMENT (continued)

2006 The Group	At beginning of year RM'000	Charge for the year RM'000	ACCUMULATED DEPRECIATION			At end of year RM'000
			Disposals RM'000	Write-offs RM'000	Reclassifications RM'000	
Freehold land	-	-	-	-	-	-
Freehold buildings	1,364	170	-	-	-	1,534
Long leasehold land and buildings	680	351	-	-	3,131	4,162
Short leasehold land and buildings	33,159	2,978	-	-	(3,131)	33,006
Pulp and paper mill	402,466	16,601	-	-	-	419,067
Plant and machinery	123,299	29,264	(508)	-	-	152,055
Office equipment	591	78	(29)	(1)	-	639
Furniture and fittings	17,896	455	(853)	-	-	17,498
Motor vehicles	6,893	416	(959)	-	273	6,623
Motor vehicles under hire-purchase	456	163	-	-	(273)	346
Office renovation	619	25	-	-	-	644
Computer equipment	568	359	-	-	-	927
Housing colony and infrastructures	60,536	4,600	-	-	-	65,136
Jetty and access roads	58,762	4,139	-	-	-	62,901
Capital work-in-progress	-	-	-	-	-	-
	707,289	59,599	(2,349)	(1)	-	764,538

	ACCUMULATED IMPAIRMENT LOSS			NET BOOK VALUE	
	At beginning of year RM'000	Charge for the year RM'000	At end of year RM'000	At end of year RM'000	At beginning of year RM'000
Freehold land	-	-	-	5,227	5,227
Freehold buildings	-	-	-	6,299	6,449
Long leasehold land and buildings	-	-	-	90,458	51,303
Short leasehold land and buildings	-	-	-	39,378	41,862
Pulp and paper mill	3,448	1,089	4,537	344,860	362,550
Plant and machinery	-	-	-	254,478	251,118
Office equipment	-	-	-	254	241
Furniture and fittings	-	-	-	2,613	1,419
Motor vehicles	-	-	-	1,293	1,157
Motor vehicles under hire-purchase	-	-	-	237	400
Office renovation	-	-	-	83	55
Computer equipment	-	-	-	1,519	1,409
Housing colony and infrastructures	-	-	-	51,338	55,883
Jetty and access roads	-	-	-	38,215	42,072
Capital work-in-progress	-	-	-	1,356	4,598
	3,448	1,089	4,537	837,608	825,743

11. PROPERTY, PLANT AND EQUIPMENT (continued)

2006 The Company	COST			At end of year RM'000
	At beginning of year RM'000	Additions RM'000	Write-offs RM'000	
Freehold land	5,227	-	-	5,227
Freehold buildings	1,898	-	-	1,898
Long leasehold land and building	445	-	-	445
Office equipment	289	1	(29)	261
Furniture and fittings	392	-	-	392
Motor vehicles	554	-	-	554
Office renovation	256	-	-	256
Computer equipment	319	1	-	320
	<u>9,380</u>	<u>2</u>	<u>(29)</u>	<u>9,353</u>

	ACCUMULATED DEPRECIATION			NET BOOK VALUE	
	At beginning of year RM'000	Charge for the year RM'000	Write-offs RM'000	At end of year RM'000	At beginning of year RM'000
Freehold land	-	-	-	-	5,227
Freehold buildings	328	38	-	366	1,570
Long leasehold land and building	53	9	-	62	392
Office equipment	275	4	(29)	250	14
Furniture and fittings	385	2	-	387	7
Motor vehicles	364	56	-	420	190
Office renovation	256	-	-	256	-
Computer equipment	284	19	-	303	35
	<u>1,945</u>	<u>128</u>	<u>(29)</u>	<u>2,044</u>	<u>7,435</u>

Current depreciation has been charged to the following accounts:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Income statements	56,655	45,059	128	134
Inventories	2,788	2,670	-	-
Plantation development expenditure (Note 14)	156	325	-	-
	<u>59,599</u>	<u>48,054</u>	<u>128</u>	<u>134</u>

As of 30 June 2006, the directors of a subsidiary company reviewed the carrying amount of certain plant and equipment and determined that there was an indication of impairment as the carrying amount exceeded the recoverable amount. The recoverable amount was estimated based on the expected net selling price that could be obtained from the disposal of the said plant and equipment. Consequently, an impairment loss of RM1,089,000 (Note 5) had been charged to the income statement of the Group.

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Current additions to property, plant and equipment of the Group include finance costs amounting to RM Nil (RM7,522,000 in 2005).

As of 30 June 2006, certain freehold land and buildings and long leasehold land and buildings of the Group and the Company with net book values totalling RM7,081,000 (RM7,128,000 in 2005) have been pledged as collaterals to certain local banks for bank overdraft and other credit facilities granted to the Company as mentioned in Note 26.

As of 30 June 2006, certain plant and machinery and leasehold land of a foreign subsidiary company with net book values totalling RM31,598,000 (RM Nil in 2005) have been pledged as collaterals to a foreign bank for a term loan facility granted to the said foreign subsidiary company as mentioned in Note 28.

As of 30 June 2006, the titles to certain parcels of leasehold land of subsidiary companies with net book values totalling RM6,053,000 (RM6,097,000 in 2005) have yet to be registered in the name of the said subsidiary companies.

12. INTANGIBLE ASSETS

	The Group	
	2006 RM'000	2005 RM'000
At cost:		
At beginning of year	-	-
Acquired during the year	500	-
At end of year	500	-
Cumulative amortisation:		
At beginning of year	-	-
Amortisation for the year	46	-
At end of year	(46)	-
Net	<u>454</u>	<u>-</u>

13. FOREST CONCESSIONS

	The Group	
	2006 RM'000	2005 RM'000
Forest concessions - at cost	388,200	388,200
Cumulative amortisation:		
At beginning of year	87,268	76,472
Amortisation for the year	10,796	10,796
At end of year	(98,064)	(87,268)
Net	<u>290,136</u>	<u>300,932</u>

The forest concessions consist of two forest areas with a total area of 276,623 hectares. The values attributable to the concessions of 158,623 hectares and 118,000 hectares are RM131,200,000 and RM257,000,000, respectively. The 158,623 hectares and 118,000 hectares of concession are amortised evenly over their estimated useful lives of 16 years and 99 years, respectively.

14. PLANTATION DEVELOPMENT EXPENDITURE

	The Group	
	2006	2005
	RM'000	RM'000
At cost:		
At beginning of year	151,358	145,221
Additions for the year	6,276	6,137
At end of year	157,634	151,358
Cumulative amortisation:		
At beginning of year	4,499	4,397
Amortisation for the year	996	102
At end of year	(5,495)	(4,499)
Net	152,139	146,859

Additions to plantation development expenditure during the year include depreciation of property, plant and equipment amounting to RM156,000 (RM325,000 in 2005).

Current amortisation of RM996,000 (RM102,000 in 2005) has been charged to inventories.

15. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2006	2005
	RM'000	RM'000
Unquoted shares - at cost	1,232,375	1,232,075
Less: Impairment loss	(279,421)	-
	952,954	1,232,075

During the current financial year, the directors reviewed the Company's investment in subsidiary companies for indications of impairment and concluded that the carrying value of a subsidiary company is in excess of its recoverable amount. Accordingly, the directors have made an allowance for impairment loss amounting to RM279,421,000 in respect of the investment in a subsidiary company and goodwill on consolidation amounting to RM161,076,000 in the Group financial statements as shown in Note 18.

Amount owing by subsidiary company (non-current portion) in 2006, which arose as a result of long-term loan on-lend to LFIB Plantations Sdn Bhd as disclosed below, is unsecured, bears interest at 9.00% per annum and has a tenure of 10 years.

Amount owing by subsidiary companies (shown under current assets) arose mainly from trade transactions, expenses paid on behalf and unsecured advances with no fixed repayment terms. The advances bear interest at rates ranging from 1.00% to 6.20% (1.00% to 5.40% in 2005) per annum.

15. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Amount owing to subsidiary companies consists of:

	The Company	
	2006	2005
	RM'000	RM'000
Advances	17,329	18,485
Term loan	70,000	87,480
Long-term loan	18,200	-
	105,529	105,965
Less: Amount due within 12 months (shown under current liabilities)	(37,329)	(35,965)
Non-current portion	68,200	70,000

The non-current portion is repayable as follows:

Financial years ending 30 June:		
2007	-	20,000
2008	25,000	25,000
2009	25,000	25,000
2010 onwards	18,200	-
	68,200	70,000

The advances are interest-free and have no fixed repayment terms. The average effective interest rates per annum of the term loan and long-term loan are as follows:

	The Company	
	2006	2005
	%	%
Term loan	12.00	12.00
Long-term loan	9.00	-

The term loan arose in 2004 when Lion Industries Corporation Berhad ("LICB") accepted the Company's offer to lend up to RM100 million, a sum of which was to be advanced by Sabah Forest Industries Sdn Bhd, a subsidiary of the Company. LICB would in turn advance the same to Amsteel Mills Sdn Bhd ("AMSB"), a subsidiary of LICB, to enable AMSB to complete and run the meltshop facility located in Banting, Selangor Darul Ehsan ("Offer of Financing"). The Offer of Financing was implemented on 6 August 2004.

The long-term loan of RM18 million is granted to the Company during the year to on-lend to a subsidiary company, LFIB Plantations Sdn Bhd, for the proposed development of oil palm plantation and construction of palm oil mills in Malinau Regency, Kalimantan Timur, Republic of Indonesia. The said loan is unsecured with a repayment period of 10 years.

The directors of the Company are of the opinion that the transactions undertaken with subsidiary companies have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

15. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The subsidiary companies are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2006 %	2005 %	
Direct				
Lion Petroleum Products Sdn Bhd	Malaysia	100.00	100.00	Manufacturing of petroleum products
Lion Rubber Industries Sdn Bhd	Malaysia	100.00	100.00	Investment holding
LFIB Plantations Sdn Bhd	Malaysia	100.00	100.00	Investment holding
Ototek Sdn Bhd	Malaysia	70.00	70.00	Trading and distribution of lubricants, spark plugs and automotive components
Posim Marketing Sdn Bhd	Malaysia	100.00	100.00	Trading and distribution of building materials and consumer products
Posim Petroleum Marketing Sdn Bhd	Malaysia	100.00	100.00	Trading and distribution of petroleum products
Posim EMS Sdn Bhd	Malaysia	80.00	100.00	Commenced operations during the year in the provision of energy management and conservation services
Sabah Forest Industries Sdn Bhd	Malaysia	97.78	97.78	Integrated wood-based activities and pulp and paper mill operations
Silverstone (Hubei) Rubber And Tyre Co Ltd ^	People's Republic of China	100.00	100.00	Dormant
Stoller Chemical Company (M) Sdn Bhd (In liquidation - voluntary) ^	Malaysia	100.00	100.00	Dormant
Quay Class Ltd ^	British Virgin Islands	100.00	100.00	Investment holding, inactive during the year

15. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2006 %	2005 %	
Indirect				
Shandong Silverstone LuHe Rubber & Tyre Co Ltd #	People's Republic of China	75.00	75.00	Manufacturing and distribution of tyres
P.T. Lion Intimung Malinau ^	Republic of Indonesia	95.00	-	Dormant
Sabah Pulp & Paper Mill Sdn Bhd (Dissolved)	Malaysia	-	97.78	Dormant
SFI Paper Pte Ltd (Struck off)	Republic of Singapore	-	97.78	Dormant

The financial statements of this company are audited by auditors other than the auditors of the Company.

^ The financial statements of these companies are examined for the purpose of consolidation.

The Company's investment in Ototek Sdn Bhd with carrying value amounting to RM1,175,000 (RM1,175,000 in 2005) has been pledged as collateral to certain local banks for bank overdraft and other credit facilities granted to the Company as mentioned in Note 26.

16. INVESTMENT IN ASSOCIATED COMPANY

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Unquoted shares - at cost	4,684	4,684	4,684	4,684
Share in post - acquisition loss	(4,081)	(2,309)	-	-
Less: Impairment loss	-	-	(4,081)	-
	603	2,375	603	4,684

During the current financial year, the directors reviewed the Company's investment in associated company for indications of impairment and concluded that its carrying value is in excess of its recoverable amount. Accordingly, the directors have made an allowance for impairment loss amounting to RM4,081,000 (Note 5) in the income statement of the Company.

16. INVESTMENT IN ASSOCIATED COMPANY (continued)

The associated company is as follows:

Name of Company	Country of Incorporation	Effective Equity Interest		Principal Activity
		2006 %	2005 %	
Direct				
Kinabalu Motor Assembly Sendirian Berhad #	Malaysia	20.00	20.00	Assembly and sale of private and commercial vehicles
#	The financial statements of this company are audited by auditors other than the auditors of the Company.			

The Group's interest in the associated company is analysed as follows:

	The Group	
	2006 RM'000	2005 RM'000
Share of net tangible assets	79	1,851
Premium on acquisition	524	524
	603	2,375

17. OTHER INVESTMENTS

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
At cost:				
Quoted shares	250	216	242	208
Quoted securities	-	34	-	34
	250	250	242	242
Unquoted shares	52	52	-	-
	302	302	242	242
Less: Impairment loss	(203)	-	(203)	-
	99	302	39	242
Market value of quoted shares and securities	51	69	39	56

18. GOODWILL ON CONSOLIDATION

	The Group	
	2006	2005
	RM'000	RM'000
Goodwill on consolidation:		
At beginning of year	253,646	253,646
Striking-off of a subsidiary company	(93)	-
At end of year	253,553	253,646
Cumulative amortisation:		
At beginning of year	82,173	72,027
Amortisation for the year	10,146	10,146
Striking-off of a subsidiary company	(33)	-
At end of year	(92,286)	(82,173)
Impairment loss (Note 15)	(161,076)	-
Net	191	171,473

19. DEFERRED TAX ASSETS/(LIABILITIES)

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Deferred Tax Assets				
At beginning of year	419	457	155	193
Net transfer to income statements (Note 8)	(100)	(38)	(155)	(38)
At end of year	319	419	-	155
Deferred Tax Liabilities				
At beginning of year	265	265	-	-
Net transfer from income statements (Note 8)	153	-	153	-
At end of year	418	265	153	-

19. DEFERRED TAX ASSETS/(LIABILITIES) (continued)

The deferred tax assets of the Group and of the Company represent the tax effects of the following:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Temporary differences arising from:				
Property, plant and equipment	(131,992)	(136,570)	-	14
Plantation development expenditure	(40,326)	(39,313)	-	-
Inventories	46	46	-	-
Other payables and accrued expenses	108	231	-	123
Others	-	(36)	-	-
Unabsorbed tax losses	140,038	139,077	-	-
Unabsorbed capital allowances	370,089	368,395	-	18
	337,963	331,830	-	155
Less: Deferred tax asset not recognised	(337,644)	(331,411)	-	-
Net	319	419	-	155

The deferred tax liabilities of the Group and of the Company represent the tax effects of the following:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Temporary differences arising from:				
Property, plant and equipment	499	346	307	-
Others	(81)	(81)	(154)	-
	418	265	153	-

The unabsorbed tax losses and capital allowances are subject to agreement with the tax authority.

As of 30 June 2006, the Group has reinvestment allowances totalling RM68,225,000 (RM68,225,000 in 2005) which, if agreed by the tax authority, are available for set-off against taxable income in future years.

20. INVENTORIES

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
At cost:				
Finished goods				
- Paper	-	20,236	-	-
- Veneer	-	417	-	-
- Sawn timber	1,058	763	-	-
- Plywood	-	39	-	-
- Others	3,387	2,601	-	-
Commercial timber logs	-	12	-	-
Work-in-progress				
- Paper	3,503	2,616	-	-
- Veneer	-	363	-	-
- Sawn timber	691	785	-	-
- Plywood	21	286	-	-
- Others	3,510	-	-	-
Raw materials	24,497	25,630	-	-
Pulp and fuel logs	5,247	2,089	-	-
Engineering spares	36,878	37,632	-	-
Trading merchandise	12,017	9,190	-	136
Fuel and lubricants	4,386	1,244	-	-
Goods-in-transit	880	-	-	-
Others	3,697	1,682	-	-
	99,772	105,585	-	136
Less: Allowance for obsolete and slow-moving inventories	(1,528)	(402)	-	-
	98,244	105,183	-	136
At net realisable value:				
Finished goods				
- Paper	5,797	-	-	-
- Veneer	736	-	-	-
- Plywood	10	-	-	-
Work-in-progress				
- Veneer	366	-	-	-
Trading merchandise	1	1	-	-
	6,910	1	-	-
	105,154	105,184	-	136

21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables are as follows:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade receivables	84,261	98,947	10,867	17,758
Allowance for doubtful debts	(3,502)	(5,035)	(1,049)	(1,727)
	80,759	93,912	9,818	16,031

21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES (continued)

Trade receivables comprise amounts outstanding for sale of goods. The credit period ranges from 30 to 60 days (30 to 60 days in 2005).

The currency exposure profile of trade receivables is as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	73,385	83,432	10,867	17,758
United States Dollar	9,778	15,226	-	-
Chinese Renminbi	1,098	289	-	-
	84,261	98,947	10,867	17,758

Other receivables and prepaid expenses consist of:

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Other receivables	3,293	3,669	802	810
Allowance for doubtful debts	(456)	(1,613)	(325)	(260)
	2,837	2,056	477	550
Prepaid expenses	18,593	12,446	502	1,570
Deposits	431	579	109	111
	21,861	15,081	1,088	2,231

22. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Lion Industries Corporation Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad, which is also regarded by the directors as the ultimate holding company.

Amount owing by holding company consists of:

	The Group and The Company	
	2006	2005
	RM'000	RM'000
Term loan receivable	70,000	87,480
Less: Amount due within 12 months (shown under current assets)	(20,000)	(17,480)
Non-current portion	50,000	70,000

The term loan receivable, which arose as a result of the Offer of Financing as disclosed in Note 15, bears interest at an average effective rate of 12.00% (12.00% in 2005) per annum, and has the same payment schedule as the non-current portion of the amount owing to subsidiary companies as disclosed in Note 15.

22. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

Amount owing by other related companies bears interest at rates ranging from 5.20% to 6.20% (5.30% to 5.40% in 2005) per annum and has no fixed repayment terms.

Amount owing to other related companies is interest-free and has no fixed repayment terms.

Significant transactions undertaken with related parties during the financial year are as follows:

Name of Company	Nature	The Group		The Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
With holding company:					
Lion Industries Corporation Berhad	Interest income on advances	9,536	11,292	9,536	11,292
With other related companies:					
JOPP Builders Sdn Bhd	Interest income on advances	45	41	45	41
LLB Harta (M) Sdn Bhd	Interest income on advances	5,916	5,327	5,916	5,327
Antara Steel Mills Sdn Bhd	Trade sales	52	53	-	-
Amsteel Mills Sdn Bhd	Trade sales	2,277	2,669	-	-
	Transport service charges payable	536	604	-	-
Amsteel Mills Marketing Sdn Bhd	Trade purchases	21,008	19,938	21,008	19,938
With related parties:					
Parkson Corporation Sdn Bhd	Trade sales	994	973	904	888
Xtra Supercenter Sdn Bhd	Trade sales	-	432	-	347
Silverstone Berhad	Trade sales	388	372	-	-
Lion Motor Sdn Bhd	Trade sales	114	111	-	-
Singa Logistics Sdn Bhd	Trade sales	12	56	-	-
Megasteel Sdn Bhd	Trade sales	2,045	2,110	-	-
	Purchase of spare parts	31	337	-	-
Bright Steel Sdn Bhd	Trade sales	449	356	-	-
	Purchase of spare parts	550	142	-	-
Lion Trading & Marketing Sdn Bhd	Purchase of equipment	-	141	-	-

22. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

Other related companies refer to subsidiary companies of Lion Industries Corporation Berhad, the holding company.

Related parties refer to entities in which certain directors and/or substantial shareholders of the Company or of its subsidiary companies or persons connected to such directors and/or substantial shareholders have interest.

The outstanding balances arising from the above transactions with related parties are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Receivables:				
Included in trade receivables	3,131	2,003	463	411
Included in other receivables	483	-	-	-
	3,614	2,003	463	411
Payables:				
Included in other payables	84	106	-	-
	84	106	-	-

The directors of the Company are of the opinion that the transactions have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

Forms of directors' remuneration charged to the income statements for the financial year are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Fees				
Executive directors	20	36	18	30
Non-executive directors	164	160	158	154
	184	196	176	184
Salaries and other emoluments				
Executive directors	249	460	248	437
Non-executive director	23	23	-	-
	272	483	248	437
Contributions to defined contribution plan				
Executive directors	28	57	28	56
Non-executive director	1	1	-	-
	29	58	28	56
Total	485	737	452	677

22. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

In addition, the number of options over ordinary shares of RM1.00 each of the Company granted to an executive director of the Group during the year pursuant to the Company's ESOS are as follows:

	Number of Unexercised Options	
	2006	2005
Ngan Yow Chong	94,500	-

The options were granted to the director on the same terms and conditions as those offered to other eligible executive employees of the Group (Note 29).

As of 30 June 2006, Sabah Forest Industries Sdn Bhd, a subsidiary company, has in issue 146,000,000 deferred shares of RM1.00 each, held by Avenel Sdn Bhd. The said deferred shares, which do not carry any entitlement to dividend, voting rights and rights to receive notice of general meetings, are only entitled to a repayment of capital after the ordinary shares in the event of a winding-up. In addition, the said deferred shares are redeemable at any time at the option of the subsidiary company. As at the end of the financial year, the said deferred shares of RM146,000,000 (RM146,000,000 in 2005) have been included as part of the minority interests of the Group.

23. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits with licensed banks bear interest at an average rate of 3.19% (2.20% in 2005) per annum and have maturity periods ranging from 3 to 365 days (4 to 300 days in 2005).

24. CASH AND BANK BALANCES

Included in cash and bank balances of the Group and the Company is an amount of RM1,074,900 (RM1,047,857 in 2005) representing cash held under an Escrow Account as mentioned in Note 26. The Escrow Account was created pursuant to the Master Restructuring Agreement entered into between the Company and certain local banks. In accordance with the said agreement, utilisation of cash held under the Escrow Account is restricted to repayment of bank borrowings and payment of interest, commission, fees and other charges to the banks.

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables comprise amounts outstanding for trade purchases. The average credit period ranges from 30 to 90 days (30 to 90 days in 2005).

The currency exposure profile of trade payables is as follows:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Ringgit Malaysia	35,175	27,359	14,232	16,471
Chinese Renminbi	9,658	1,581	-	-
United States Dollar	6,238	1,402	-	28
Singapore Dollar	4	35	-	-
	51,075	30,377	14,232	16,499

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (continued)

Other payables and accrued expenses consist of:

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Hire-purchase payables (Note 27)	236	132	-	-
Other payables	67,824	62,349	13	29
Accrued expenses	27,868	21,230	774	1,187
	95,928	83,711	787	1,216

Included in other payables of the Group is an amount of RM3,789,000 (RM40,295,333 in 2005) representing amount owing to Shandong LuHe Group Co Ltd, a corporate shareholder of a subsidiary company. The said amount, which is denominated in Chinese Renminbi, arose from payments made on behalf of the subsidiary company and bears interest at rates ranging from 5.58% to 7.25% (5.58% to 7.25% in 2005) per annum and has no fixed repayment terms.

26. BANK BORROWINGS

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Bank overdrafts (Note 35)	1,938	1,143	1,312	771
Bankers acceptances, trust receipts and bills payable	19,114	12,927	8,047	6,977
Revolving credits	1,063	1,063	1,063	1,063
Term loan (Note 28)	7,790	-	-	-
Total	29,905	15,133	10,422	8,811

As of 30 June 2006, the Company has bank overdraft and other credit facilities totalling RM10,815,000 (RM9,241,000 in 2005) obtained from certain local banks, which bear interest at average rates ranging from 5.20% to 6.20% (5.30% to 5.40% in 2005) per annum.

The bank overdraft and other credit facilities of the Company are secured by:

- (a) A first fixed charge under the National Land Code 1965 and an absolute legal assignment over:
 - (i) freehold land and buildings of the Company with carrying value of RM6,759,000 (RM6,797,000 in 2005); and
 - (ii) long leasehold land and building of the Company with carrying value of RM322,000 (RM331,000 in 2005).
- (b) An assignment of the sale and purchase agreements over other buildings of the Company.
- (c) A debenture containing a floating charge over the current assets, both present and future, of the following subsidiary companies of the Company:
 - (i) Lion Petroleum Products Sdn Bhd; and
 - (ii) Posim EMS Sdn Bhd.
- (d) An assignment over all insurance policies over certain assets of the Company and the abovementioned subsidiary companies.

26. BANK BORROWINGS (continued)

- (e) A debenture containing a first fixed charge over the property, plant and equipment of the Company and a floating charge over:
- (i) the Escrow Account; and
 - (ii) all other assets of the Company (not subject to the first fixed charge), both present and future, including intercompany receivables but excluding intercompany receivables from LFIB Plantations Sdn Bhd and the Company's shareholdings in LFIB Plantations Sdn Bhd, Sabah Forest Industries Sdn Bhd, Posim Petroleum Marketing Sdn Bhd and Posim Marketing Sdn Bhd.
- (f) A first party memorandum of deposit of shares on the pledge of the Company's entire shareholding in Ototek Sdn Bhd.
- (g) A third party memorandum of deposit of fixed deposits amounting to RM1,000,000 (RM Nil in 2005) belonging to Posim Marketing Sdn Bhd.

As of 30 June 2006, certain subsidiary companies have bank overdraft and other credit facilities totalling RM24,875,000 (RM29,015,000 in 2005) obtained from certain local banks. These facilities, which bear interest at rates ranging from 4.20% to 8.00% (3.60% to 8.00% in 2005) per annum, are secured by inter alia:

- (a) Corporate guarantee by the Company to the extent of RM3,875,000 (RM13,875,000 in 2005).
- (b) Corporate guarantee by the subsidiary company, LFIB Plantations Sdn Bhd to the extent of RM Nil (RM10,000,000 in 2005).
- (c) Negative pledge on one of the subsidiary companies' assets to the extent of RM19,000,000 (RM19,000,000 in 2005).
- (d) In 2005, a letter of awareness from Avenel Sdn Bhd, the former immediate holding company, general security agreement relating to goods and a general letter of pledge.
- (e) In 2005, a letter of awareness from Amsteel Corporation Berhad, the former ultimate holding company.
- (f) In 2005, a letter of undertaking from the Company to maintain an effective shareholding of not less than 51% of the issued share capital of the subsidiary company, Sabah Forest Industries Sdn Bhd.

27. HIRE-PURCHASE PAYABLES

	The Group	
	2006	2005
	RM'000	RM'000
Total outstanding	443	406
Less: Interest-in-suspense	(63)	(66)
Principal portion	380	340
Payable as follows:		
Within the next 12 months (Note 25)	236	132
After the next 12 months	144	208
	380	340

The interest rates implicit in these hire-purchase obligations range from 2.80% to 5.00% (3.50% to 5.00% in 2005) per annum.

28. LONG-TERM BORROWINGS

	The Group	
	2006	2005
	RM'000	RM'000
Term loan - secured	34,883	-
Less: Amount due within 12 months (Note 26)	(7,790)	-
	<hr/>	<hr/>
Non-current portion	27,093	-
	<hr/> <hr/>	<hr/> <hr/>

The non-current portion is repayable as follows:

	The Group	
	2006	2005
	RM'000	RM'000
Financial years ending 30 June:		
2008	16,987	-
2009	10,106	-
	<hr/>	<hr/>
	27,093	-
	<hr/> <hr/>	<hr/> <hr/>

The term loan, which is obtained by a foreign subsidiary company and denominated in Chinese Renminbi, bears interest at rates ranging from 5.85% to 7.02% per annum. The said term loan is secured by:

- (a) a fixed charge over the following property, plant and equipment of a subsidiary company:
 - (i) leasehold land with carrying value of RM4,571,000; and
 - (ii) plant and machinery with carrying value of RM27,027,000.
- (b) corporate guarantee by a corporate shareholder of a subsidiary company to the extent of RM18,522,000.

29. SHARE CAPITAL

	The Group and The Company	
	2006	2005
	RM'000	RM'000
Authorised:		
Ordinary shares of RM1.00 each		
500,000,000 at beginning and end of year	500,000	500,000
	<hr/>	<hr/>
Issued and fully paid:		
Ordinary shares of RM1.00 each		
At beginning of year:		
209,940,571 as of 1 July 2005; 203,218,571 as of 1 July 2004	209,941	203,219
Issued during the year:		
212,800 in 2006; 6,722,000 in 2005	212	6,722
	<hr/>	<hr/>
At end of year:		
210,153,371 as of 30 June 2006; 209,940,571 as of 30 June 2005	210,153	209,941
	<hr/> <hr/>	<hr/> <hr/>

29. SHARE CAPITAL (continued)

During the current financial year, the issued and paid-up share capital of the Company was increased from RM209,940,571, comprising 209,940,571 ordinary shares of RM1.00 each, to RM210,153,371, comprising 210,153,371 ordinary shares of RM1.00 each, by way of the issue of 212,800 new ordinary shares of RM1.00 each pursuant to the exercise of 212,800 options under the Company's ESOS at an issue price of RM3.00 per share.

The resulting share premium of RM425,600 arising from the issue of shares has been credited to the share premium account.

The new shares issued rank *pari passu* in all material respects with the then existing shares of the Company.

An ESOS was implemented for the benefit of eligible executive employees and executive directors of the Group with effect from 1 September 2005.

The main features of the ESOS are as follows:

- (a) Executive directors and confirmed executive employees of the Group who have been employed on a continuous full-time basis for a period of not less than six months on the date of offer shall be eligible to participate in the ESOS.
- (b) The aggregate number of options exercised and options offered and to be offered under the ESOS shall not exceed 15% of the issued and paid-up share capital of the Company at any one time during the duration of the ESOS subject to the following being complied with:
 - (i) not more than 50% of the shares available under the scheme shall be allocated, in aggregate, to executive directors and senior management; and
 - (ii) not more than 10% of the shares available under the scheme shall be allocated to any eligible executive who, either singly or collectively through persons connected with him or her (as defined in paragraph 1.01 of the Listing Requirements of Bursa Malaysia Securities Berhad), holds 20% or more of the issued and paid-up capital of the Company.
- (c) No options shall be granted for less than 100 ordinary shares nor more than the maximum allowable allotment and each grant of options shall be in multiples of 100 ordinary shares.
- (d) The subscription price of each ordinary share under the ESOS shall be the weighted average market price of the shares for the five market days immediately preceding the date of offer on which the shares were traded with a discount of not more than 10%, or the par value of the shares, whichever is the higher.
- (e) The ESOS shall continue to be in force for a period of five years and the Company may, if the Board deems fit upon the recommendation of the Option Committee, renew the ESOS for a further five years, without further approval of the relevant authorities.

The persons to whom the options have been granted have no right to participate, by virtue of the options, in any share issue of any other company.

The movements of number of options granted, exercised and lapsed pursuant to the ESOS during the financial year are as follows:

Exercisable From	Subscription Price Per Share	Balance as of 1.9.2005	Granted	Exercised	Lapsed	Unissued Shares as of 30.6.2006
10.5.2006	RM3.00	-	4,078,600	(212,800)	(286,100)	3,579,700
26.6.2006	RM2.67	-	22,400	-	-	22,400
		-	4,101,000	(212,800)	(286,100)	3,602,100

29. SHARE CAPITAL (continued)

Details of share options exercised during the current financial year and the fair value, at exercise dates, of shares issued are as follows:

Exercise dates	Average fair value per share at issue date	Exercise price per share	Number of share options
	RM	RM	
May 2006	4.03	3.00	35,600
June 2006	3.45	3.00	177,200
			RM
Ordinary share capital - at par			212,800
Share premium			425,600
			<hr/>
Proceeds received on exercise of share options			638,400
			<hr/>
Fair value at exercise dates of shares issued			754,808
			<hr/> <hr/>

30. RESERVES

	The Group		The Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Non-distributable reserves:				
Share premium	1,108,252	1,107,826	1,108,252	1,107,826
Translation adjustment account	(279)	(46)	-	-
Capital reserve	49,189	49,189	-	-
Capital redemption reserve	9	9	-	-
	1,157,171	1,156,978	1,108,252	1,107,826
Distributable reserve:				
Unappropriated profit/(Accumulated loss)	(72,188)	185,100	(243,068)	38,018
	1,084,983	1,342,078	865,184	1,145,844

Translation adjustment account

Exchange difference arising on translation of foreign controlled entity is taken to the translation adjustment account as described in the accounting policies.

Capital reserve

The capital reserve, which is not available for the payment of dividends, arose from the following:

	The Group	
	2006	2005
	RM'000	RM'000
Shares issued by subsidiary company and paid by minority shareholder	5,998	5,998
Increase in reserve sharing resulting from additional shares issued by subsidiary company	43,191	43,191
	49,189	49,189

Capital redemption reserve

The capital redemption reserve, which is not available for the payment of dividends, arose from the redemption of redeemable preference shares by a subsidiary company.

31. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The operations of the Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The Group has taken measures to minimise the Group's exposure to risks and/or costs associated with the financing, investing and operating activities of the Group.

(i) Foreign currency risk

The Group undertakes transactions in foreign currencies with certain foreign entities and therefore is exposed to foreign currency risk.

(ii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on bank borrowings. The interest rates for the said bank borrowings are disclosed in Notes 26 and 28. The interest rates for the hire-purchase payables, which are fixed at the inception of the hire-purchase arrangements, are disclosed in Note 27.

(iii) Credit risk

The Group is exposed to credit risk mainly from trade and other receivables. The Group has no major concentration of credit risk and extends credit to its customers based upon careful evaluation of the customer's financial condition and credit history.

(iv) Liquidity risk

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

(v) Cash flow risk

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Financial Assets

The Group's principal financial assets are cash and bank balances, fixed deposits with licensed banks, trade and other receivables, other investments and amount owing by holding company and other related companies.

The Company's principal financial assets also include amount owing by subsidiary companies.

The accounting policies applicable to the major financial assets are as disclosed in Note 3.

Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Significant financial liabilities of the Group include trade and other payables, hire-purchase payables, amount owing to other related companies and bank borrowings, which are stated at their nominal values.

Significant financial liabilities of the Company also include amount owing to subsidiary companies, which are stated at their nominal values.

Bank borrowings are recorded at the proceeds received. Finance charges are accounted for on an accrual basis.

Equity instruments are recorded at the proceeds received net of direct issue costs.

31. FINANCIAL INSTRUMENTS (continued)
Fair Value of Financial Assets and Liabilities

The carrying amounts and the estimated fair values of the Group's and the Company's financial instruments as of 30 June 2006 are as follows:

	The Group		The Company	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
2006				
Financial Assets				
Other investments				
- quoted shares	47	51	39	39
Amount owing by holding company	50,000	52,709	50,000	52,709
Amount owing by subsidiary company	-	-	18,200	*
Financial Liabilities				
Long-term borrowings				
- term loan	34,883	33,814	-	-
Hire-purchase payables	380	361	-	-
Amount owing to subsidiary company:				
- term loan	-	-	50,000	52,709
- long-term loan	-	-	18,200	*
2005				
Financial Assets				
Other investments				
- quoted shares	216	57	208	44
- quoted securities	34	12	34	12
Amount owing by holding company	70,000	75,101	70,000	75,101
Financial Liabilities				
Hire-purchase payables	340	322	-	-
Amount owing to subsidiary company	-	-	70,000	75,101

* It is not practical to determine the fair value of this long-term loan with sufficient reliability given these balances have no fixed terms of repayment.

Quoted shares and securities

The market values of quoted shares and securities as at balance sheet date approximate their fair values.

Hire-purchase payables and long-term borrowings

The fair values of the hire-purchase payables and long-term borrowings of the Group are estimated using discounted cash flow analysis based on current borrowing rates for similar types of borrowing arrangements.

Non-current intercompany indebtedness

The fair value of non-current intercompany indebtedness of the Group and the Company is estimated using the discounted cashflow analysis based on current borrowing rate for similar type of borrowing arrangement.

Cash and cash equivalents, trade and other receivables, intercompany indebtedness, trade and other payables and bank borrowings

The carrying amounts approximate fair values because of the short maturity period for these instruments.

32. CONTINGENT LIABILITIES - UNSECURED

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Corporate guarantees given to financial institutions for the granting of credit facilities to certain subsidiary companies	-	-	2,172	2,748
Legal claims in respect of the termination of contracts for the extraction and sale of timber	313,300	313,300	-	-

Indemnity contracts have been signed between the Company and Avenel Sdn Bhd, whereby Avenel Sdn Bhd, the former immediate holding company, agrees to indemnify the Company in full for all losses, damages, liabilities, claims, costs and expenses whatsoever which the Company may incur or sustain as a result of or arising from the litigation suits amounting to RM313,300,000 (RM313,300,000 in 2005) and any other claims brought by third parties against Sabah Forest Industries Sdn Bhd wherein the cause of action arises prior to the completion of the corporate exercise.

33. CAPITAL COMMITMENTS

As of 30 June 2006, the Group has the following capital commitments:

	The Group	
	2006 RM'000	2005 RM'000
Approved and contracted for:		
Purchase of property, plant and equipment	13,572	8,495
Approved but not contracted for:		
Purchase of property, plant and equipment	19,297	10,084
Plantation development expenditure	15,527	15,527
	34,824	25,611
	48,396	34,106

34. SEGMENT INFORMATION

For management purposes, the Group is organised into the following operating divisions:

- timber extraction and pulp and paper
- building materials and steel products
- tyres
- others

Others include mainly lubricants and automotive products and consumer products, none of which is of sufficient size to be reported separately.

As disclosed in Notes 6 and 36(d), the Company entered into an agreement for the proposed disposal of a subsidiary which carries out the Group's timber extraction and pulp and paper operations. The proposed disposal is subject to the approval of the relevant authorities and shareholders of the Company.

The inter-segment transactions were conducted at market value.

34. SEGMENT INFORMATION (continued)

The Group 2006	Timber extraction and pulp and paper - Discontinuing operations RM'000	Building materials and steel products RM'000	Tyres RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Revenue						
External customers	326,217	136,442	41,559	55,537	-	559,755
Inter-segment sales	-	-	-	13	(13)	-
Total revenue	326,217	136,442	41,559	55,550	(13)	559,755
Results						
Segment results	(221,854)	13,512	(19,374)	4,946	(23,855)	(246,625)
Unallocated expenses						(2,395)
Unallocated income						15,497
Loss from operations						(233,523)
Finance costs						(3,706)
Share in results of associated company	-	-	-	(1,604)	-	(1,604)
Loss before tax						(238,833)
Income tax expense						(2,089)
Loss after tax						(240,922)
Minority interests						6,727
Net loss for the year						(234,195)
Consolidated Balance Sheet						
Assets						
Segment assets	1,196,871	64,135	208,292	58,393	-	1,527,691
Investment in associated company	-	-	-	603	-	603
Unallocated corporate assets						180,819
Consolidated total assets						1,709,113
Liabilities						
Segment liabilities	58,468	20,033	59,728	10,709	-	148,938
Unallocated corporate liabilities						59,028
Consolidated total liabilities						207,966
Other Information						
Capital expenditures	29,006	172	47,976	1,630	-	78,784
Depreciation	47,517	193	9,533	2,356	-	59,599
Amortisation	20,916	-	-	72	-	20,988

(Forward)

34. SEGMENT INFORMATION (continued)

The Group 2005	Timber extraction and pulp and paper RM'000	Building materials and steel products RM'000	Others RM'000	Eliminations RM'000	Total RM'000	
Revenue						
External customers	383,588	153,658	53,142	-	590,388	
Inter-segment sales	-	-	36	(36)	-	
Total revenue	<u>383,588</u>	<u>153,658</u>	<u>53,178</u>	<u>(36)</u>	<u>590,388</u>	
Results						
Segment results	28,489	16,402	5,224	(25,907)	24,208	
Unallocated expenses					(3,046)	
Unallocated income					16,660	
Profit from operations					37,822	
Finance costs					(1,079)	
Share in results of associated company	-	-	(672)	-	(672)	
Profit before tax					36,071	
Income tax expense					(6,327)	
Profit after tax					29,744	
Minority interests					(764)	
Net profit for the year					<u>28,980</u>	
	Timber extraction and pulp and paper RM'000	Building materials and steel products RM'000	Tyres RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Consolidated Balance Sheet						
Assets						
Segment assets	1,423,223	64,140	180,670	34,583	-	1,702,616
Investment in associated company	-	-	-	2,375	-	2,375
Unallocated corporate assets						192,852
Consolidated total assets						<u>1,897,843</u>
Liabilities						
Segment liabilities	35,361	19,056	50,617	9,262	-	114,296
Unallocated corporate liabilities						19,913
Consolidated total liabilities						<u>134,209</u>
Other Information						
Capital expenditures	36,576	309	136,118	2,727	-	175,730
Depreciation	45,687	157	-	2,210	-	48,054
Amortisation	20,920	-	-	22	-	20,942

(Forward)

34. SEGMENT INFORMATION (continued)

Geographical Segments

The Group's operations are mainly located in two main geographical areas:

- (i) Malaysia - timber extraction and pulp and paper, building materials and steel products
- (ii) People's Republic of China (Shandong Province) - tyres

The following is an analysis of the Group's revenue, carrying amount of total assets and capital expenditures by geographical areas:

	Revenue	
	2006	2005
	RM'000	RM'000
Malaysia	439,868	472,128
People's Republic of China	40,720	-
Other countries	79,167	118,260
	559,755	590,388

	Total assets		Capital expenditures	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Malaysia	1,481,201	1,717,173	30,808	39,612
People's Republic of China	208,292	180,670	47,976	136,118
Other countries	19,620	-	-	-
	1,709,113	1,897,843	78,784	175,730

In determining the geographical segments of the Group, revenue is based on the country in which the customer is located. Total assets and capital expenditures are determined based on where the assets are located.

35. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Fixed deposits with licensed banks	23,476	24,061	-	-
Cash and bank balances	15,971	19,069	2,172	2,291
Bank overdrafts (Note 26)	(1,938)	(1,143)	(1,312)	(771)
	37,509	41,987	860	1,520
Less: Non cash equivalents:				
Cash at bank held under Escrow Account (Note 24)	(1,075)	(1,048)	(1,075)	(1,048)
Fixed deposits pledged to licensed bank (Note 26)	(1,000)	-	-	-
	35,434	40,939	(215)	472

The currency exposure profile of cash and cash equivalents is as follows:

	The Group		The Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Ringgit Malaysia	9,654	11,202	(215)	472
United States Dollar	19,776	244	-	-
Chinese Renminbi	6,004	29,493	-	-
	35,434	40,939	(215)	472

36. SIGNIFICANT CORPORATE EVENTS

- (a) On 31 January 2005, the Company and its wholly-owned subsidiary, Quay Class Ltd ("QCL"), entered into a conditional sale and purchase of shares agreement ("SPA") with Silverstone Corporation Berhad ("SCB") to acquire the entire issued and paid-up share capital of Silverstone Berhad ("SB"), a wholly-owned subsidiary of SCB, for a purchase consideration of RM225,000,000. The purchase consideration was proposed to be satisfied by a combination of RM72,610,000 via the issue and allotment of 26,500,000 new ordinary shares of RM1.00 each in the Company at an issue price of RM2.74 each and the balance of RM152,390,000 in deferred cash payments ("Proposed Acquisition").

During the financial year, the Company had been advised by the Securities Commission ("SC") vide its letter dated 16 September 2005 that the SC was unable to consider the Company's application for the Proposed Acquisition as SCB's application in respect of its proposed disposal of SB to QCL was not approved by the SC.

In view that SCB's subsequent appeal was not approved by the SC and after further consideration in respect of the Proposed Acquisition, the parties to the SPA had on 28 July 2006 mutually agreed that the conditional period of the SPA would not be extended and hence, the SPA was terminated on 28 July 2006.

36. SIGNIFICANT CORPORATE EVENTS (continued)

- (b) On 4 August 2005, Posim EMS Sdn Bhd (“Posim EMS”), a wholly-owned subsidiary of the Company, and Digital Engines Sdn Bhd (“Digital Engines”) entered into an agreement wherein Digital Engines agreed to provide the relevant technology to Posim EMS to undertake the business of the provision of energy management and conservation services.

Pursuant to the agreement, Posim EMS issued and allotted 300,000 and 200,000 ordinary shares of RM1.00 each to the Company and Digital Engines on 29 August 2005 and 30 August 2005 respectively. Consequent thereto, the Company’s equity interest in Posim EMS was reduced from 100% to 80%.

- (c) On 17 March 2005, the Company entered into an agreement with Pemerintah Kabupaten Malinau to set up a company for the proposed development of 40,000 hectares of oil palm plantation and the construction of two crude palm oil mills in the Malinau Regency, Kalimantan Timur, the Republic of Indonesia (“Indonesia”) (“Plantation Development Project”). The aforesaid agreement was superseded by an agreement entered into between LFIB Plantations Sdn Bhd (“LFIB Plantations”), a wholly-owned subsidiary of the Company, and Perusahaan Daerah Intimung Kabupaten Malinau (“PD Intimung”) on 20 June 2005 to undertake the Plantation Development Project.

On 19 April 2006, P.T. Lion Intimung Malinau (“P.T. Lion”) was incorporated with LFIB Plantations and PD Intimung holding 95% and 5% of its equity interest respectively. P.T. Lion is currently dormant as the Plantation Development Project is pending approval from the relevant authorities in Indonesia.

- (d) On 4 June 2006, the Company entered into a conditional share purchase agreement with JP Morgan Securities (Asia Pacific) Limited (“JP Morgan Securities”), a company incorporated in Hong Kong (“Agreement”), and a deed of adherence (“Deed of Adherence”) with JP Morgan Securities and Ballarpur Industries Limited (“Ballarpur”), a company incorporated in India, for the disposal by the Company of its entire 97.78% shareholding in Sabah Forest Industries Sdn Bhd comprising 752,532,412 class A ordinary shares of RM1.00 each and 7,525,324,120 class B ordinary shares of RM0.10 each for a total cash consideration of USD261 million (approximately RM944.82 million) (“Proposed Disposal”).

On 5 July 2006, the Company announced the proposed utilisation of the cash proceeds to be derived from the Proposed Disposal (“Proposed Utilisation”) which involved, amongst others, a cash capital distribution of RM1.20 for every existing ordinary share of RM1.00 each held in the Company (“LFIB Share”) (“Proposed Capital Distribution”).

On 28 July 2006, the Company, JP Morgan Securities, Ballarpur and JP Morgan Special Situations Asia Corporation (“JP Morgan SSAC”), a company incorporated in the United States of America, entered into a deed of novation and amendment wherein JP Morgan Securities novates its obligations under the Agreement and the Deed of Adherence to JP Morgan SSAC as if JP Morgan SSAC was named as a party in place of JP Morgan Securities.

On 19 September 2006, the Company announced the revisions to the Proposed Utilisation which, amongst others, revised the Proposed Capital Distribution from RM1.20 per LFIB Share to RM2.00 per LFIB Share.

The Proposed Disposal is subject to the approvals of the relevant authorities and the shareholders of the Company.

STATEMENT BY DIRECTORS

The directors of **LION FOREST INDUSTRIES BERHAD** state that, in their opinion, the accompanying balance sheets and statements of income, cash flows and changes in equity are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 30 June 2006 and of the results of their businesses and the cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with
a resolution of the Directors,

TAN SRI WILLIAM H.J. CHENG

NGAN YOW CHONG

Kuala Lumpur,
2 October 2006

DECLARATION BY THE DIRECTOR PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF THE COMPANY

I, **NGAN YOW CHONG**, the director primarily responsible for the financial management of **LION FOREST INDUSTRIES BERHAD**, do solemnly and sincerely declare that the accompanying balance sheets and statements of income, cash flows and changes in equity, are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
NGANYOW CHONG at **KUALA LUMPUR** in the **FEDERAL
TERRITORY** this 2nd day of October, 2006.

Before me,

W-217
P. SETHURAMAN
COMMISSIONER FOR OATHS
Kuala Lumpur



LIST OF GROUP PROPERTIES

AS AT 30 JUNE 2006

Address	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/ Age of Building (Year)	Net Book Value (RM million)	Date of Acquisition
3, Jalan SS 13/3B 47500 Petaling Jaya Selangor Darul Ehsan	Freehold	10,005 sq feet	Industrial land and building	Factory (17)	0.9	6.8.1992
Lot 72 Persiaran Jubli Perak 40000 Shah Alam Selangor Darul Ehsan	Freehold	5 acres	Industrial land and building	Factory (12)	9.5	30.12.1991
12 & 12/1 Jalan Nangka Tiga Taman Rumpun Bahagia 75300 Bacang Melaka	Leasehold 21.7.2084	1,650 sq feet	Land and building	2-storey shop office (21)	0.1	13.4.1998
Centre Point Business Park Unit No. B-8-1 & B-8-2 5, Jalan Tanjung Karamat 26/35, Seksyen 26 40400 Shah Alam Selangor Darul Ehsan	Freehold	2,716 sq feet	Building	Office (8)	0.4	18.3.1999
50-2 & 50-3 Jalan Wangsa 2/5 Taman Wangsa Permai 52200 Kuala Lumpur	Leasehold 21.10.2087	1,400 sq feet	Land and building	2-storey shop office (8)	0.2	17.3.1999
15, Jalan Permatang Rawa 1 Kawasan Perniagaan Permatang Rawa 14000 Bukit Mertajam Pulau Pinang	Freehold	2,240 sq feet	Land and building	3-storey shop office (7)	0.7	9.2.1999
B2-2-39B Jalan Pinggiran 1/3 Taman Pinggiran Putra Seksyen 1, 43300 Seri Kembangan Selangor Darul Ehsan	Leasehold 13.12.2097	678 sq feet	Building	Office (4)	0.1	16.7.2004
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	291.7 hectares	Land	Log pond and waste disposal area	1.6	1.1.1989
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2082	79.6 hectares	Land and building	Residential (18 - 21)	51.7	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2043	23.9 hectares	Land	Vacant	1.5	1.1.1983

Address	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/ Age of Building (Year)	Net Book Value (RM million)	Date of Acquisition
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2043	4.0 hectares	Land	Jetty	16.6	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2044	58.9 hectares	Land	Nursery site	0.1	1.1.1984
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2048	166.7 hectares	Land and building	Pulp and) paper mills) (18 - 21))		1.1.1988
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2044	47.0 hectares	Land and building	Pulp and) paper mills) (18 - 21))	368.8	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2043	499.0 hectares	Land and building	Mills and) housing) (18 - 21))		1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	1.5 hectares	Land and building	Pump house (18 - 21)	0.1	1.1.1989
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	6,107 hectares	Land	Plantation	15.3	1.1.1989
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	5,860 hectares	Land	Plantation	14.7	1.1.1989
LuHe Industrial Zone Zhucheng City Shandong Province People's Republic of China	Leasehold 20.12.2054	157,049 sq metres	Land and building	Office and plant (2)	87.4	21.12.2004

ANALYSIS OF SHAREHOLDINGS

Share Capital as at 15 September 2006

Authorised Share Capital	:	RM500,000,000
Issued and Paid-up Capital	:	RM210,153,371
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One (1) vote per ordinary share

Distribution of Shareholdings as at 15 September 2006

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Less than 100	18	0.43	481	0.01
100 - 1,000	1,457	34.66	1,389,815	0.66
1,001 - 10,000	2,250	53.52	8,896,600	4.23
10,001 - 100,000	420	9.99	12,122,100	5.76
100,001 - less than 5% of issued shares	57	1.36	17,647,104	8.40
5% and above of issued shares	2	0.04	170,097,271	80.94
	4,204	100.00	210,153,371	100.00

Substantial Shareholders as at 15 September 2006

Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	% of Shares	No. of Shares	% of Shares
1. Tan Sri William H.J. Cheng	-	-	170,488,512	81.13
2. Datuk Cheng Yong Kim	-	-	170,488,512	81.13
3. Lion Realty Pte Ltd	-	-	170,488,512	81.13
4. Lion Development (Penang) Sdn Bhd	-	-	170,097,271	80.94
5. Horizon Towers Sdn Bhd	-	-	170,097,271	80.94
6. Lion Corporation Berhad	-	-	170,097,271	80.94
7. Lion Industries Corporation Berhad	47,627,236	22.66	122,470,035	58.28
8. Amsteel Mills Sdn Bhd	122,470,035	58.28	-	-
9. LLB Steel Industries Sdn Bhd	-	-	122,470,035	58.28
10. Steelcorp Sdn Bhd	-	-	122,470,035	58.28
11. Lion Diversified Holdings Berhad	-	-	170,097,271	80.94
12. LDH (S) Pte Ltd	-	-	170,097,271	80.94
13. LLB Nominees Sdn Bhd	-	-	58,323,730	27.75

Thirty Largest Registered Shareholders as at 15 September 2006

Registered Shareholders	No. of Shares	% of Shares
1. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for Amsteel Mills Sdn Bhd (7/974-1)	122,470,035	58.28
2. RHB Merchant Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lion Industries Corporation Berhad	47,627,236	22.66
3. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for HLG Penny Stock Fund (5/4-3)	1,843,300	0.88
4. Amsteel Equity Capital Sdn Bhd	1,680,800	0.80
5. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for HLG Dividend Fund (HLGDF)	1,440,000	0.69
6. Lee Kek Ming	1,008,000	0.48
7. Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Balanced Returns Fund (N14011980060)	733,000	0.35
8. Tan Lik Houe	696,900	0.33
9. Universal Trustee (Malaysia) Berhad	550,000	0.26
10. Ong Kee Sem	427,000	0.20
11. AMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Yap Mooi	403,000	0.19
12. Ng Teng Song	395,900	0.19
13. ECM Libra Securities Nominees (Tempatan) Sdn Bhd Choy Wee Chiap (PCS)	384,000	0.18
14. Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Thiam Swee (472927)	338,000	0.16
15. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for HLG Blue Chip Fund (5/5-1)	320,000	0.15
16. HSBC Nominees (Asing) Sdn Bhd Exempt An for Credit Suisse (SG BR-TST-ASING)	310,200	0.15
17. Ong Sai Hoon	308,000	0.15
18. Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Hidden Treasures Fund (240218)	306,000	0.15
19. Soon Khiat Voon	258,000	0.12
20. CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Mohamed Tamrin Bin Munir (PB Retail Banking)	253,000	0.12
21. Affin Nominees (Tempatan) Sdn Bhd Lion Group Medical Assistance Fund	237,000	0.11
22. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Panoron Sdn Bhd (41403980012B)	228,204	0.11
23. Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chin Kiam Hsung	224,100	0.11
24. Abdol Rahim Bin A Talib	200,000	0.10
25. TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Loh Tai Cheong @ Chin Tai Cheong	200,000	0.10
26. Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Kong Han (PMS)	197,000	0.09
27. Na Chiang Seng	196,000	0.09
28. Ong Tatt Poh	190,000	0.09
29. Wilfred Koh Seng Han	187,600	0.09
30. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for HLG Dana Makmur (H9 5/17-5)	180,000	0.09

Directors' Interests in Shares in the Company and its Related Companies as at 15 September 2006

The Directors' interests in shares in the Company and its related companies as at 15 September 2006 are as follows:

	Nominal Value Per Ordinary Share	Direct Interest		Indirect Interest	
		No. of Shares	% of Shares	No. of Shares	% of Shares
The Company					
Dato' Mohamad bin Haji Ahmad	RM1.00	12,000	0.01	-	-
Tan Sri William H.J. Cheng	RM1.00	-	-	170,488,512	81.13
Ngan Yow Chong	RM1.00	-	-	94,500 [#]	N/A
Related Companies					
Dato' Mohamad bin Haji Ahmad					
Lion Industries Corporation Berhad	RM1.00	3,276	*	-	-
Tan Sri William H.J. Cheng					
Lion Industries Corporation Berhad	RM1.00	-	-	323,938,625	46.47
LLB Enterprise Sdn Bhd	RM1.00	-	-	690,000	69.00
LLB Strategic Holdings Berhad	RM1.00	-	-	4,050,000	90.00
Marvenel Sdn Bhd	RM1.00	-	-	100	100.00
Ototek Sdn Bhd	RM1.00	-	-	1,050,000	70.00
Posim EMS Sdn Bhd	RM1.00	-	-	800,000	80.00
P.T. Lion Intimung Malinau	USD1.00	-	-	4,750,000	95.00
Sabah Forest Industries Sdn Bhd					
- ordinary shares Class 'A'	RM1.00	-	-	752,532,412) 97.78
- ordinary shares Class 'B'	RM0.10	-	-	7,525,324,120	
Soga Sdn Bhd	RM1.00	-	-	4,332,078	93.93
Steelcorp Sdn Bhd	RM1.00	-	-	99,750	99.75
Holdsworth Investment Pte Ltd	**	-	-	4,500,000	100.00
Zhongsin Biotech Pte Ltd	**	-	-	1,000,000	100.00
Deferred Shares					
		Nominal Value Per Deferred Share		Indirect Interest No. of Shares	
Sabah Forest Industries Sdn Bhd		RM1.00		146,000,000	100.00
Investments in the People's Republic of China					
				Indirect Interest USD % Holding	
Beijing Trostel Property Development Co Ltd				6,650,000	95.00
Shandong Silverstone LuHe Rubber & Tyre Co Ltd				30,000,000	75.00
Shanghai Lion Plastic Industrial Co Ltd				3,690,000	68.00
Tianjin Baden Real Estate Development Co Ltd				5,000,000	95.00
Tianjin Hua Shi Auto Meter Co Ltd (Under liquidation)				10,878,944	56.00

Notes:

[#] Options granted pursuant to the Company's Executive Share Option Scheme to subscribe for ordinary shares in the Company.

N/A Not applicable.

* Negligible.

** Shares in companies incorporated in Singapore do not have a par value.

Other than as disclosed above, the Directors of the Company do not have any other interest in shares in the Company or its related companies.

MATERIAL CONTRACTS

INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

1. Letter of Offer dated 11 December 2003 between the Company and Lion Industries Corporation Berhad ("LICB"), the holding company of the Company, with the agreement of Sabah Forest Industries Sdn Bhd ("SFI"), a 97.78% owned subsidiary of the Company, and Amsteel Mills Sdn Bhd ("AMSB"), a 99% owned subsidiary of LICB (superseding the letter of offer dated 9 June 2003 made between SFI and AMSB), collectively companies wherein a Director and certain major shareholders of the Company have an interest, and Financing Agreement dated 23 June 2004 made among the Company, SFI, LICB and AMSB whereby the Company lends up to RM100 million at an interest rate of 12% per annum (the sum of which is advanced from SFI) to LICB which in turn advances to AMSB ("Facility") to facilitate the financing required by AMSB for the completion of a steel meltshop facility located in Banting, Selangor Darul Ehsan, to be fully repaid by 30 June 2009.

The first interest payment shall be made 12 months from the date of first drawdown and thereafter it shall be payable semi-annually in arrears. The principal shall be repaid by annual instalments. The Facility is secured by the creation of the following:

- (a) Third party second charge over the non-vacant plot of land held under HS(D) 13425, PT 17216, Mukim Tanjung Dua Belas, District of Kuala Langat, Selangor Darul Ehsan ("Property") (including the building and meltshop but excluding the rolling mill) which ranks in priority to the first charge created in favour of the existing lenders of AMSB; and
 - (b) Third party second debenture comprising a fixed charge over the non-vacant plot of the Property (excluding the rolling mill) which ranks in priority to the first debenture charge created in favour of the existing lenders of AMSB.
2. Conditional Sale and Purchase of Shares Agreement dated 31 January 2005 and the Supplemental Agreement dated 19 April 2005 among Quay Class Ltd ("QCL"), a wholly-owned subsidiary of the Company ("LFIB"), LFIB and Silverstone Corporation Berhad ("SCB"), all of which are companies wherein a Director and certain major shareholders of the Company have an interest, for the disposal by SCB of the entire equity interest in Silverstone Berhad ("SB") comprising 203,877,500 ordinary shares of RM1.00 each to QCL, including the assumption by QCL of the net inter-company balances owing by SCB, its subsidiaries and associated companies to SB as at the completion date, for a total consideration of RM225,000,000.00 to be satisfied by the issuance of 26,500,000 new ordinary shares of RM1.00 each in LFIB to SCB at an issue price of RM2.74 per share and the balance of RM152,390,000.00 to be settled by way of deferred cash payments by QCL in the following manner:
 - (a) RM20,000,000.00 on or before 15 December 2006;
 - (b) RM35,000,000.00 on or before 15 December 2007;
 - (c) RM35,000,000.00 on or before 15 December 2008; and
 - (d) RM62,390,000.00 on or before 15 December 2009.

The Conditional Sale and Purchase of Shares Agreement was terminated on 28 July 2006.

OTHER INFORMATION

NON-AUDIT FEES

The amount of non-audit fees paid or payable to external auditors for the financial year was RM154,000.

OPTIONS EXERCISED DURING THE FINANCIAL YEAR

During the financial year ended 30 June 2006, a total of 212,800 options were exercised by the eligible employees who were executive employees of the Company at an exercise price of RM3.00 per share pursuant to the Executive Share Option Scheme of the Company. Details of the options exercised are disclosed in Note 29 to the Financial Statements.

RECURRENT RELATED PARTY TRANSACTIONS

The aggregate value of transactions conducted during the financial year ended 30 June 2006 were as follows:

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(a) Paper and integrated wood-based products		
(i) The sale of paper and integrated wood-based products	LDHB Group ^(a)	84
(ii) The purchase of machinery, spare parts, tools, dies and other related products and services for use in the operations and maintenance	ACB Group ^(a) Amsteel Group ^(a) LCB Group ^(a)	550 110 31 <u>691</u>
(iii) The provision of storage, leasing and rental of properties to SFI	Amsteel Group ^(a)	<u>9</u>
(iv) The provision of transportation services to SFI	LICB Group ^(a)	<u>536</u>
(b) Trading and distribution		
(i) The purchase of steels bars, wire rods, scrap iron, hot rolled coils and other related building materials	LICB Group ^(a)	<u>20,978</u>
(ii) The sale of steels bars, wire rods, scrap iron, hot rolled coils, billets and other related steel and building materials	LDHB Group ^(a) LCB Group ^(a) ACB Group ^(a)	911 103 5 <u>1,019</u>
(iii) The sale of lubricants, spark plugs, tools and other automotive and petroleum products	Amsteel Group ^(a) LICB Group ^(a) LCB Group ^(a) SCB Group ^(a) ACB Group ^(a) LDHB Group ^(a)	22 2,300 2,126 555 450 9 <u>5,462</u>
(iv) The sale of consumer products	Amsteel Group ^(a)	<u>60</u>

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(c) Others		
(i) The provision of staff training and development, corporate office support and secretarial services to LFIB and its subsidiaries	LCB Group ^(a) SCB Group ^(a)	25 69 <hr/> 94
(ii) The provision of security services and security communication equipment to LFIB and its subsidiaries	Amsteel Group ^(a)	<hr/> 14
(iii) The purchase of motor vehicles, component and spare parts for use in the services and maintenance of motor vehicles by LFIB and its subsidiaries	LCB Group ^(a) SCB Group ^(a)	175 83 <hr/> 258
(iv) The purchase of steam for use in the tyre manufacturing operations	LuHe Group ^(b)	<hr/> 2,022

Notes:

Amalgamated Containers Berhad Group ("ACB Group")
Amsteel Corporation Berhad Group ("Amsteel Group")
Lion Corporation Berhad Group ("LCB Group")
Lion Diversified Holdings Berhad Group ("LDHB Group")
Lion Forest Industries Berhad ("LFIB")
Lion Industries Corporation Berhad Group ("LICB Group")
Sabah Forest Industries Sdn Bhd ("SFI")
Silverstone Corporation Berhad Group ("SCB Group")
Shandong LuHe Group Co Ltd ("LuHe Group")

"Group" includes subsidiaries and associated companies

- (a) Companies in which a Director and certain major shareholders of the Company have an interest.
(b) Major shareholder of a subsidiary of the Company.



FORM OF PROXY

CDS ACCOUNT NUMBER

			-				-							
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I/We

I.C. No./Company No.

of

being a member/members of LION FOREST INDUSTRIES BERHAD, hereby appoint

.....

I.C. No.

of

or failing whom,

I.C. No.

of

as my/our proxy to vote for me/us and on my/our behalf at the Twenty-Fourth Annual General Meeting of the Company to be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 13 November 2006 at 10.45 am and at any adjournment thereof.

RESOLUTIONS	FOR	AGAINST
1. To receive and adopt the Directors' Report and Audited Financial Statements		
2. To approve Directors' fees		
3. To re-elect as Director, Y. Bhg. Tan Sri William H.J. Cheng		
4. To re-elect as Director, Y. Bhg. Dato' Mohamad bin Haji Ahmad		
5. To re-appoint Auditors		
6. Authority to Directors to issue shares		
7. Proposed Shareholders' Mandate for Recurrent Related Party Transactions		

Please indicate with an "X" how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

As witness my/our hand this day of 2006

Signed:

No. of shares:

In the presence of:

Representation at Meeting:

- A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or the hand of an officer or attorney duly authorised.
- An instrument appointing a proxy executed in Malaysia need not be witnessed. The signature to an instrument appointing a proxy executed outside Malaysia shall be attested by a solicitor, notary public, consul or magistrate.
- The instrument of proxy shall be deposited at the Registered Office of the Company, Level 46, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting.
- Form of Proxy sent through facsimile transmission shall not be accepted.



