



**LION FOREST INDUSTRIES BERHAD**

A Member of The Lion Group

(82056-X)

Laporan Tahunan  
**2008**  
Annual Report



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## NOTICE OF MEETING

**NOTICE IS HEREBY GIVEN THAT** the Twenty-Sixth 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 19 November 2008 at 9.30 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 2008. **Resolution 1**
2. To approve the payment of Directors' fees amounting to RM163,000 (2007 : RM164,000). **Resolution 2**
3. To re-elect Directors:
 

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Dato' Dali Mahmud Hashim retires by rotation and, being eligible, offers himself for re-election. **Resolution 3**

In accordance with Article 99 of the Company's Articles of Association, the following Directors who were appointed since the last Annual General Meeting retire and, being eligible, offer themselves for re-election:

Mr Chan Ho Wai **Resolution 4**  
Mr Lin Chung Dien **Resolution 5**
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 6**
5. Special Business
  - 5.1 To consider and, if thought fit, pass the following resolutions as ordinary resolutions:
    - 5.1.1 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 and paid-up capital of the Company for the time being and that such authority shall continue to be in force until the conclusion of the next annual general meeting of the Company." **Resolution 7**
    - 5.1.2 Proposed Shareholders' Mandate for Recurrent Related Party Transactions
 

"THAT approval be and is hereby given for the Company and its subsidiaries to enter into 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 and with those related parties as set out in paragraph 3.2 of Part A of the Circular to Shareholders of the Company dated 28 October 2008 ("Related Parties") which has been despatched to the shareholders of the Company, provided that such transactions are undertaken in the ordinary course of business and are on normal commercial terms which are consistent with the Group's usual business practices and policies, and 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; 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 of the Company in general meeting,

whichever is the earlier; and

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

5.2 To consider and, if thought fit, pass the following resolution as a special resolution:

Proposed Amendments to the Articles of Association of the Company

"THAT the proposed amendments to the Articles of Association of the Company contained in Appendix I of the Circular to Shareholders of the Company dated 28 October 2008 which has been despatched to the shareholders of the Company, be and are hereby approved and adopted."

**Resolution 9**

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  
28 October 2008

**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 outside 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. Circular to Shareholders dated 28 October 2008 ("Circular")

Details on the following are set out in the Circular enclosed together with the 2008 Annual Report:

- Part A - Proposed Shareholders' Mandate for Recurrent Related Party Transactions
- Part B - Appendix I  
Proposed Amendments to the Articles of Association of the Company

3. Resolution 7

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 and paid-up 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.

4. Resolution 8

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 Part A of the Circular which are necessary for the Group's day-to-day operations undertaken in the ordinary course of business and are on normal commercial terms which are consistent with the Group's usual business practices and policies, and 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.

5. Resolution 9

This approval will allow amendments to be made to the Articles of Association of the Company ("AA") to bring the AA in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad, to incorporate current statutory and regulatory requirements for clarity and enhancements and, where relevant, to render consistency throughout the AA.

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Details of the Directors standing for re-election at the Twenty-Sixth Annual General Meeting of the Company are set out in the Directors' Profile on pages 4 to 6 of the 2008 Annual Report.

## CORPORATE INFORMATION

|                                   |  |
|-----------------------------------|--|
| <b>Board of Directors</b>         | : Y. Bhg. Tan Sri William H.J. Cheng<br>(Chairman)<br>Mr Chan Ho Wai<br>(Executive Director)<br>Y. Bhg. Dato' Mohamad bin Haji Ahmad<br>Y. Bhg. Dato' Dali Mahmud Hashim<br>Y. Bhg. Dato' Kalsom binti Abd. Rahman<br>Mr Ngan Yow Chong<br>Cik Zainab binti Dato' Hj. Mohamed<br>Mr Lin Chung Dien |
| <b>Secretaries</b>                | : Ms Wong Phooi Lin<br>Puan Yasmin Weili Tan binti Abdullah  |
| <b>Company No.</b>                | : 82056-X  |
| <b>Registered Office</b>          | : Level 46, Menara Citibank<br>165 Jalan Ampang<br>50450 Kuala Lumpur<br>Tel Nos : 03-21622155, 03-21613166<br>Fax No : 03-21623448<br>Homepage : <a href="http://www.lion.com.my">http://www.lion.com.my</a>  |
| <b>Share Registrar</b>            | : Secretarial Communications Sdn Bhd<br>Level 46, Menara Citibank<br>165 Jalan Ampang<br>50450 Kuala Lumpur<br>Tel Nos : 03-21622155, 03-21648411<br>Fax No : 03-21623448  |
| <b>Auditors</b>                   | : Deloitte KassimChan<br>Level 19, Uptown 1<br>1 Jalan SS 21/58<br>Damansara Uptown<br>47400 Petaling Jaya<br>Selangor Darul Ehsan   |
| <b>Principal Bankers</b>          | : CIMB Bank Berhad<br>Affin Bank Berhad<br>Public Bank Berhad<br>EON Bank Berhad<br>Bank Muamalat Malaysia Berhad<br>China Construction Bank Corporation   |
| <b>Stock Exchange Listing</b>     | : Bursa Malaysia Securities Berhad ("Bursa Securities")<br>Second Board  |
| <b>Stock Name</b>                 | : LIONFIB  |
| <b>Bursa Securities Stock No.</b> | : 8486   |
| <b>Reuters Code</b>               | : LIOF.KL  |
| <b>ISIN Code</b>                  | : 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 65, 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 35 years of experience in the business operations of The Lion Group encompassing steel, motor, tyre, computer, retail, trading, 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
- Chairman and Managing Director of Lion Corporation Berhad, Parkson Holdings Berhad and Silverstone Berhad
- Director of Amsteel Corporation Berhad

Save for Silverstone Corporation Berhad, Silverstone Berhad and Amsteel Corporation Berhad, all the above companies are listed on Bursa Malaysia Securities Berhad.

Tan Sri William Cheng has an indirect shareholding of 167,988,512 ordinary shares of RM1.00 each in the Company. By virtue of his substantial interest in the Company, he is deemed to be interested in the subsidiaries of the Company, both wholly-owned and those set out on page 101 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 five (5) Board Meetings of the Company held during the financial year ended 30 June 2008.

### **Chan Ho Wai**

*Executive Director*

Mr Chan Ho Wai, a British, aged 52, was appointed the Executive Director of the Company on 1 August 2008. He is also a member of the Company's Remuneration Committee and Executive Share Option Scheme Committee.

Mr Chan obtained his Higher National Diploma in Electronic Engineering from Bristol Poly II, United Kingdom.

Mr Chan joined The Lion Group in 1992 and first held the position of Material Manager of Ceemax Technology Sdn Bhd in charge of material sourcing and product development until 1994. In 1995, he was appointed an Assistant General Manager of Likom Caseworks Sdn Bhd responsible for the operation and administration of the company until 1996. Since 1997, he is the director in charge of the manufacturing operations of the Ceemax and the Likom group of companies which are involved in the manufacturing and marketing of computers, monitors and peripherals. He is currently also a Director of Silverstone Berhad, a public company which is involved in the manufacture and sale of tyres, rubber compounds and other related rubber products. Prior to joining The Lion Group, he was an engineer with HK Aircraft Engineer Co responsible for aircraft maintenance from 1983 to 1991.



**Dato' Mohamad bin Haji Ahmad**

*Independent Non-Executive Director*

Y. Bhg. Dato' Mohamad bin Haji Ahmad, a Malaysian, aged 64, was appointed to the Board on 28 March 1991. He is also a member of the Company's Audit Committee and Nomination Committee.

Dato' Mohamad obtained his Certificate in Business Feasibility Studies and Management Practice from Japan. He is a businessman and the 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 five (5) Board Meetings of the Company held during the financial year ended 30 June 2008.

**Dato' Dali Mahmud Hashim**

*Independent Non-Executive Director*

Y. Bhg. Dato' Dali Mahmud Hashim, a Malaysian, aged 67, was appointed to the Board on 22 August 2001. He is also the Chairman of the Company's Audit Committee, Remuneration Committee, Nomination Committee and Executive Share Option Scheme 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. He retired from the administrative and diplomatic service in December 1998.

Dato' Dali attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2008.

**Dato' Kalsom binti Abd. Rahman**

*Independent Non-Executive Director*

Y. Bhg. Dato' Kalsom binti Abd. Rahman, a Malaysian, aged 60, 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 and Masters degree in Business Administration (Finance) from the University of Eugene, Oregon, the United States of America. She has served in various capacities in the Ministry of International Trade and Industry ("MITI") both at headquarters and overseas offices as well as the Chief Executive Officer of the Small and Medium Industries Development Corporation ("SMIDEC") and as Deputy Secretary-General (Industry) of MITI before she retired in 2004. Subsequently, she became the Chairman of SMIDEC until October 2006. Dato' Kalsom was also the Chairman of the Executive Committee of Invest-In-Penang Berhad, a state government agency responsible for the promotion of investments, technology and business into Penang.

Dato' Kalsom's other directorships in public companies are as follows:

- Malaysian Industrial Development Finance Berhad and its subsidiaries, MIDF Amanah Investment Bank Berhad, MIDF Amanah Asset Management Berhad and MIDF Property Berhad
- Chemical Company of Malaysia Berhad
- MISC Berhad

Chemical Company of Malaysia Berhad and MISC Berhad are companies listed on Bursa Malaysia Securities Berhad.

Dato' Kalsom attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2008.

**Ngan Yow Chong**

*Non-Independent Non-Executive Director*

Mr Ngan Yow Chong, a Malaysian, aged 51, was appointed to the Board on 22 August 2001.

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

Mr Ngan has more than 25 years of experience in the manufacturing and trading industries, and commerce. He joined The Lion Group in February 2001 as Group Director in charge of the Brewery Division in the People's Republic of China until January 2004. He is currently in charge of the Posim group of companies which are involved in the business of trading and distribution of building materials, petroleum products and lubricants. During the period from March 1981 to March 1996, he served the Hong Leong Group in various positions ranging from Project/Maintenance Manager, Operation Manager, Sales Manager (Import/Export) and held the position as General Manager of a number of subsidiaries within the Hong Leong Group. 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.

Mr Ngan is also the Executive Director of Silverstone Corporation Berhad, a public company.

Mr Ngan has an indirect interest of 133,300 ordinary shares of RM1.00 each in the Company by virtue of options granted to him pursuant to the Company's Executive Share Option Scheme to subscribe for 133,300 shares in the Company.

Mr Ngan attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2008.

Mr Ngan will be retiring at the forthcoming Annual General Meeting and does not seek re-election as Director of the Company.

**Zainab binti Dato' Hj. Mohamed**

*Independent Non-Executive Director*

Cik Zainab binti Dato' Hj. Mohamed, a Malaysian, aged 50, 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 Universiti Teknologi MARA (UiTM) in 1978 and 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 of experience in the audit and finance fields holding various positions in an audit firm, a commercial bank, an investment and holding company, a petroleum multinational company, a general insurance company and a solid waste management concessionaire.

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

Cik Zainab attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2008.

**Lin Chung Dien**

*Independent Non-Executive Director*

Mr Lin Chung Dien, a Taiwanese, aged 65, was appointed to the Board on 25 February 2008.

Mr Lin holds a Bachelor of Mechanical Engineering degree from the National Taiwan University. He is the Chairman and Chief Executive Officer of Bichain Trading Co Ltd, a company dealing in import and export of steel products founded by him in 1972. He was an Export Manager (Taipei Branch) with Sanyo Seike Trading Co Ltd (1967-1972) and a Mechanical Engineer with Da-Eng Steel & Iron Co Ltd (1966-1967).

Mr Lin attended the remaining one (1) Board Meeting of the Company held during the financial year ended 30 June 2008 subsequent to his appointment.

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 ten (10) years.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors (“Board”) recognises the importance of practising and maintaining 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 and maintained 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 2008 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 2008, five (5) Board Meetings were held and all the Directors attended all the Board Meetings held during the financial year. 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 eight (8) Directors, seven (7) 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 effectively facilitate the discharge of the Board’s stewardship.

Represented on the Board are five (5) 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 Executive 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 Executive 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 the Audit Committee, Nomination Committee, Remuneration Committee and Executive Share Option Scheme 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 its 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 and senior management of the Group and external advisers are also invited to attend the Board meetings to provide their professional views, advice and explanation on specific items on the agenda 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 under appropriate circumstances, at the Company's expense.

The Company Secretaries advise the Board on their duties and obligations, and the appropriate requirements, disclosures and procedures to be complied with in relation thereto. The Company Secretaries are also 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 skill, experience and competency to be appointed to the Board and Board Committees. The members and terms of reference of the Nomination Committee are presented on page 16 of this Annual Report.

### **Re-election of Directors**

In accordance with the Articles of Association of the Company, 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.

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

During the financial year, an in-house seminar was held for the benefit of the Directors. Certain Directors had also participated in other seminars and programmes other than that in relation to the in-house seminar.

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 Directors are also updated on a continuing basis by the Company Secretaries on new and/or revised requirements to the Listing Requirements of Bursa Securities as and when the same were advised by Bursa Securities ("Continuing Updates").

The Board views the aforementioned seminars and programmes attended and/or participated by the Directors, and the Continuing Updates provided to the Directors as adequate to enhance the Directors' skills and knowledge to carry out their duties as Directors.

The Board will, on a continuing basis, evaluate and determine the training needs of each Director, particularly on relevant new laws and regulations, and 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 16 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 practices of the Code are deemed appropriately served by the disclosures in the ensuing paragraphs.

The aggregate remuneration of Directors who served during the financial year ended 30 June 2008 are categorised as follows:

|                          | <b>Fees<br/>RM'000</b> | <b>Salaries<br/>&amp; Other<br/>Emoluments<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--------------------------|------------------------|---|-------------------------|
| Executive Director       | 15                     | 275   | 290                     |
| Non-executive Directors* | 148                    | -   | 148                     |
|                          | <u>163</u>             | <u>275</u>  | <u>438</u>              |

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

| <b>Range of Remuneration (RM)</b> | <b>Number of Directors</b> |                       |
|-----------------------------------|----------------------------|-----------------------|
|                                   | <b>Executive</b>           | <b>Non-executive*</b> |
| 25,000 & below                    | -                          | 2                     |
| 25,001 - 50,000                   | -                          | 4                     |
| 250,001 - 300,000                 | 1                          | -                     |

\* Including a Director who was appointed during the financial year.

## 3. RELATIONS WITH SHAREHOLDERS AND INVESTORS

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

The Company's website at [www.lion.com.my](http://www.lion.com.my) provides easy access to corporate information pertaining to the Group and its activities.

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 12 and 15 of this Annual Report.

##### **Financial Reporting**

The Board aims to present a balanced and clear assessment of the Group's position and prospect to the Company's shareholders through the annual financial statements and quarterly announcements. 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 the 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 2008, the financial statements presented give a true and fair view of the state of affairs, 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 the 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 11 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
- Adequate insurance and physical safeguards on major assets are in place to ensure assets of the Group are sufficiently covered

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, all of whom shall be non-executive Directors with a majority of them being independent Directors. The composition of the Audit Committee shall fulfill the requirements as prescribed or approved 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. The Audit Committee shall meet with the external auditors without the executive Board members being present at least twice a year. 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.
- (g) the right to be able to meet with the external auditors, internal auditors or both, excluding the attendance of other Directors or employees of the Company, whenever deemed necessary.



- **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 excluding the attendance of other Directors and employees of the Company, whenever deemed 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, competency 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 senior internal audit staff members and reasons thereof.
- (xii) To perform any other such function as may be directed by the Board.

## ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year under review, five (5) Audit Committee Meetings were held. Except for Y. Bhg. Dato' Mohamad bin Haji Ahmad who was absent for one (1) Meeting, all other members attended all the five (5) Meetings held in the financial year.

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

The main activities undertaken by the 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 meetings with the external auditors without executive Board members and management 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 under the Shareholders' Mandate.

- **Material Transactions**

Reviewed material transactions entered into by the Group.

## **INTERNAL AUDIT FUNCTION**

The internal audit function is undertaken by the Group Management Audit Department. Its principal activity is to perform regular and systematic reviews of the system of internal controls so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively.

In discharging its function, the Group Management Audit Department adopts the *International Standards for the Professional Practice of Internal Auditing* as well as established auditing guidelines to enhance its competency and proficiency.

A risk-based audit plan is tabled to the Audit Committee for approval on an annual basis. The audit plan covers key operational and financial activities that are significant to the overall performance of the Group and is developed to ensure adequate coverage on a regular basis. Key risk areas are continuously identified and prioritised to ascertain the scope of the audit activities through the adoption by the operation management of the Internal Control – Self-Assessment Questionnaire and the Strategic Corporate Risk Management Scorecard.

During the financial year, the internal auditors had conducted independent reviews and evaluated risk exposures relating to the Group's governance, operations and information system as follows:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with set policies and procedures
- Identification of opportunities to improve the operations and processes
- Investigations and special audit reviews

The internal auditors also established follow-up review to monitor and to ensure that internal audit recommendations are effectively implemented.

The internal audit activities have been carried out according to the internal audit plan approved by the Audit Committee for the financial year.

## NOMINATION COMMITTEE

|                           |   |  |
|---------------------------|---|--|
| <b>Chairman</b>           | : | Y. Bhg. Dato' Dali Mahmud Hashim<br><i>(Independent Non-Executive Director)</i>  |
| <b>Members</b>            | : | Y. Bhg. Dato' Mohamad bin Haji Ahmad<br><i>(Independent Non-Executive Director)</i><br><br>Cik Zainab binti Dato' Hj. Mohamed<br><i>(Independent Non-Executive Director)</i>   |
| <b>Terms of Reference</b> | : | <ul style="list-style-type: none"> <li>• To recommend to the Board, candidates for directorships in Lion Forest Industries Berhad</li> <li>• 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</li> <li>• To recommend to the Board, Directors to fill the seats on Board Committees</li> <li>• 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</li> <li>• 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</li> </ul> |

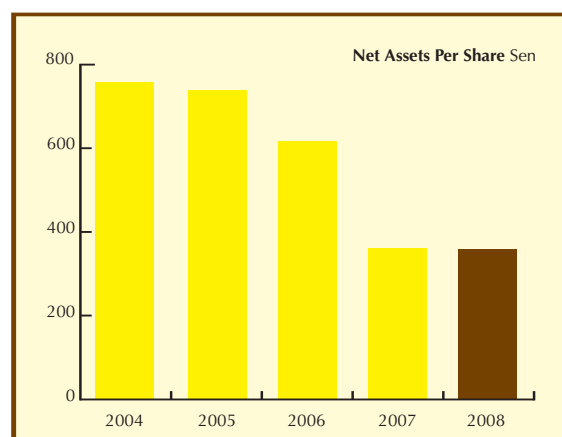
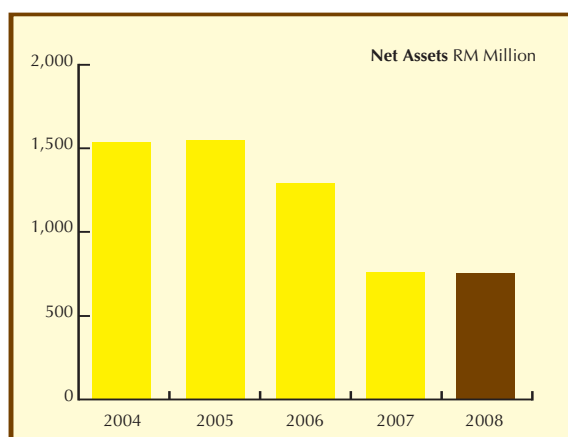
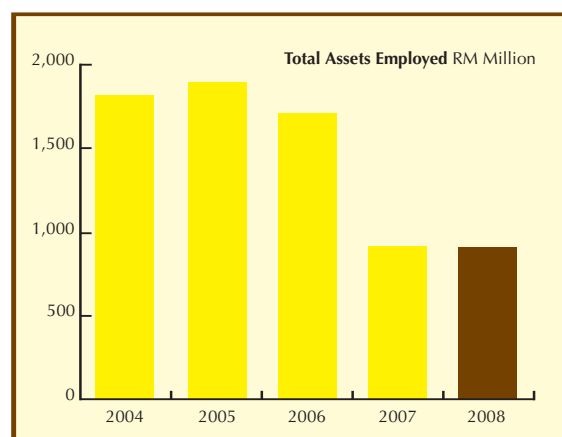
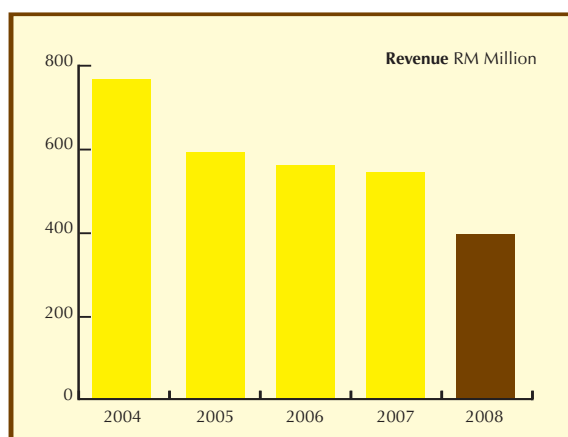
## REMUNERATION COMMITTEE

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

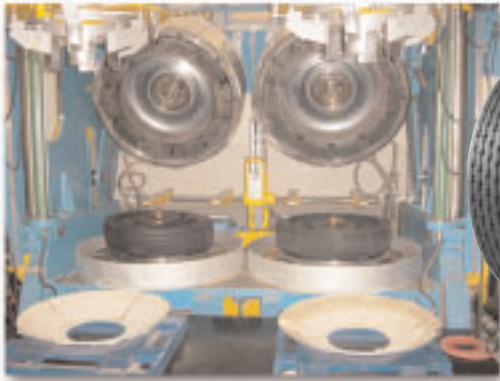
## 5 YEARS GROUP FINANCIAL HIGHLIGHTS

| Financial years ended 30 June | 2004       | 2005       | 2006       | 2007       | 2008            |
|-------------------------------|------------|------------|------------|------------|-----------------|
|                               | RM'000     | RM'000     | RM'000     | RM'000     | RM'000          |
| Revenue                       | 765,096    | 590,388    | 559,755    | 542,246    | <b>392,845</b>  |
| Profit/(Loss) before taxation | 39,357     | 36,076     | (239,673)  | (59,166)   | <b>(8,357)</b>  |
| Profit/(Loss) after taxation  | 34,312     | 29,744     | (241,594)  | (63,880)   | <b>(16,746)</b> |
| <b>Dividends:</b>             |            |            |            |            |                 |
| Rate (%)                      | 17.5       | 16.0       | -          | -          | -               |
| Amount (Net of tax)           | 35,563     | 33,586     | -          | -          | -               |
| Total assets employed         | 1,818,872  | 1,897,843  | 1,709,113  | 916,114    | <b>910,689</b>  |
| Net assets                    | 1,539,606  | 1,552,019  | 1,295,136  | 761,902    | <b>757,207</b>  |
| Net tangible assets           | 1,357,987  | 1,380,546  | 1,294,491  | 761,307    | <b>756,853</b>  |
|                               | <b>Sen</b> | <b>Sen</b> | <b>Sen</b> | <b>Sen</b> | <b>Sen</b>      |
| Net assets per share          | 758        | 739        | 616        | 362        | <b>360</b>      |
| Earnings/(Loss) per share     | 16.5       | 14.0       | (111.9)    | (28.8)     | <b>(4.3)</b>    |

*Note: The Group's financial highlights have been adjusted to account for the new or revised Financial Reporting Standards ("FRS") of which certain FRSs have been adopted retrospectively.*



## THE GROUP'S BUSINESSES



- The Group's tyre operation in China under Shandong Silverstone LuHe Rubber & Tyre Co. Ltd, produces all-steel radial truck tyres.
- *Operasi tayar Kumpulan di China, yang dikendalikan oleh Shandong Silverstone LuHe Rubber & Tyre Co. Ltd, mengeluarkan tayar trak radial keluli.*



- The Building Materials Division is involved in the trading and distribution of building and construction materials such as (from far left) steel bars, cement, roofing and wall tiles.
- *Bahagian Bahan Binaan menjalankan urus niaga menjual dan mengedar bahan-bahan seperti (paling kiri) besi, simen, jubin bumbung dan dinding untuk pembinaan bangunan.*



- Posim Petroleum Marketing Sdn Bhd distributes the Hi-Rev and Nnergy range of motor oil and lubricants, and automotive components and accessories such as Engine Flush, Fuel Injection Cleaner, Sparx spark plug and Viewmax wiper.
- *Posim Petroleum Marketing Sdn Bhd mengedar rangkaian minyak motor dan pelincir jenama Hi-Rev dan Nnergy, serta komponen dan aksesori automotif seperti Engine Flush, Fuel Injection Cleaner, palam pencucuh Sparx dan pengelap Viewmax.*

- Introduction of Autoboss scanner and Kabo tools to enhance the operations of workshop customers.
- *Pengimbas Autoboss dan peralatan lengkap Kabo diperkenalkan kepada pelanggan workshop untuk meningkatkan operasi mereka.*

## PENYATA Pengerusi

Bagi pihak Lembaga Pengarah, saya dengan sukacitanya membentangkan Laporan Tahunan dan Penyata Kewangan Beraudit Lion Forest Industries Berhad bagi tahun kewangan berakhir 30 Jun 2008.

### PRESTASI KEWANGAN

Berikutan selesainya pelupusan Sabah Forest Industries Sdn Bhd ("SFI") pada tahun kewangan yang lalu, perniagaan Kumpulan kini tertumpu kepada pengedaran bahan-bahan binaan, dan produk petroliaam serta automotif di pasaran tempatan dan juga pembuatan serta pengedaran tayar di Shandong, China.

Pada tahun kewangan dalam kajian, perolehan ketiga-tiga segmen perniagaan mencatat peningkatan ketara dengan operasi dalam negara, bahagian bahan-bahan binaan dan petroliaam masing-masing melaporkan perolehan berjumlah RM223 juta dan RM64.4 juta. Walaupun operasi bahagian tayar di China melaporkan perolehan lebih tinggi berjumlah RM102.8 juta, namun sumbangannya kepada keuntungan Kumpulan tidak memberangsangkan kerana tanggungan kos bahan mentah yang tinggi dan usaha berterusan yang perlu dilakukan untuk meluaskan penguasaan pasaran tayar di sana yang sangat sensitif kepada harga.

Pengukuhan Ringgit berbanding Dolar Amerika Syarikat ("USD") juga menyebabkan Kumpulan terpaksa menanggung kerugian tukaran asing yang berlaku hanya sekali berjumlah RM19.9 juta hasil pelupusan SFI.

Oleh itu, walaupun mencatat perolehan lebih tinggi berjumlah RM392.8 juta daripada operasi yang dikekalkan, Kumpulan mencatatkan kerugian sebelum cukai berjumlah RM8.4 juta pada tahun dalam kajian.

### PERKEMBANGAN KORPORAT

Semasa tahun kewangan, Kumpulan telah membuat cadangan untuk melaksanakan langkah-langkah korporat penting yang berikut:

- (i) Cadangan pembelian hutang dalam USD yang diterbitkan oleh AMB Harta (L) Limited, anak syarikat milik penuh Silverstone Corporation Berhad ("SCB"), dan bon RM serta saham keutamaan boleh ubah terkumpul boleh tebus bernilai RM0.01 setiap satu diterbitkan pada harga premium sebanyak RM0.99 oleh SCB ("RCCPS") dengan jumlah agregat nominal dianggarkan kira-kira RM515.20 juta di mana hampir RM229.97 juta akan dibiayai melalui hasil pelupusan keseluruhan pegangan Syarikat sebanyak 97.78% dalam SFI yang telahpun diluluskan oleh Suruhanjaya Sekuriti pada 14 Mac 2008.

- (ii) Pada 28 Mei 2008, Syarikat telah mengemukakan notis pengambilalihan bersyarat kepada Lembaga Pengarah SCB untuk membeli baki 339,878,875 saham biasa bernilai RM1.00 sesaham dibayar penuh dalam SCB dan baki 28,627,764 RCCPS yang belum dimiliki oleh Kumpulan.

Butiran penuh cadangan di atas dinyatakan di muka surat 96 dalam Laporan Tahunan ini.

### KAJIAN OPERASI

#### Tayar

Bahagian Tayar kita di China mencatat pertumbuhan perolehan sebanyak 29% pada tahun dalam kajian. Sebagai pasaran gantian utama, sektor tayar kurang dipengaruhi oleh kitaran pasaran berbanding sektor automotif. Bagaimanapun, disebabkan kenaikan melampau harga getah yang belum pernah berlaku sebelum ini serta pasaran gantian yang sensitif harga, margin telah terhakis dan yang demikian menyebabkan kerugian sebelum cukai yang lebih tinggi dilaporkan.

Dalam persekitaran yang bersaing sengit dan penguasaan peraturan yang lebih ketat, terutamanya dari segi keselamatan dan alam sekitar, bahagian tayar kita bercadang mempergunakan kelebihan daripada kelainan potensinya untuk memberikan kepuasan pelanggan yang maksima, dari segi prestasi produk dan perkhidmatan-perkhidmatan yang inovatif. Pada masa yang sama, kita juga berusaha untuk menambah baik pemprosesan utama dengan menekankan penggunaan barisan pengeluaran yang lebih baik dan cekap.

Walaupun, Bahagian Tayar memberikan tumpuan kepada meningkatkan lagi penguasaan pasaran tempatan, kita melihat potensi yang besar dalam segmen eksport terutamanya di pasaran baru di Asia. Permintaan tayar dunia diramal meningkat 3.3% setahun kepada 1.6 bilion buah tayar pada 2011. Pasaran pembuatan peralatan asli dan pasaran gantian kedua-duanya akan mengalami pertumbuhan pada kadar yang sama. China akan terus menunjukkan pertumbuhan paling kukuh dengan permintaan tayar di negara tersebut meningkat 12.2% setahun kepada 177 juta buah tayar menjelang 2011.

#### Bahan-bahan Binaan

Peningkatan tinggi harga minyak mentah memberi kesan yang menyeluruh terhadap industri bahan-bahan binaan tempatan. Tekanan kenaikan kos kepada seluruh rangkaian pengeluaran, kekurangan bekalan berkala serta jurang tahap pendapatan dan harga hartanah yang semakin luas mencetus kebimbangan kemungkinan berlakunya kelembapan dalam sektor binaan. Dalam tahun kewangan, Kerajaan telah meliberalisasikan sektor besi dan simen tempatan

dengan menarik balik harga siling yang dikenakan serta membenarkan import bahan-bahan tersebut ke dalam negara. Berikutan ini, beberapa langkah pro-aktif untuk projek-projek Kerajaan telah diumumkan dalam usaha mengurangkan beban kewangan para kontraktor, seperti membenarkan perbezaan harga ke atas bahan-bahan binaan terpilih, mengeluarkan pembayaran interim kemajuan kerja, serta tambahan masa tiga bulan untuk menyiapkan projek. Bagi pihak sektor swasta, para pemaju dinasihati supaya berunding semula dengan kontraktor mereka untuk mengelakkan projek terbengkalai akibat kenaikan berterusan harga bahan-bahan binaan.

Dalam keadaan sebegini, operasi pengedaran bahan-bahan binaan kita akan berusaha untuk meluaskan liputannya ke atas penilaian kredit serta profil risiko para pelanggan. Sementara permintaan terhadap produk kita kekal kukuh sepanjang tahun kewangan, kita juga mengamalkan sikap berhati-hati semasa memberi kredit kepada para pelanggan. Terdapat kebimbangan bahawa sesetengah kontraktor tidak dapat mengharungi masa sukar berikutan kenaikan melampau harga di masa depan. Sehubungan itu, operasi kita bersiap sedia untuk melaksanakan kawalan lebih ketat untuk mengurangkan risiko kredit.

Ketika berurusan dengan syarikat-syarikat prinsipal, kita meyakinkan mereka akan sokongan kita dengan mengedarkan produk mereka secara lebih berkesan menerusi cawangan-cawangan kita di lokasi-lokasi yang strategik. Sebagai timbal balas, para prinsipal kita pula memberi jaminan bekalan berkekalan untuk operasi kita walaupun sekiranya berlaku kekurangan bekalan. Sehubungan itu, kita beroleh manfaat daripada sokongan jitu syarikat-syarikat prinsipal utama dan dapat mencatatkan jumlah jualan yang lebih tinggi serta keuntungan lebih baik bagi tahun kewangan ini.

Dalam melangkah hadapan, kita tetap berwaspada akan perubahan pantas dan di luar jangkaan yang menjejaskan industri binaan dan akan mengambil langkah-langkah untuk mengurangkan pendedahan yang tidak perlu dalam menghadapi cabaran tersebut.

#### **Pelincir dan Lain-lain**

Tahun ini, kita menyaksikan peningkatan mendadak harga minyak dan elektrik serta kesannya terhadap pengguna dan pengeluar. Pada masa yang sama, operasi kita juga tidak terlepas tempis ini dan kita terus berhadapan hakisan margin setiap kali bahan mentah utama meningkat ke paras harga yang baru. Untuk mengurangkan kesan kenaikan melampau, kita cuba membeli kontrak hadapan bila perlu

dan memanjangkan kontrak kitaran pembelian untuk memastikan kecukupan bekalan bahan-bahan mentah bagi keperluan pengeluaran. Memandangkan keupayaan untuk menyimpan bahan-bahan mentah dalam kuantiti yang besar juga terbatas, kita telah menyediakan sebuah tangki tegak 1,000 tan metrik untuk memenuhi keperluan berkenaan.

Dalam tahun kewangan, kita telah memperbaiki kitaran jualan dan memperkenalkan sistem pesanan melalui laman web untuk pegawai jualan kita. Dengan membolehkan pendaftaran pesanan pelanggan secara dalam talian, pasukan jualan kita dapat melihat harga stok terkini dan kesediaadaannya di samping mengawasi akaun pelanggan dengan lebih berkesan manakala di peringkat sokongan (back-office), pasukan penghantaran dapat memendekkan tempoh penghantaran untuk memberi perkhidmatan yang lebih baik kepada para pelanggan.

Kita menjangkakan aliran semasa harga petrol dan diesel akan menjadi pemangkin kepada perubahan tabiat memandu orang ramai. Dengan ketiadaan bahan api alternatif yang lebih murah sekarang, dan para pemandu kenderaan persendirian yang bijak akan melakukan servis yang lebih kerap ke atas enjin kereta, kita menjangkakan peningkatan bilangan kenderaan enjin berkeupayaan rendah hingga sederhana di atas jalan raya. Sehubungan itu, rangkaian bengkel bebas kita di seluruh negara berada pada kedudukan yang baik untuk menampung peningkatan permintaan minyak pelincir segmen pasaran ini. Dalam tahun kewangan, kita telah memperkenalkan pengimbas "Autoboss" dan peralatan "Kabo" kepada pengusaha bengkel untuk mempertingkatkan operasi mereka. Dengan menggalak dan memudahkan penambahbaikan operasi bengkel-bengkel ini, kita menjangka dapat mengukuh dan memacu perniagaan ke hadapan. Dalam perancangan, kita akan menerokai produk berkaitan kenderaan gas asli ("NGV") kerana terdapat aliran pelanggan yang mulai beralih kepada NGV sebagai satu cara menjimatkan kos bahan api.

#### **TANGGUNGJAWAB SOSIAL KORPORAT**

Kita mengiktiraf pentingnya Tanggungjawab Sosial Korporat ("CSR"), sebagai sebahagian daripada perniagaan dan telah bertindak menerapkan rangka kerja CSR dalam pelan perniagaan untuk meningkatkan keyakinan para pemegang kepentingan, akauntabiliti dan ketelusan. CSR menjadi komponen penting dalam amalan perniagaan baik yang bermatlamat memperbaiki masyarakat dan alam sekitar.



## **Masyarakat**

Dalam mengendalikan aktiviti perniagaannya, Kumpulan mengambil berat tanggungjawabnya sebagai warga korporat, dalam mengembalikan semula kepada masyarakat selain menyumbang kepada keuntungan dan nilai para pemegang saham. Kumpulan memberi tumpuan terhadap usaha menambahbaik masyarakat menerusi pendidikan dan penjagaan perubatan melalui dua Yayasan yang diasaskan oleh syarikat-syarikat di bawah Kumpulan Lion di mana Kumpulan adalah ahlinya.

Yayasan Lion-Parkson (sebelum ini dikenali sebagai Yayasan Lion-ASM) menyalurkan dana untuk pelbagai keperluan seperti pendidikan, kebajikan dan penyelidikan saintifik, dan setiap tahun, memberikan biasiswa dan pinjaman pendidikan kepada pelajar di universiti tempatan. Tabung Bantuan Perubatan Kumpulan Lion menyediakan bantuan kewangan kepada rakyat Malaysia yang memerlukan rawatan perubatan termasuk pembedahan, pembelian peralatan dan ubat-ubatan.

Kumpulan turut membantu masyarakat dengan menyumbang kepada usaha menjana dana dan mengutip derma serta menghulurkan bantuan kepada mangsa malapetaka di dalam dan di luar negara.

## **Alam Sekitar**

Sementara menumpukan aspek pembangunan teknologi dan industri, Kumpulan juga menyokong usaha memelihara alam sekitar. Operasi Kumpulan mematuhi undang-undang dan peraturan yang ditetapkan bagi industri di mana ia beroperasi.

Kumpulan menerima pakai peraturan keselamatan, kesihatan dan alam sekitar dengan mengamalkan pendekatan sistematik yang diperkukuhkan melalui dengan latihan dan pengawasan secara tetap untuk memastikan keselamatan dan kesejahteraan para pekerja kita.

## **PROSPEK**

Dalam melangkah ke hadapan, persekitaran operasi perniagaan Kumpulan dijangka lebih mencabar. Pertumbuhan ekonomi tempatan dan di negara-negara serantau dijangka sederhana selepas lonjakan tinggi harga tenaga dan komoditi serta krisis kewangan yang menjejaskan negara-negara barat maju. Sedang operasi tayar kita di China dijangka terus meluaskan

kehadirannya serta menguasai bahagian pasaran yang lebih besar, operasi bahan-bahan binaan dan produk petroliam tempatan dijangka mengekalkan kedudukannya berikutan ketidaktentuan ekonomi di masa hadapan.

## **LEMBAGA PENGARAH**

Bagi pihak Lembaga Pengarah, saya ingin mengambil kesempatan ini untuk mengalu-alukan Encik Lin Chung Dien yang dilantik sebagai Ahli Lembaga Pengarah pada 21 Februari 2008 dan Encik Chan Ho Wai yang dilantik sebagai Pengarah Eksekutif Syarikat pada 1 Ogos 2008 menggantikan Encik Ngan Yow Chong yang telah meletakkan jawatan sebagai Pengarah Eksekutif dan akan bersara pada Mesyuarat Agung Tahunan Syarikat yang akan datang.

Saya ingin merakamkan penghargaan ikhlas kepada Encik Ngan atas sumbangan beliau sepanjang tempoh pelantikannya sebagai Pengarah Eksekutif dan Pengarah.

## **PENGHARGAAN**

Bagi pihak Lembaga Pengarah, saya ingin merakamkan penghargaan kepada para pelanggan, bank-bank, sekutu perniagaan, Kerajaan serta pemegang saham yang dihargai atas sokongan serta keyakinan mereka yang berterusan terhadap Kumpulan. Saya juga ingin mengucapkan terima kasih kepada pihak pengurusan serta kakitangan atas komitmen serta dedikasi mereka.

Akhir kata, saya ingin mengucapkan terima kasih kepada rakan pengarah atas sokongan dan nasihat mereka yang tidak ternilai sepanjang tahun kewangan.

**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 2008.

### FINANCIAL PERFORMANCE

With the completion of the disposal of Sabah Forest Industries Sdn Bhd ("SFI") in the last financial year, the Group's business is currently focused on the distribution of building materials, and petroleum and automotive products in the domestic market and also the manufacturing and distribution of tyres in Shandong, China.

For the year under review, all three business segments recorded substantial increase in revenue with the local building materials and petroleum divisions recording a revenue of RM223 million and RM64.4 million respectively. Although our Tyre Division in China recorded a higher revenue of RM102.8 million, it was not able to contribute favourably to the Group's profit due to higher raw material cost and the continuing efforts to expand market share in the highly price-sensitive tyre market there.

The strengthening of the Ringgit against the USD had also resulted in the Group having to recognise a one-off exchange loss of RM19.9 million arising from the proceeds receivable from the disposal of SFI.

Hence, despite achieving a higher revenue of RM392.8 million for its continuing operations, the Group recorded a loss before taxation of RM8.4 million for the year under review.

### CORPORATE DEVELOPMENTS

During the financial year, the Group had proposed to undertake the following significant corporate exercises:

- (i) Proposed acquisition of the USD Debts issued by AMB Harta (L) Limited, a wholly-owned subsidiary of Silverstone Corporation Berhad ("SCB"), and the RM bonds and redeemable cumulative convertible preference shares of RM0.01 each issued at a premium of RM0.99 by SCB ("RCCPS") with an aggregate nominal amount of approximately RM515.20 million of which up to approximately RM229.97 million will be funded by the utilisation of the proceeds from the disposal by the Company of its entire 97.78% shareholding in SFI, the utilisation of which had been approved by the Securities Commission on 14 March 2008.

- (ii) On 28 May 2008, the Company served a notice of conditional take-over offer to the Board of Directors of SCB to acquire the remaining 339,878,875 ordinary shares of RM1.00 each fully paid in SCB and the remaining 28,627,764 RCCPS not already held by the Group.

Full details of the above proposals are set out on page 96 of this Annual Report.

### REVIEW OF OPERATIONS

#### Tyre

Our Tyre Division in China registered a growth of 29% in revenue for the year under review. Being primarily a replacement market, the tyre sector is comparatively less cyclical than the automotive sector. However, due to the unprecedented escalation in rubber price and the price-sensitive replacement market, margins have been eroded and accordingly, a higher loss before taxation was reported.

In an environment characterised by stiffer competition and ever more stringent regulations, particularly in the areas of safety and the environment, our tyre division is intent upon leveraging its differentiation potential through achieving maximum customer satisfaction, based on product performance and innovative services. Simultaneously, we are striving to improve key processes through emphasis on higher production line utilisation and efficiency.

Although our Tyre Division has been focusing on increasing its domestic market share, we see vast potential in the export segment especially in Asia's emerging market. World tyre demand is forecast to rise 3.3% annually to 1.6 billion units in 2011. Both the original equipment manufacturing and replacement markets will grow at about the same pace. China will continue to offer the strongest growth, with tyre demand in the country increasing 12.2% per year to 177 million units in 2011.

#### Building Materials

The escalation in energy prices had far reaching effects in the domestic building materials industry. The pressure of rising costs across the production chain, the sporadic shortage in supplies and the widening gap of income levels and property prices had led to concerns on possible slowdown in the growth of the construction sector. During the year, the Government had liberalised the domestic steel and cement sector by abolishing the ceiling price and allowing importation into the country. Following this, several pro-active measures for

Government projects were announced to ease contractors' financial burden, such as price-variation allowed on selected building materials, reimbursement of interim progress payments, and a three-month extension for project completion. For the private sector, developers were advised to re-negotiate with their contractors to avoid a standstill in their projects, due largely to the knock-on effect of escalating building materials prices.

Under these circumstances, our building materials distribution operation will endeavour to widen its coverage on the credit evaluation and risk profile of its customers. While demand for our products remained strong throughout the year, we acted cautiously in the granting of credit to our customers. There are concerns that some contractors may not be able to withstand the tough times of soaring prices ahead. In this regard, our operation braced itself for more stringent conformity to reduce credit risks.

In our business relationships with our principals, we assure them of our support through the effective distribution of their products via our branches in various strategic locations. In return, our principals ensure the availability of supplies to our operations including in times of scarcity. In this regard, we had benefited from the strong support accorded to us by our key principals, and thus recorded significantly higher sales and better profit for this financial year.

Moving forward, we remain vigilant to the rapid and unexpected changes affecting the building and construction industry and will take steps to reduce unnecessary exposure in the face of such challenges.

#### **Lubricants and Others**

This year, we witnessed the drastic rise in oil and electricity prices and the impact on consumers and producers alike. Similarly, our operation has not been spared this adversity and we continue to encounter margin erosion each time our key raw materials prices hit new levels. To mitigate this impact of escalating prices, we seek to buy forward whenever appropriate, and contract on a longer purchase cycle to safeguard availability of raw materials for our production needs. As we are also limited by our storage capacity to hold larger quantities of raw materials, we have commissioned a 1,000 metric tons vertical tank to cater for higher purchase volume.

During the year, we improved our sales cycle and initiated web ordering capabilities for our sales personnel. By enabling on-line registration of customers' orders, our sales team can access the latest stock prices and availability, and monitor customers'

accounts in an efficient manner whilst at the back-office, the delivery team is able to shorten the distribution time to serve our customers better.

We expect the recent petrol and diesel price trends to be the catalyst for a change in driving habits of the motoring public. While cheaper alternative fuels are not readily available now and discerning private motorists appreciate the need to service their car engines on a more regular basis, we anticipate an increase in the low-to-medium engine capacity private vehicles on the road. In this respect, our network of independent workshops across the nation is well placed to support the expected increase in lubricant demand in this market segment. During the year, we have introduced functional tools for our workshop customers, namely "Autoboss" scanner and "Kabo" tools, both of which are aimed at enhancing their operations. By encouraging and facilitating improvements to these workshops' operations, we expect to reinforce and drive our business forward. In the pipeline are plans to further explore into natural gas vehicle ("NGV") related products as we foresee a trend in customers switching to NGVs as a means to reduce energy cost.

#### **CORPORATE SOCIAL RESPONSIBILITY**

We recognise the importance of Corporate Social Responsibility ("CSR") as an integral part of business and incorporating a CSR framework into our business plan to enhance stakeholder confidence, accountability and transparency. CSR is becoming an important component of good business practice aimed at improving society and the environment.

#### **Society**

In carrying out its business activities, the Group is mindful of its responsibilities as a corporate citizen, in giving back to society while contributing to the bottom-line and shareholders' value. The Group is focused on improving the community through education and medical care via the two Foundations established by the Lion Group of Companies of which the Group is a member.

The Lion-Parkson Foundation (formerly known as Lion-ASM Foundation) disburses funds for various needs such as education, charity and scientific research; and every year, gives out scholarships and education loans to undergraduates in the local universities. The Lion Group Medical Assistance Fund provides financial assistance to needy Malaysians who require medical treatment including surgery, purchase of equipment or medication.

The Group also supports the community by contributing to fundraising and donation drives and responding to the plight of disaster victims locally and elsewhere.

### **Environment**

While emphasising on technology and industry development, the Group seeks to uphold environmental concerns. The Group's operations comply with the environmental laws and regulations governing the industries in which it operates.

The Group subscribes to the safety, health and environment regulations with a systematic approach reinforced by constant training and monitoring to ensure the safety and well-being of our employees.

### **PROSPECTS**

Going forward, the operating environment for the Group's business is expected to be more challenging. The strong growth in the domestic and regional emerging economies is anticipated to moderate after the recent round of high surges in energy and commodity prices, and the financial crisis affecting the western developed nations. Whilst our tyre operations in China are expected to continue to build on its presence and gain a wider market share, the domestic building materials and the petroleum products operations are expected to consolidate their position in view of the economic uncertainties ahead.

### **BOARD OF DIRECTORS**

On behalf of the Board, I would like to take this opportunity to welcome Mr Lin Chung Dien who was

appointed to the Board on 25 February 2008 and Mr Chan Ho Wai who was appointed the Executive Director of the Company on 1 August 2008 to replace Mr Ngan Yow Chong who resigned as the Executive Director and will be retiring at the forthcoming Annual General Meeting of the Company.

I would also like to express my appreciation to Mr Ngan for his invaluable services rendered to the Company during his tenure of office as the Executive Director and subsequently as Director of the Company.

### **ACKNOWLEDGEMENT**

On behalf of the Board of Directors, I wish to record our appreciation to our valued customers, bankers, business associates, the Government and shareholders for their continued support and confidence in the Group. I wish to also thank the management and staff for their commitment and dedication to the Group.

Last but not least, I would like to thank my fellow Directors for their invaluable support and advice throughout the year.

**TAN SRI WILLIAM H.J. CHENG**  
Chairman

## 主席報告

我謹代表董事部，向您提呈金獅森林工業有限公司，截至2008年6月30日止財政年度的常年報告及已審核財務報告。

### 財務表現

在去年財政年度完成脫售沙巴森林工業私人有限公司（“沙巴森林工業”）後，本集團現專注於本地市場的建築材料、石油和汽車產品的經銷。在中國山東，則有輪胎製造和經銷。

檢討年度內，所有三個業務部的收入皆大大的增加。本地建築材料和石油組的收入，分別是2億2千300萬令吉和6千440萬令吉。同時，我們在中國的輪胎組也有較高的收入，達1億280萬令吉，但是由於較高的原料成本，以及持續努力擴充在價格高度敏感的中国輪胎市場份額，它並沒有為本集團的利潤帶來助益。

令吉對美元的加強，也使到本集團不得不從脫售沙巴森林工業的應收收益，作一次性的兌換損失共1千990萬令吉。

因此，本集團的持續營運雖然獲得較高收入3億9千280萬令吉，但是在檢討年度，稅前虧損達840萬令吉。

### 企業發展

在本會計年度內，本集團採取下述重大企業運作：

- 1) 建議收購由銀石盾有限公司（“銀石盾”）的獨資子公司AMB Harta (L) Limited發行的美元債務，以及由銀石盾發行的令吉債券和可贖回累積變換優先股。此優先股每股0.01令吉，發行股溢價0.99令吉，票面價總計約5億1千520萬令吉，其中的2億2千997萬令吉，將由脫售所持有97.78%沙巴森林工業的股票所得當作資金注入。證券委員會已於2008年3月14日批准了上述的資金利用。
- 2) 在2008年5月28日，本公司向銀石盾董事部，發出一分有條件接管通知，以購進銀石盾其餘每股1令吉已繳足的339,878,875

普通股，以及其餘本集團還沒持有的28,627,764可贖回累積變換優先股。

上述建議的詳情陳列在本報告書的第96頁。

### 業務檢討

#### 輪胎組

在本檢討年度，我們在中國的輪胎組的收入成長達29%。相對來說輪胎業是替代市場，不如汽車業有那樣大的周期性，天然膠價格史無前例的高漲及替代市場的價格敏感，餘裕因而受到影響，稅前虧損則較大。

在一個競爭更激烈，以及更多的嚴厲管制，尤其是安全和環境管制的氛圍內，我們的輪胎組專注通過以產品表現和革新服務為基礎，達到最高的客戶滿意度，以激發其差別潛能。與此同時，我們在努力通過強調較高的生產線利用率和效率，改善主要程序。

雖然我們的輪胎組專注在提高國內市場的份額，與此同時我們也看到出口市場有着極大潛能，尤其是亞洲的新興市場。預計世界輪胎需求量將每年增加3.3%，在2011年達16億單位。原裝配備製造商和替代市場，將以大致相同的步伐成長。中國將繼續有最強勁的成長，其國內的輪胎需求量每年增長12.2%，在2011年將達1億7千700萬單位。

#### 建築材料

能源價格飆升，對國內建築材料業有深遠的影響。成本增加的压力橫掃生產鏈、此起彼落的供應短缺、收入水平以及產業價格鴻溝的擴大，令人擔憂建築業的成長可能放緩。在本年度里，政府開放國內鋼鐵和洋灰市場，取消頂價並允許進口至本國。隨後，數項有關政府的工程防範措施公布，以減輕承包商的負擔。這些措施包括准許特選的建築材料價格變化，付還期中款項，以及給予工程完工三個月的寬限。在私人領域方面，發展商受建議與他們的承包商重新談商，以避免他們的工程停滯。這主要是因為建築材料價格揚升的立即影響。

在此情况下，我们的建材分销业务将尽力扩大客户的信贷评估和风险简历的复盖范围。我们的产品在本年度的全年需求保持强劲，然而我们在给予客户赊账方面仍然小心翼翼。一些承包商可能无法度过摆在当前价格高涨的难关，因而引起关注。因此，为了减轻我们的信贷风险，我们得采取更严格的态度。

在与品牌产品供应商的关系方面，我们确保以我们处在策略性位置的分行，有效的分销他们的产品来支持他们。相应的，品牌产品供应商也确保我们产品的供应，即使在匮乏时期，也不会中断。在这方面，我们从品牌产品供应商所给予的支持得益。因此，在本会计年度，我们的销售收入有明显的增加以及达到更高的利润。

未来，我们对影响建筑业快速和无法预测的变化保持警觉，并会采取步骤，避免不必要的挑战。

### 润滑油及其他

今年，我们目睹了油价和电费激涨，以及其对消费者和生产商的冲击。同样的，我们的业务无法幸免，只要主要原料价格一涨到新的水平，我们的余裕就受到影响。为了缓和价格高涨的冲击，我们寻求适当的预购，以及签署更长周期的合约，以保证我们生产所需原料不会短缺。由于我们有限的储存容量不能容纳更多的原料，我们已建立一个1,000公吨的直立货柜以容纳较高的购买量。

本年度内，我们改进了我们的销售周期，并引进网上订购系统。通过网上登记订单，我们的销售队伍可以知道存货的最新报价及库存状况、有效的监督客户的帐目，而在后方的办事处，递送队伍能够用更短的分发时间，更好的为客户服务。

我们预料最近的汽油和柴油价格的趋势，将成为改变精明拥车族的驾驶习惯的催化剂。由于目前替代燃料还没普及，私家车车主会更重视更频繁列常汽车引擎维修，料会有更多具备低至中等引擎性能车辆在路上行驶。在这方面，我们遍布全国各地的独立车厂网络，可以更有

效的支援预计增长的润滑油需求。我们预料，通过鼓励及协助这些车厂改善营运，我们可以加强及推进我们的业务。本会计年度内，我们向车厂客户推介了诸如“Autoboss”扫描器和“Kabo”的机能工具。这两项工具旨在改进他们的业务。正在进行计划方面，我们看到了客户转用天然汽车辆以节省能源成本的趋势，因此正在积极开发以天然气启动车辆相关产品。

## 企业社会责任

我们认同企业社会责任的重要性并把它视为公司治理框架不可或缺的一部分，以加强利益相关者的信心，责任感和透明度。企业社会责任是良好营商手法不可或缺的一部分，目的是要改善社会服务和环境发展。

### 社会

本公司在展开商业活动时，深切了解到作为企业公民的责任，在对股东在企业的价值贡献的同时，也要回馈社会。作为金狮集团成立的两项基金的成员，本集团着重于通过这两项基金，以教育和医疗服务来回馈社会。

Lion-Parkson基金（前称Lion-ASM基金）拨款作各种用途，诸如教育、慈善及科学研究；每年提供奖学金和贷学金给在本地大学深造的在籍大学本科生。金狮集团医药援助基金则为迫切需要包括手术，购置器材或药物医疗的马来西亚公民提供经济援助。

本集团通过捐助筹款和捐款运动，以及为本地和其他地区的灾黎施予援手，来支持社会。

### 环境

在强调工艺和工业发展的同时，本集团亦寻求维护环境事务。所有的运作都遵照环境条例及工业运作的相关工业条例。

本集团为了遵守安全、卫生和环境条例，采取了有条理的措施，并通过不断的训练和监督来加强，以确保雇员们的安全和福利。

## 展望

本集团未来的营运氛围预料会更具挑战。在近期的能源和原产品价格飚升，以及影响西方先进国的金融危机后，预料国内和新兴经济的强劲成长会趋缓和。我们在中国的轮胎业务料会继续建立其地位，取得更大的市场份额。基于未来经济动向不明朗，建筑材料和石油产品业务预料会巩固在本地市场的地位。

## 董事部

我谨代表董事部，借此机会欢迎在2008年2月25日受委加入董事部的林忠典先生和在2008年8月1日受委任为执行董事的陈浩伟先生以接任原任执行董事颜友将先生。颜友将先生已辞去执行董事一职并将在行将召开的常年大会荣休。

我真诚的感谢颜先生在出任执行董事和之后受委为董事期间所作出的贡献。

## 鸣谢

我谨代表董事部，衷心感谢我们尊贵的客户、金融界、商业伙伴、政府机构及股东们的强力支持和信任。我也要感谢管理层和职员所给予的支持和奉献。

最后，我要感谢董事同仁在这一年来所给予的宝贵支持和建议。

主席  
丹斯里钟廷森

**FINANCIAL STATEMENTS**

# 2008

**For The Financial Year Ended 30 June 2008**

## 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 2008.

### 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 are as disclosed in Note 15 to the Financial Statements.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year.

### SIGNIFICANT EVENTS

Significant events are disclosed in Note 39 to the Financial Statements.

### RESULTS OF OPERATIONS

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

|                               | <b>The Group<br/>RM'000</b> | <b>The Company<br/>RM'000</b> |
|-------------------------------|-----------------------------|-------------------------------|
| (Loss)/Profit before tax      | (8,357)                     | 1,739                         |
| Income tax expense            | (8,389)                     | (3,869)                       |
|                               | <hr/>                       | <hr/>                         |
| Loss for the year             | (16,746)                    | (2,130)                       |
|                               | <hr/> <hr/>                 | <hr/> <hr/>                   |
| <b>Attributable to:</b>       |                             |                               |
| Equity holders of the Company | (9,086)                     |                               |
| Minority interests            | (7,660)                     |                               |
|                               | <hr/>                       |                               |
|                               | (16,746)                    |                               |
|                               | <hr/> <hr/>                 |                               |

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.

### DIVIDEND

No dividend has been paid or declared by the Company since the end of the previous 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 RM210,274,371, comprising 210,274,371 ordinary shares of RM1.00 each to RM210,435,171, comprising 210,435,171 ordinary shares of RM1.00 each, by the issuance of 154,500 new ordinary shares of RM1.00 each at an issue price of RM1.16 per share and 6,300 new ordinary shares of RM1.00 each at an issue price of RM1.04 per share for cash pursuant to the Executive Share Option Scheme of the Company.

The resulting share premium of RM24,972 arising from the issue of shares has been credited to the share premium account.

The new ordinary shares issued ranked *pari passu* in all respects with the then existing ordinary 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 and executive directors of the Group with effect from 1 September 2005.

The main features of the ESOS are as disclosed in Note 26 to the Financial Statements.

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

| Grant Date | Subscription Price Per Share (RM) | Balance as of 1.7.2007 | Number of Options |                  |                    | Balance as of 30.6.2008 |
|------------|-----------------------------------|------------------------|-------------------|------------------|--------------------|-------------------------|
|            |                                   |                        | Granted           | Exercised        | Lapsed             |                         |
| 10.5.2006  | 1.16 *                            | 3,156,100              | -                 | (154,500)        | (2,080,100)        | 921,500                 |
| 29.8.2007  | 1.04                              | -                      | 1,850,300         | (6,300)          | (254,300)          | 1,589,700               |
|            |                                   | <u>3,156,100</u>       | <u>1,850,300</u>  | <u>(160,800)</u> | <u>(2,334,400)</u> | <u>2,511,200</u>        |

\* Subscription price was adjusted from RM3.00 per share to RM1.16 per share on 19 June 2007 consequent upon the capital distribution of RM2.00 per share to the shareholders of the Company.

The exercise period for the above options will expire on 31 August 2010.

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose the names of eligible employees who have been granted less than 85,000 options. The eligible employee (excluding the executive Directors) who was granted 85,000 options or more during the financial year is as follows:

| Name of employee | Number of options granted at the subscription price of RM1.04 per share on 29 August 2007 |
|------------------|---|
| Teo Chor Pheow   | 87,500  |

## **OTHER FINANCIAL INFORMATION**

Before the income statements and the 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  
Chan Ho Wai (appointed on 1.8.2008)  
Dato' Mohamad bin Haji Ahmad  
Dato' Dali Mahmud Hashim  
Dato' Kalsom binti Abd. Rahman  
Ngan Yow Chong  
Zainab binti Dato' Hj. Mohamed  
Lin Chung Dien (appointed on 25.2.2008)

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Dato' Dali Mahmud Hashim retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 98 of the Company's Articles of Association, Mr Ngan Yow Chong retires by rotation at the forthcoming Annual General Meeting and will not seek re-election as Director.

In accordance with Article 99 of the Company's Articles of Association, Mr Chan Ho Wai and Mr Lin Chung Dien who were appointed since the last Annual General Meeting retire and, being eligible, offer themselves for re-election.

#### 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 30.6.2008 |
|------------------------------|--|-----------|-----------|-------------------------|
|                              | Balance as of 1.7.2007                   | Additions | Disposals |                         |
| <b>Direct interest</b>       |  |           |           |                         |
| Dato' Mohamad bin Haji Ahmad | 12,000                                   | -         | -         | 12,000                  |
| Ngan Yow Chong               | 36,200                                   | -         | (36,200)  | -                       |
| <b>Indirect interest</b>     |  |           |           |                         |
| Tan Sri William H.J. Cheng   | 167,988,512                              | -         | -         | 167,988,512             |

In addition, the following Director is also deemed to have an interest in shares in the Company, by virtue of the options granted to him pursuant to the ESOS of the Company:

|                | Number of Options over Ordinary Shares of RM1.00 each |         |           | Balance as of 30.6.2008 |
|----------------|---|---------|-----------|-------------------------|
|                | Balance as of 1.7.2007                                | Granted | Exercised |                         |
| Ngan Yow Chong | 28,300  | 105,000 | -         | 133,300                 |

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

|                                     | Nominal Value Per Ordinary Share | Number of Shares       |           |           | Balance as of 30.6.2008 |
|-------------------------------------|----------------------------------|------------------------|-----------|-----------|-------------------------|
|                                     |                                  | Balance as of 1.7.2007 | Additions | Disposals |                         |
| <b>Direct interest</b>              |                                  |                        |           |           |                         |
| <b>Dato' Mohamad bin Haji Ahmad</b> |                                  |                        |           |           |                         |
| Lion Industries Corporation Berhad  | RM1.00                           | 3,276                  | -         | -         | 3,276                   |

|                                    | Nominal Value Per Ordinary Share | Number of Shares        |           |           | Balance as of 30.6.2008 |
|------------------------------------|----------------------------------|-------------------------|-----------|-----------|-------------------------|
|                                    |                                  | Balance as of 25.2.2008 | Additions | Disposals |                         |
| <b>Direct interest</b>             |                                  |                         |           |           |                         |
| <b>Lin Chung Dien</b>              |                                  |                         |           |           |                         |
| Lion Industries Corporation Berhad | RM1.00                           | 25,320                  | -         | -         | 25,320                  |

|  | Nominal Value Per Ordinary Share | Balance as of 1.7.2007 | Number of Shares |              | Balance as of 30.6.2008 |
|--|----------------------------------|------------------------|------------------|--------------|-------------------------|
|  |                                  |                        | Additions        | Disposals    |                         |
| <b>Indirect interest</b>   |                                  |                        |                  |              |                         |
| <b>Tan Sri William H.J. Cheng</b>                                |                                  |                        |                  |              |                         |
| Lion Industries Corporation Berhad                               | RM1.00                           | 336,938,625            | 43,018           | -            | 336,981,643             |
| Lion-Kimtrans Logistics Sdn. Bhd.                                | RM1.00                           | 75                     | 3,749,925        | -            | 3,750,000               |
| LLB Enterprise Sdn. Bhd.   | RM1.00                           | 690,000                | -                | -            | 690,000                 |
| LLB Strategic Holdings Berhad                                    | RM1.00                           | 4,050,000              | 450,000          | -            | 4,500,000               |
| Marvenel Sdn. Bhd.   | RM1.00                           | 100                    | -                | -            | 100                     |
| Ototek Sdn. Bhd.   | RM1.00                           | 1,050,000              | -                | -            | 1,050,000               |
| Posim EMS Sdn. Bhd.  | RM1.00                           | 800,000                | -                | -            | 800,000                 |
| P.T. Lion Intimung Malinau                                       | USD1.00                          | 4,750,000              | -                | -            | 4,750,000               |
| 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               |
| <b>Investments in the People's Republic of China</b>             |                                  |                        |                  |              |                         |
|  | Currency                         | Balance as of 1.7.2007 | Additions        | Disposals    | Balance as of 30.6.2008 |
| <b>Indirect interest</b>   |                                  |                        |                  |              |                         |
| <b>Tan Sri William H.J. Cheng</b>                                |                                  |                        |                  |              |                         |
| Beijing Trostel Property Development Co. Ltd.                    | USD                              | 6,650,000              | -                | -            | 6,650,000               |
| Shandong Silverstone LuHe Rubber & Tyre Co. Ltd.                 | USD                              | 30,000,000             | -                | -            | 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. (In liquidation - voluntary) | USD                              | 10,878,944             | -                | -            | 10,878,944              |

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

# Ceased to be a related company on 24 August 2007.

Other than as disclosed above, none of the other Directors in office at the end of the financial year had any interest in shares in the Company or 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 the benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed 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, save and 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 interests as disclosed in Note 21 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 and Note 21 to the Financial Statements.

## **HOLDING COMPANY**

The Company is a subsidiary company 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**

**CHAN HO WAI**

Kuala Lumpur  
24 September 2008

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LION FOREST INDUSTRIES BERHAD**

### **Report on the Financial Statements**

We have audited the financial statements of **LION FOREST INDUSTRIES BERHAD**, which comprise the balance sheets as of 30 June 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 96.

#### *Directors' Responsibility for the Financial Statements*

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

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

We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2008 and of their financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of the subsidiary companies of which we have not acted as auditors, as shown in Note 15 to the Financial Statements.

- (c) We are satisfied that the accounts 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 purpose of the preparation of the financial statements of the Group, and we have received satisfactory information and explanations as required by us for these purposes.
- (d) The auditors' reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Sub-section (3) of Section 174 of the Act.

**DELOITTE KASSIMCHAN**  
**AF 0080**  
**Chartered Accountants**

**YEE YOON CHONG**  
**Partner - 1829/07/09 (J)**  
**Chartered Accountant**

Petaling Jaya  
24 September 2008

## INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

|   | Note | The Group       |                 | The Company    |                 |
|---|------|-----------------|-----------------|----------------|-----------------|
|   |      | 2008<br>RM'000  | 2007<br>RM'000  | 2008<br>RM'000 | 2007<br>RM'000  |
| <b>Continuing operations</b>  |      |                 |                 |                |                 |
| Revenue   | 5    | 392,845         | 295,799         | 82,714         | 102,225         |
| Other operating income  |      | 34,707          | 24,125          | 30,289         | 23,335          |
| Changes in inventories<br>of finished goods,<br>trading merchandise<br>and work-in-progress |      | (7,256)         | 2,335           | -              | -               |
| Raw materials and<br>consumables used   |      | (95,001)        | (85,561)        | -              | -               |
| Purchase of trading merchandise   |      | (229,846)       | (164,906)       | (81,505)       | (100,749)       |
| Staff costs   | 6    | (18,842)        | (16,104)        | (2,074)        | (1,574)         |
| Other production expenses   |      | (22,286)        | (15,234)        | -              | -               |
| Depreciation of:  |      |                 |                 |                |                 |
| Property, plant and equipment   | 10   | (15,107)        | (12,711)        | (62)           | (72)            |
| Investment properties   | 11   | (47)            | (47)            | (47)           | (47)            |
| Amortisation of:  |      |                 |                 |                |                 |
| Intangible assets   | 18   | (50)            | (50)            | -              | -               |
| Prepaid land lease payments   | 12   | (96)            | (242)           | -              | -               |
| Loss on disposal of a<br>subsidiary company   |      | -               | -               | -              | (94,494)        |
| (Loss)/Gain on foreign exchange:  |      |                 |                 |                |                 |
| Realised  |      | (12,519)        | 587             | (12,406)       | 789             |
| Unrealised  |      | (7,576)         | (7,144)         | (7,894)        | (7,144)         |
| Other operating expenses  |      | (23,647)        | (12,326)        | (1,535)        | (3,585)         |
| (Loss)/Profit from operations   |      | (4,721)         | 8,521           | 7,480          | (81,316)        |
| Finance costs   | 7    | (3,636)         | (3,883)         | (5,741)        | (10,614)        |
| Share in results of<br>associated company   |      | -               | (603)           | -              | -               |
| <b>(Loss)/Profit before tax</b>   |      | <b>(8,357)</b>  | <b>4,035</b>    | <b>1,739</b>   | <b>(91,930)</b> |
| Income tax expense  | 8    | (8,389)         | (4,714)         | (3,869)        | (2,418)         |
| Loss for the year from<br>continuing operations   |      | (16,746)        | (679)           | (2,130)        | (94,348)        |
| <b>Discontinued operation</b>   |      |                 |                 |                |                 |
| Loss for the year from<br>discontinued operation  | 36   | -               | (63,201)        | -              | -               |
| <b>Loss for the year</b>  | 6    | <b>(16,746)</b> | <b>(63,880)</b> | <b>(2,130)</b> | <b>(94,348)</b> |
| <b>Attributable to:</b>   |      |                 |                 |                |                 |
| Equity holders of the Company   |      | (9,086)         | (60,452)        |                |                 |
| Minority interests  |      | (7,660)         | (3,428)         |                |                 |
|   |      | (16,746)        | (63,880)        |                |                 |

(Forward)



|  | Note | The Group     |                |
|--|------|---------------|----------------|
|  |      | 2008          | 2007           |
| <b>Loss per ordinary share (sen) attributable to equity holders of the Company</b> | 9    |               |                |
| Basic, for (loss)/profit from continuing operations                                |      | (4.32)        | 1.16           |
| Basic, for loss from discontinued operation  |      | -             | (29.93)        |
|  |      | <u>(4.32)</u> | <u>(28.77)</u> |
| Diluted, for (loss)/profit from continuing operations                              |      | N/A           | N/A            |
| Diluted, for loss from discontinued operation                                      |      | N/A           | N/A            |
|  |      | <u>N/A</u>    | <u>N/A</u>     |

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

## BALANCE SHEETS

AS OF 30 JUNE 2008

|   | Note  | The Group      |                            | The Company    |                |
|---|-------|----------------|----------------------------|----------------|----------------|
|   |       | 2008<br>RM'000 | 2007<br>RM'000<br>Restated | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>ASSETS</b>                           |       |                |                            |                |                |
| <b>Non-current Assets</b>               |       |                |                            |                |                |
| Property, plant and equipment           | 10    | 147,187        | 142,052                    | 4,815          | 4,877          |
| Investment properties                   | 11    | 2,271          | 2,318                      | 2,271          | 2,318          |
| Prepaid land lease payments             | 12    | 4,549          | 4,354                      | -              | -              |
| Forest concessions                      | 13    | -              | -                          | -              | -              |
| Plantation development expenditure      | 14    | -              | -                          | -              | -              |
| Investment in subsidiary companies      | 15    | -              | -                          | 11,397         | 8,237          |
| Investment in associated company        | 16    | -              | -                          | -              | -              |
| Other investments                       | 17    | 84,383         | 127                        | 67             | 67             |
| Intangible assets                       | 18    | 354            | 404                        | -              | -              |
| Goodwill on consolidation               | 19    | -              | 191                        | -              | -              |
| Deferred tax assets                     | 20    | 404            | 471                        | -              | -              |
| Amount owing by holding company         | 21    | -              | 25,000                     | -              | 25,000         |
| Amount owing by subsidiary company      | 15    | -              | -                          | 18,200         | 18,200         |
| Deferred consideration                  | 24(b) | -              | 124,272                    | -              | 124,272        |
| <b>Total Non-current Assets</b>         |       | <b>239,148</b> | 299,189                    | <b>36,750</b>  | 182,971        |
| <b>Current Assets</b>                   |       |                |                            |                |                |
| Inventories                             | 22    | 31,825         | 35,977                     | -              | -              |
| Other investments                       | 23    | 19,389         | -                          | -              | -              |
| Trade receivables                       | 24(a) | 74,704         | 66,136                     | 5,984          | 6,822          |
| Other receivables and prepaid expenses  | 24(b) | 141,788        | 310,977                    | 122,088        | 299,987        |
| Amount owing by holding company         | 21    | 26,200         | 49,212                     | 26,200         | 49,212         |
| Amount owing by subsidiary companies    | 15    | -              | -                          | 165,208        | 38,102         |
| Amount owing by other related companies | 21    | 102,199        | 113,657                    | 100,852        | 112,464        |
| Tax recoverable                         |       | 557            | -                          | -              | -              |
| Fixed deposits, cash and bank balances  | 25    | 274,879        | 40,966                     | 243,007        | 14,994         |
| <b>Total Current Assets</b>             |       | <b>671,541</b> | 616,925                    | <b>663,339</b> | 521,581        |
| <b>Total Assets</b>                     |       | <b>910,689</b> | 916,114                    | <b>700,089</b> | 704,552        |

(Forward)

|  | Note  | The Group      |                            | The Company    |                |
|--|-------|----------------|----------------------------|----------------|----------------|
|  |       | 2008<br>RM'000 | 2007<br>RM'000<br>Restated | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>EQUITY AND LIABILITIES</b>                        |       |                |                            |                |                |
| <b>Capital and Reserves</b>                          |       |                |                            |                |                |
| Issued capital                                       | 26    | <b>210,435</b> | 210,274                    | <b>210,435</b> | 210,274        |
| Reserves   | 27    | <b>546,772</b> | 551,628                    | <b>349,612</b> | 350,894        |
| Equity attributable to equity holders of the Company |       | <b>757,207</b> | 761,902                    | <b>560,047</b> | 561,168        |
| Minority interests                                   |       | <b>23,778</b>  | 29,679                     | -              | -              |
| Total Equity   |       | <b>780,985</b> | 791,581                    | <b>560,047</b> | 561,168        |
| <b>Non-current and Deferred Liabilities</b>          |       |                |                            |                |                |
| Hire-purchase payables                               | 28    | <b>13</b>      | 39                         | -              | -              |
| Long-term borrowings                                 | 29    | -              | 24,905                     | -              | -              |
| Deferred tax liabilities                             | 20    | <b>477</b>     | 418                        | <b>153</b>     | 153            |
| Amount owing to subsidiary company                   | 15    | -              | -                          | <b>18,200</b>  | 43,200         |
| Total Non-current and Deferred Liabilities           |       | <b>490</b>     | 25,362                     | <b>18,353</b>  | 43,353         |
| <b>Current Liabilities</b>                           |       |                |                            |                |                |
| Trade payables                                       | 30(a) | <b>51,183</b>  | 36,676                     | <b>12,809</b>  | 14,337         |
| Other payables and accrued expenses                  | 30(b) | <b>34,686</b>  | 26,750                     | <b>5,169</b>   | 6,011          |
| Amount owing to subsidiary companies                 | 15    | -              | -                          | <b>95,768</b>  | 68,965         |
| Amount owing to other related companies              | 21    | <b>4,087</b>   | 523                        | <b>423</b>     | 523            |
| Hire-purchase payables                               | 28    | <b>51</b>      | 105                        | -              | -              |
| Bank borrowings                                      | 31    | <b>36,183</b>  | 32,875                     | <b>5,651</b>   | 9,355          |
| Tax liabilities                                      |       | <b>3,024</b>   | 2,242                      | <b>1,869</b>   | 840            |
| Total Current Liabilities                            |       | <b>129,214</b> | 99,171                     | <b>121,689</b> | 100,031        |
| Total Liabilities                                    |       | <b>129,704</b> | 124,533                    | <b>140,042</b> | 143,384        |
| <b>Total Equity and Liabilities</b>                  |       | <b>910,689</b> | 916,114                    | <b>700,089</b> | 704,552        |

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

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

| The Group                           | Note | ← Non-distributable reserves → |                |                             |                                |                 |                            | Accumulated losses | Attributable to equity holders of the Company | Minority interests | Total equity   |
|-------------------------------------|------|--------------------------------|----------------|-----------------------------|--------------------------------|-----------------|----------------------------|--------------------|---|--------------------|----------------|
|                                     |      | Issued capital                 | Share premium  | Equity compensation reserve | Translation adjustment account | Capital reserve | Capital redemption reserve |                    |   |                    |                |
|                                     |      | RM'000                         | RM'000         | RM'000                      | RM'000                         | RM'000          | RM'000                     | RM'000             | RM'000  | RM'000             | RM'000         |
| <b>Balance as of 1 July 2006</b>    |      | 210,153                        | 1,108,252      | 672                         | (279)                          | 49,189          | 9                          | (72,860)           | 1,295,136                                     | 206,011            | 1,501,147      |
| Total recognised income and expense |      |                                |                |                             |                                |                 |                            |                    |   |                    |                |
| - Loss for the year                 |      | -                              | -              | -                           | -                              | -               | -                          | (60,452)           | (60,452)                                      | (3,428)            | (63,880)       |
| Issue of shares                     | 26   | 121                            | 242            | -                           | -                              | -               | -                          | -                  | 363   | -                  | 363            |
| Capital distribution                |      | -                              | (420,548)      | -                           | -                              | -               | -                          | -                  | (420,548)                                     | -                  | (420,548)      |
| Disposal of a subsidiary company    | 15   | -                              | -              | (753)                       | -                              | (49,189)        | -                          | -                  | (49,942)                                      | (172,054)          | (221,996)      |
| Share-based payments                |      | -                              | 57             | 493                         | -                              | 122             | -                          | -                  | 672   | -                  | 672            |
| Translation adjustment for the year |      | -                              | -              | -                           | (3,327)                        | -               | -                          | -                  | (3,327)                                       | (850)              | (4,177)        |
| <b>Balance as of 30 June 2007</b>   |      | <b>210,274</b>                 | <b>688,003</b> | <b>412</b>                  | <b>(3,606)</b>                 | <b>122</b>      | <b>9</b>                   | <b>(133,312)</b>   | <b>761,902</b>                                | <b>29,679</b>      | <b>791,581</b> |
| <b>Balance as of 1 July 2007</b>    |      | <b>210,274</b>                 | <b>688,003</b> | <b>412</b>                  | <b>(3,606)</b>                 | <b>122</b>      | <b>9</b>                   | <b>(133,312)</b>   | <b>761,902</b>                                | <b>29,679</b>      | <b>791,581</b> |
| Total recognised income and expense |      |                                |                |                             |                                |                 |                            |                    |   |                    |                |
| - Loss for the year                 |      | -                              | -              | -                           | -                              | -               | -                          | (9,086)            | (9,086)                                       | (7,660)            | (16,746)       |
| Issue of shares                     | 26   | 161                            | 25             | -                           | -                              | -               | -                          | -                  | 186   | -                  | 186            |
| Share-based payments                |      | -                              | -              | 784                         | -                              | 39              | -                          | -                  | 823   | -                  | 823            |
| Translation adjustment for the year |      | -                              | -              | -                           | 3,382                          | -               | -                          | -                  | 3,382   | 1,759              | 5,141          |
| <b>Balance as of 30 June 2008</b>   |      | <b>210,435</b>                 | <b>688,028</b> | <b>1,196</b>                | <b>(224)</b>                   | <b>161</b>      | <b>9</b>                   | <b>(142,398)</b>   | <b>757,207</b>                                | <b>23,778</b>      | <b>780,985</b> |

(Forward)

|                                     |      | ← Non-distributable reserves → |                            |  |                              |                                 |                 |
|-------------------------------------|------|--------------------------------|----------------------------|--|------------------------------|---------------------------------|-----------------|
| The Company                         | Note | Issued<br>capital<br>RM'000    | Share<br>premium<br>RM'000 | Equity<br>com-<br>pensation<br>reserve<br>RM'000 | Capital<br>reserve<br>RM'000 | Accumulated<br>losses<br>RM'000 | Total<br>RM'000 |
| <b>Balance as of 1 July 2006</b>    |      | 210,153                        | 1,108,252                  | 672  | -                            | (243,295)                       | 1,075,782       |
| Total recognised income and expense |      |                                |                            |  |                              |                                 |                 |
| - Loss for the year                 |      | -                              | -                          | -  | -                            | (94,348)                        | (94,348)        |
| Issue of shares                     | 26   | 121                            | 242                        | -  | -                            | -                               | 363             |
| Capital distribution                |      | -                              | (420,548)                  | -  | -                            | -                               | (420,548)       |
| Disposal of a subsidiary company    |      | -                              | -                          | (753)  | -                            | -                               | (753)           |
| Share-based payments                |      | -                              | 57                         | 493  | 122                          | -                               | 672             |
| <b>Balance as of 30 June 2007</b>   |      | <u>210,274</u>                 | <u>688,003</u>             | <u>412</u>                                       | <u>122</u>                   | <u>(337,643)</u>                | <u>561,168</u>  |
| <b>Balance as of 1 July 2007</b>    |      | <b>210,274</b>                 | <b>688,003</b>             | <b>412</b>                                       | <b>122</b>                   | <b>(337,643)</b>                | <b>561,168</b>  |
| Total recognised income and expense |      |                                |                            |  |                              |                                 |                 |
| - Loss for the year                 |      | -                              | -                          | -  | -                            | (2,130)                         | (2,130)         |
| Issue of shares                     | 26   | 161                            | 25                         | -  | -                            | -                               | 186             |
| Share-based payments                |      | -                              | -                          | 784  | 39                           | -                               | 823             |
| <b>Balance as of 30 June 2008</b>   |      | <u>210,435</u>                 | <u>688,028</u>             | <u>1,196</u>                                     | <u>161</u>                   | <u>(339,773)</u>                | <u>560,047</u>  |

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

## CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| The Group  | 2008<br>RM'000 | 2007<br>RM'000 |
|--|----------------|----------------|
| <b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>  |                |                |
| Loss for the year  | (16,746)       | (63,880)       |
| Adjustments for:   |                |                |
| (Gain)/Loss on disposal of:  |                |                |
| Subsidiary company   | -              | 42,220         |
| Property, plant and equipment  | (19)           | (103)          |
| Depreciation of:   |                |                |
| Property, plant and equipment  | 15,107         | 38,334         |
| Investment properties  | 47             | 47             |
| Allowance for slow-moving and obsolete inventories   | 111            | 10,868         |
| Amortisation of:   |                |                |
| Forest concessions   | -              | 7,647          |
| Intangible assets  | 50             | 50             |
| Prepaid land lease payments  | 96             | 242            |
| Unrealised loss on foreign exchange  | 7,576          | 7,144          |
| Income tax expense recognised in income statements   | 8,389          | 4,714          |
| Finance costs  | 3,636          | 4,286          |
| Impairment loss on:  |                |                |
| Property, plant and equipment  | -              | 3,183          |
| Other investments  | -              | 66             |
| Goodwill on consolidation  | 191            | -              |
| Allowance for doubtful debts   | 1,779          | 2,326          |
| Inventories written down   | 2              | 1,716          |
| Property, plant and equipment written off  | -              | 1,625          |
| Share-based payment expenses   | 823            | 672            |
| Share in results of associated company   | -              | 603            |
| Interest income  | (23,620)       | (20,035)       |
| Accretion of notional interest on deferred consideration   | (9,030)        | (2,666)        |
| Allowance for doubtful debts no longer required  | (799)          | (463)          |
| Operating (Loss)/Profit Before Working Capital Changes   | (12,407)       | 38,596         |
| (Increase)/Decrease in:  |                |                |
| Inventories (adjusted for depreciation of property, plant and equipment of RM31,000 and amortisation of plantation development expenditure of RM3,662,000 in 2007) | 5,760          | (9,122)        |
| Trade receivables  | (8,630)        | 343            |
| Other receivables and prepaid expenses   | 466            | (4,587)        |
| Increase in:   |                |                |
| Trade payables   | 13,097         | 3,314          |
| Other payables and accrued expenses  | 1,777          | 27,118         |
| Cash Generated From Operations   | 63             | 55,662         |
| Interest received  | 1,475          | 499            |
| Income tax paid  | (7,541)        | (4,261)        |
| Net Cash (Used In)/From Operating Activities   | (6,003)        | 51,900         |

(Forward)

| <b>The Group</b>   | <b>Note</b> | <b>2008<br/>RM'000</b> | <b>2007<br/>RM'000</b> |
|--|-------------|------------------------|------------------------|
| <b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>  |             |                        |                        |
| Purchase of property, plant and equipment and prepaid land lease payments  |             | <b>(8,485)</b>         | (58,786)               |
| Additions to other investments   |             | <b>(101,313)</b>       | (94)                   |
| Proceeds from disposal of property, plant and equipment  |             | <b>238</b>             | 1,763                  |
| Deferred consideration received from disposal of a subsidiary company in prior year                                  |             | <b>294,526</b>         | -                      |
| Disposal of a subsidiary company   | 15          | -                      | 423,074                |
| Net cash inflow from acquisition of a subsidiary   | 15          | <b>441</b>             | -                      |
| (Increase)/Decrease in:  |             |                        |                        |
| Amount owing by holding company  |             | <b>53,212</b>          | 4,188                  |
| Amount owing by other related companies  |             | <b>14,806</b>          | (282)                  |
| Plantation development expenditure (adjusted for depreciation of property, plant and equipment of RM322,000 in 2007) |             | -                      | (5,073)                |
| Cash at banks held under Escrow Account and fixed deposits pledged   |             | <b>(182,090)</b>       | (531)                  |
| Interest received from:  |             |                        |                        |
| Other related companies  |             | <b>6,636</b>           | 4,050                  |
| Fixed deposit with licensed banks  |             | <b>7,977</b>           | 4,307                  |
| Net Cash From Investing Activities   |             | <b>85,948</b>          | 372,616                |
| <b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>  |             |                        |                        |
| Increase/(Decrease) in:  |             |                        |                        |
| Bank borrowings; excluding bank overdrafts and current portion of term loan  |             | <b>(24,924)</b>        | (23,384)               |
| Amount owing to other related companies  |             | -                      | (1,243)                |
| Proceeds from issue of shares  |             | <b>186</b>             | 363                    |
| Capital distribution to shareholders   |             | -                      | (420,548)              |
| Payment of hire-purchase payables  |             | <b>(108)</b>           | (236)                  |
| Finance costs paid   |             | <b>(3,636)</b>         | (3,822)                |
| Proceeds from term loan  |             | -                      | 25,456                 |
| Net Cash Used In Financing Activities  |             | <b>(28,482)</b>        | (423,414)              |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |             | <b>51,463</b>          | 1,102                  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>  |             | <b>37,276</b>          | 35,434                 |
| Effect of exchange differences   |             | <b>(242)</b>           | 740                    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>  | 37          | <b>88,497</b>          | 37,276                 |

(Forward)

| <b>The Company</b>                                       | <b>2008</b>     | <b>2007</b>   |
|--|-----------------|---------------|
|  | <b>RM'000</b>   | <b>RM'000</b> |
| <b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>    |                 |               |
| Loss for the year  | <b>(2,130)</b>  | (94,348)      |
| Adjustments for:   |                 |               |
| Loss on disposal of a subsidiary company                 | -               | 94,494        |
| Finance costs  | <b>5,741</b>    | 10,614        |
| Unrealised loss on foreign exchange                      | <b>7,894</b>    | 7,144         |
| Income tax expense recognised in income statements       | <b>3,869</b>    | 2,418         |
| Impairment loss on:                                      |                 |               |
| Investment in a subsidiary company                       | -               | 800           |
| Investment in an associated company                      | -               | 603           |
| Other investments  | -               | 66            |
| Share-based payment expenses                             | <b>823</b>      | 227           |
| Allowance for doubtful debts                             | <b>239</b>      | -             |
| Depreciation of:   |                 |               |
| Property, plant and equipment                            | <b>62</b>       | 72            |
| Investment properties                                    | <b>47</b>       | 47            |
| Interest income  | <b>(20,541)</b> | (19,596)      |
| Accretion of notional interest on deferred consideration | <b>(9,030)</b>  | (2,666)       |
| Allowance for doubtful debts no longer required          | <b>(564)</b>    | (269)         |
| Dividend income  | <b>(70)</b>     | (140)         |
| Operating Loss Before Working Capital Changes            | <b>(13,660)</b> | (534)         |
| (Increase)/Decrease in:                                  |                 |               |
| Trade receivables  | <b>1,381</b>    | 3,265         |
| Other receivables and prepaid expenses                   | <b>8,758</b>    | (5,851)       |
| Increase/(Decrease) in:                                  |                 |               |
| Trade payables   | <b>(1,530)</b>  | 105           |
| Other payables and accrued expenses                      | <b>(819)</b>    | 4,471         |
| Cash (Used In)/From Operations                           | <b>(5,870)</b>  | 1,456         |
| Interest received  | <b>1,009</b>    | 163           |
| Income tax paid  | <b>(2,822)</b>  | (2,744)       |
| Net Cash Used In Operating Activities                    | <b>(7,683)</b>  | (1,125)       |

(Forward)



| <b>The Company</b>  | <b>Note</b> | <b>2008<br/>RM'000</b> | <b>2007<br/>RM'000</b> |
|---|-------------|------------------------|------------------------|
| <b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>                               |             |                        |                        |
| Proceeds from disposal of a subsidiary company                                      | 15          | -                      | 428,515                |
| Deferred consideration received from disposal of a subsidiary company in prior year |             | <b>294,526</b>         | -                      |
| Investment in subsidiary companies  |             | <b>(3,160)</b>         | -                      |
| Purchase of property, plant and equipment   |             | -                      | (5)                    |
| (Increase)/Decrease in:   |             |                        |                        |
| Other investments   |             | -                      | (94)                   |
| Amount owing by holding company   |             | <b>53,212</b>          | 4,188                  |
| Amount owing by subsidiary companies  |             | <b>(127,106)</b>       | (238)                  |
| Amount owing by other related companies   |             | <b>11,396</b>          | (3,081)                |
| Cash at banks held under Escrow Account and fixed deposits pledged                  |             | <b>(181,793)</b>       | (31)                   |
| Interest received from:   |             |                        |                        |
| Subsidiary companies  |             | <b>123</b>             | 291                    |
| Other related companies   |             | <b>6,636</b>           | 7,082                  |
| Fixed deposit with licensed banks   |             | <b>7,573</b>           | 3,660                  |
| Dividend received from subsidiary companies   |             | <b>52</b>              | 102                    |
| Net Cash From Investing Activities  |             | <b>61,459</b>          | 440,389                |
| <b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>                               |             |                        |                        |
| Increase/(Decrease) in:   |             |                        |                        |
| Bank borrowings; excluding bank overdrafts  |             | <b>(3,677)</b>         | (839)                  |
| Amount owing to subsidiary companies  |             | <b>1,803</b>           | 6,636                  |
| Amount owing to other related companies   |             | <b>(100)</b>           | (1,243)                |
| Proceeds from issue of shares   |             | <b>186</b>             | 363                    |
| Capital distribution to shareholders  |             | -                      | (420,548)              |
| Finance costs paid  |             | <b>(5,741)</b>         | (10,614)               |
| Net Cash Used In Financing Activities   |             | <b>(7,529)</b>         | (426,245)              |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                    |             | <b>46,247</b>          | 13,019                 |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                               |             | <b>12,804</b>          | (215)                  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                     | 37          | <b>59,051</b>          | 12,804                 |

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 are as disclosed in Note 15.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year.

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.

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on 24 September 2008.

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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 ("MASB") approved accounting standards in Malaysia.

#### Adoption of Financial Reporting Standards

In the current financial year, the Group and the Company adopted all of the revised Financial Reporting Standards ("FRS"), Amendments and Interpretations issued by MASB that are relevant to their operations and effective for periods beginning on or after 1 July 2007 (except for FRS 117 and FRS 124 which became effective for periods beginning on or after 1 October 2006) as follows:

|                      |   |
|----------------------|---|
| FRS 107              | Cash Flow Statements  |
| FRS 112              | Income Taxes  |
| FRS 117              | Leases  |
| FRS 118              | Revenue   |
| FRS 124              | Related Party Disclosures   |
| FRS 134              | Interim Financial Reporting   |
| FRS 137              | Provisions, Contingent Liabilities and Contingent Assets                                    |
| Amendment to FRS 121 | The Effects of Changes in Foreign Exchange Rates<br>- Net Investment in a Foreign Operation |
| IC Interpretation 8  | Scope of FRS 2  |

The adoption of the abovementioned revised FRSs, Amendments and Interpretations do not have any material financial effect on the results of the Group and of the Company for the current and prior financial years and have not resulted in substantial changes to the Group's accounting policies.

#### Accounting Standards Issued but Not Yet Effective

FRS 139 "Financial Instruments: Recognition and Measurement" is effective for accounting periods beginning on or after 1 January 2010. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group will apply this standard from financial year ending 30 June 2011.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

### **Accounting Standards Issued but Not Yet Effective** (continued)

By virtue of the exemption in paragraph 103AB of FRS 139, the impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed.

## 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 consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group made up to the end of the financial year. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the Group owns, directly or indirectly through subsidiary companies, more than half of the voting power of the entity.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation. Unrealised losses are eliminated on consolidation unless costs cannot be recovered. Uniform accounting policies are adopted in the Group's financial statements for like transactions and events in similar circumstances.

Minority interests in the net assets of consolidated subsidiary companies are identified separately from the Group's equity therein. Minority interest consists of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary company's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### **Business Combinations**

The acquisition of subsidiary companies is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 3, Business Combinations, are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 5, Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Revenue and Revenue Recognition**

Revenue is measured at the fair value of consideration received and receivable in the normal course of business.

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

Revenue of the Group consists of gross invoice value of goods supplied to third parties, net of discounts and returns.

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.

Interest income is recognised on an accrual basis using the effective interest method and when collectibility is certain.

#### **Employee Benefits**

##### **(i) Short-term 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. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

##### **(ii) Defined contribution plans**

The Company and certain subsidiary companies make statutory contributions to approved provident funds and the contributions are charged to the income statements. The approved provident funds are defined contribution plans. The Group's foreign incorporated subsidiary company and its eligible employees also made contribution to their respective country's statutory pension scheme. Such contributions are recognised as an expense in the income statements as incurred. Once the contributions have been paid, there are no further payment obligations.

##### **(iii) Equity compensation benefits**

The Group's ESOS allows the employees to acquire shares in the Company. The total fair value of share options granted to eligible employees is recognised as an employee cost in the income statements with a corresponding increase in the equity compensation reserve within equity over the vesting period and taking into account the probability that the options will vest.

The fair value of the share options is measured at grant date taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each balance sheet date, the Group revises its estimates of the number of share options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the income statements, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Income Tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year, calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or recoverable).

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the “balance sheet liability” method. Deferred tax liabilities are generally 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 profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statements, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### **Foreign Currency Conversion**

The individual financial statements of each foreign subsidiary company are presented in the currency of the primary economic environment in which such entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Ringgit Malaysia, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are expressed in Ringgit Malaysia using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group’s translation adjustment account. Such translation differences are recognised in the income statements in the year in which the foreign operation is disposed of.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statements for the year.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statements for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of Assets Excluding Goodwill

The carrying amounts of property, plant and equipment, investment properties, intangible assets, investment in subsidiary companies, investment in associated company and other investments 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 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.

#### 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 buildings                | 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%   |
| Prime movers and trailers          | 15%         |
| Office renovation                  | 20%         |
| Computer equipment                 | 18% - 20%   |
| Housing colony and infrastructures | 2% - 4%     |
| Jetty and access roads             | 2% - 4.17%  |

The residual value and estimated useful life of an asset are reviewed at each balance sheet date and, if expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate.

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investment Properties**

Investment properties, comprising certain freehold and leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and are not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and any impairment losses.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised (eliminated from the balance sheets). The difference between the net disposal proceeds and the carrying amount is recognised in the income statements.

Freehold land within investment properties is not depreciated. Freehold buildings and leasehold land and buildings are depreciated on the straight-line method at an annual rate of 2%.

#### **Prepaid Land Lease Payments**

Leasehold land that has an indefinite economic life and title that is not expected to pass to the Group by the end of the lease period is classified as operating lease. The up front payments for right to use the leasehold land over a predetermined period are accounted for as prepaid land lease payments and are stated as cost less amount amortised.

The prepaid land lease payments are amortised evenly over the lease term of the land.

#### **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.

#### **Investments**

Investments 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.

Investments in quoted and unquoted shares are stated at cost less any impairment losses.

Other investments in bonds are recorded at cost, adjusted for accretion of interest over the period of the bonds, less any impairment losses.

#### **Associated Company**

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Associated Company** (continued)

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.

Unrealised profits and losses arising on transactions between the Group and its associated company are eliminated to the extent of the Group's equity interest in the relevant associated company except where unrealised losses provide evidence of an impairment of asset transferred.

#### **Intangible Assets**

Intangible assets consist of the acquisition cost of technical know-how in the design of a subsidiary company's product and services and are stated at cost less accumulated amortisation and any impairment losses. The intangible assets are amortised on a straight-line basis over a period of ten years upon commencement of commercial production during which its economic benefits are expected to be consumed.

#### **Goodwill on Consolidation**

Goodwill on consolidation represents the excess of the cost of acquisition of subsidiary companies over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary companies at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in the subsequent period.

On disposal of a subsidiary company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### **Inventories**

Trading merchandise, finished goods, work-in-progress, raw materials, 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 include cost of raw materials, direct labour and an appropriate proportion of manufacturing overheads.

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.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Provisions

Provisions are made when the Group or the Company has 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 of the obligation can be made. Provisions are measured at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

At each balance sheet date, provisions are reviewed by the Directors and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that the Group will be required to settle the obligation.

#### 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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### (i) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3 above, management is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements.

#### (ii) Key sources of estimation uncertainty

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year except as discussed below:

#### Impairment of Assets

Determining whether assets are impaired requires an estimation of the recoverable amounts of the assets. During the current financial year, the Group and the Company recognised the following impairment losses in respect of:

|                                    | The Group      |                | The Company    |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Goodwill on consolidation          | 191            | -              | -              | -              |
| Property, plant and equipment      | -              | 3,183          | -              | -              |
| Other investments                  | -              | 66             | -              | 66             |
| Investment in a subsidiary company | -              | -              | -              | 800            |
| Investment in associated company   | -              | -              | -              | 603            |
|                                    | <u>191</u>     | <u>3,249</u>   | <u>-</u>       | <u>1,469</u>   |

Management exercises its judgement in estimating the recoverable amounts of these assets.

#### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

##### Allowance for Doubtful Debts

Allowance for doubtful debts is made based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers with which the Group deals were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

##### Depreciation of Property, Plant and Equipment

Except for freehold land and capital work-in-progress, the cost of property, plant and equipment are depreciated on a straight-line basis over the assets' useful lives. The Group reviews the remaining useful lives of property, plant and equipment at the end of each financial year and ensures consistency with previous estimates and patterns of consumptions of the economic benefits that embodies the items in these assets. Changes in useful lives of property, plant and equipment may result in revision of future depreciation charges.

#### 5. REVENUE

An analysis of revenue is as follows:

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Continuing operations</b>                    |                |                |                |                |
| Sales of goods:                                 |                |                |                |                |
| External customers                              | 392,845        | 295,799        | 100            | 1,304          |
| Subsidiary company                              | -              | -              | 82,544         | 100,781        |
| Gross dividend income from subsidiary companies | -              | -              | 70             | 140            |
|   | <b>392,845</b> | 295,799        | <b>82,714</b>  | 102,225        |
| <b>Discontinued operation</b>                   |                |                |                |                |
| Sales of goods:                                 |                |                |                |                |
| External customers                              | -              | 246,447        | -              | -              |
|   | <b>392,845</b> | 542,246        | <b>82,714</b>  | 102,225        |

## 6. LOSS FOR THE YEAR

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

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Accretion of notional interest on deferred consideration | <b>9,030</b>   | 2,666          | <b>9,030</b>   | 2,666          |
| Interest income on:                                      |                |                |                |                |
| Fixed deposits with licensed banks                       | <b>7,977</b>   | 4,307          | <b>7,573</b>   | 3,660          |
| Advances to other related companies                      | <b>6,636</b>   | 7,082          | <b>6,636</b>   | 7,082          |
| Advances to holding company                              | <b>5,200</b>   | 8,400          | <b>5,200</b>   | 8,400          |
| Investment in unquoted bonds                             | <b>2,332</b>   | -              | -              | -              |
| Advances to subsidiary companies                         | -              | -              | <b>123</b>     | 291            |
| Others   | <b>1,475</b>   | 246            | <b>1,009</b>   | 163            |
| Allowance for doubtful debts no longer required          | <b>799</b>     | 463            | <b>564</b>     | 269            |
| Bad debts recovered                                      | <b>136</b>     | -              | <b>133</b>     | -              |
| Gain on disposal of property, plant and equipment        | <b>19</b>      | 103            | -              | -              |
| Rental income from:                                      |                |                |                |                |
| Investment properties rented to:                         |                |                |                |                |
| Third parties  | <b>12</b>      | 7              | <b>12</b>      | 7              |
| Subsidiary companies                                     | -              | -              | <b>7</b>       | 7              |
| Others   | -              | 263            | -              | -              |
| Allowance for doubtful debts                             | <b>(1,779)</b> | (2,326)        | <b>(239)</b>   | -              |
| Rental of premises payable to:                           |                |                |                |                |
| Third parties  | <b>(453)</b>   | (716)          | <b>(28)</b>    | (112)          |
| Subsidiary company                                       | -              | -              | <b>(30)</b>    | (30)           |
| Directors' remuneration (Note 21)                        | <b>(438)</b>   | (461)          | <b>(438)</b>   | (435)          |
| Impairment loss on:                                      |                |                |                |                |
| Goodwill on consolidation                                | <b>(191)</b>   | -              | -              | -              |
| Property, plant and equipment (Note 10)                  | -              | (3,183)        | -              | -              |
| Other investments  | -              | (66)           | -              | (66)           |
| Investment in a subsidiary company                       | -              | -              | -              | (800)          |
| Investment in associated company (Note 16)               | -              | -              | -              | (603)          |
| Auditors' remuneration:                                  |                |                |                |                |
| Statutory:   |                |                |                |                |
| Current year   | <b>(179)</b>   | (174)          | <b>(37)</b>    | (32)           |
| Underprovision in prior year                             | <b>(6)</b>     | (7)            | <b>(5)</b>     | -              |
| Special audit  | <b>(5)</b>     | (45)           | <b>(5)</b>     | (45)           |
| Allowance for slow-moving and obsolete inventories       | <b>(111)</b>   | (10,868)       | -              | -              |
| Hire of plant and machinery                              | <b>(48)</b>    | (120)          | -              | -              |
| Inventories written down                                 | <b>(2)</b>     | (1,716)        | -              | -              |
| Property, plant and equipment written off                | -              | (1,625)        | -              | -              |
| Lease rental   | -              | (204)          | -              | (23)           |

Staff costs include salaries, bonuses, contributions to defined contribution plans, share-based payments and all other staff related expenses. Contributions to defined contribution plans by the Group and the Company amounted to RM1,660,000 and RM115,000 (RM4,398,000 and RM134,000 in 2007), respectively. The Group and the Company recognised total expenses of RM823,000 (RM672,000 and RM227,000 respectively in 2007), relating to share-based payment transactions during the financial year, of which an amount of RM42,000 (RM25,000 in 2007) relates to the Executive Director and included as part of the Directors' salaries and other emoluments as disclosed in Note 21.

**6. LOSS FOR THE YEAR (continued)**

Included in staff costs of the Group and of the Company are remuneration of the Executive Director and other members of key management as follows:

|                                 | The Group      |                | The Company    |                |
|---------------------------------|----------------|----------------|----------------|----------------|
|                                 | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Salaries and other remuneration | 720            | 693            | 411            | 406            |
| Defined contribution plans      | 97             | 93             | 56             | 55             |
| Share-based payment expenses    | 122            | 94             | 78             | 56             |
| Benefits-in-kind                | 45             | 67             | 37             | 48             |
|                                 | <b>984</b>     | <b>947</b>     | <b>582</b>     | <b>565</b>     |

**7. FINANCE COSTS**

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Continuing operations</b>                                  |                |                |                |                |
| Interest expense on:  |                |                |                |                |
| Advances from a corporate shareholder of a subsidiary company | -              | 3              | -              | -              |
| Bank overdrafts and other borrowings                          | 3,615          | 3,846          | 341            | 594            |
| Hire-purchase   | 21             | 34             | -              | -              |
| Advances from subsidiary companies                            | -              | -              | 5,400          | 10,020         |
|   | <b>3,636</b>   | <b>3,883</b>   | <b>5,741</b>   | <b>10,614</b>  |
| <b>Discontinued operation</b>                                 |                |                |                |                |
| Interest expense on bank overdrafts and other borrowings      | -              | 403            | -              | -              |
|   | <b>3,636</b>   | <b>4,286</b>   | <b>5,741</b>   | <b>10,614</b>  |

## 8. INCOME TAX EXPENSE

Income tax expense consists of the following:

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Continuing operations</b>            |                |                |                |                |
| Current taxation:                       |                |                |                |                |
| Estimated tax payable                   | <b>8,110</b>   | 4,873          | <b>3,695</b>   | 2,532          |
| Under/(Over)provision<br>in prior years | <b>211</b>     | (7)            | <b>174</b>     | (114)          |
|   | <b>8,321</b>   | 4,866          | <b>3,869</b>   | 2,418          |
| Deferred tax (Note 20):                 |                |                |                |                |
| Current year                            | <b>835</b>     | (152)          | -              | -              |
| Overprovision in prior years            | <b>(767)</b>   | -              | -              | -              |
|   | <b>68</b>      | (152)          | -              | -              |
|   | <b>8,389</b>   | 4,714          | <b>3,869</b>   | 2,418          |

A reconciliation of income tax expense applicable to (loss)/profit 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    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| (Loss)/Profit before tax:                                       |                |                |                |                |
| Continuing operations   | <b>(8,357)</b> | 4,035          | <b>1,739</b>   | (91,930)       |
| Discontinued operation (Note 36)                                | -              | (63,201)       | -              | -              |
|   | <b>(8,357)</b> | (59,166)       | <b>1,739</b>   | (91,930)       |
| Tax at applicable tax rate of<br>26% (27% in 2007)              |                |                |                |                |
|   | <b>(2,173)</b> | (15,974)       | <b>452</b>     | (24,821)       |
| Tax effects of:   |                |                |                |                |
| Non-deductible items  | <b>16,353</b>  | 19,950         | <b>5,622</b>   | 27,391         |
| Non-taxable items   | <b>(4,293)</b> | -              | <b>(2,379)</b> | (38)           |
| Effects of different tax rates                                  | <b>(114)</b>   | 745            | -              | -              |
| Double deduction of expenses                                    | <b>(39)</b>    | -              | -              | -              |
| Utilisation of deferred tax assets<br>previously not recognised | <b>(789)</b>   | -              | -              | -              |
| Under/(Over)provision in prior years:                           |                |                |                |                |
| Current tax   | <b>211</b>     | (7)            | <b>174</b>     | (114)          |
| Deferred tax  | <b>(767)</b>   | -              | -              | -              |
|   | <b>8,389</b>   | 4,714          | <b>3,869</b>   | 2,418          |

## 8. INCOME TAX EXPENSE (continued)

As of 30 June 2008, the balances in the tax-exempt accounts of the Company are as follows:

|   | <b>The Company</b> |               |
|---|--------------------|---------------|
|   | <b>2008</b>        | <b>2007</b>   |
|   | <b>RM'000</b>      | <b>RM'000</b> |
| 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             | 27,398        |
|   | <u>34,977</u>      | <u>34,977</u> |

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. LOSS PER ORDINARY SHARE

### Basic

The basic loss per ordinary share of the Group has been calculated by dividing loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

|   | <b>2008</b>    | <b>2007</b>     |
|---|----------------|-----------------|
|   | <b>RM'000</b>  | <b>RM'000</b>   |
| (Loss)/Profit attributable to ordinary equity holders of the Company: |                |                 |
| From continuing operations  | (9,086)        | 2,440           |
| From discontinued operation   | -              | (62,892)        |
| Loss attributable to ordinary equity holders of the Company           | <u>(9,086)</u> | <u>(60,452)</u> |
| Weighted average number of ordinary shares in issue ('000)            | <u>210,420</u> | <u>210,153</u>  |
| Basic (loss)/profit per share (sen) for:                              |                |                 |
| (Loss)/Profit from continuing operations                              | (4.32)         | 1.16            |
| Loss from discontinued operation                                      | -              | (29.93)         |
|   | <u>(4.32)</u>  | <u>(28.77)</u>  |

### Fully diluted

As of the balance sheet date, the options over 2,511,200 (3,156,100 in 2007) unissued ordinary shares granted to eligible executives 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 main features of the ESOS are set out in Note 26.

## 10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| The Group                          | COST                                |  |                     |                     |                      |   |                             | Balance as of 30 June 2007<br>RM'000 |
|------------------------------------|-------------------------------------|--|---------------------|---------------------|----------------------|---|-----------------------------|--------------------------------------|
|                                    | Balance as of 1 July 2006<br>RM'000 | Currency translation differences<br>RM'000 | Additions<br>RM'000 | Disposals<br>RM'000 | Write-offs<br>RM'000 | Arising from disposal of a subsidiary company<br>RM'000 | Reclassifications<br>RM'000 |                                      |
| Freehold land                      | 4,777                               | -  | -                   | -                   | -                    | -   | -                           | 4,777                                |
| Freehold buildings                 | 5,935                               | -  | 33                  | -                   | -                    | -   | -                           | 5,968                                |
| Long leasehold buildings           | 39,537                              | (988)                                      | 8,664               | -                   | -                    | (2,957)   | -                           | 44,256                               |
| Short leasehold land and buildings | 68,106                              | -  | 2,952               | -                   | -                    | (71,058)  | -                           | -                                    |
| Pulp and paper mill                | 768,464                             | -  | -                   | -                   | -                    | (768,464)   | -                           | -                                    |
| Plant and machinery                | 406,533                             | (2,548)                                    | 11,740              | (2,838)             | (9,353)              | (292,547)   | 6,007                       | 116,994                              |
| Office equipment                   | 893                                 | (3)  | 39                  | (84)                | -                    | (1)   | -                           | 844                                  |
| Furniture and fittings             | 20,111                              | -  | 252                 | (89)                | -                    | (19,495)  | -                           | 779                                  |
| Motor vehicles                     | 7,916                               | (14)                                       | 312                 | (261)               | -                    | (5,951)   | -                           | 2,002                                |
| Motor vehicles under hire-purchase | 583                                 | -  | -                   | -                   | -                    | -   | -                           | 583                                  |
| Office renovation                  | 727                                 | -  | -                   | -                   | -                    | (1)   | -                           | 726                                  |
| Computer equipment                 | 2,446                               | (39)                                       | 620                 | (5)                 | -                    | -   | -                           | 3,022                                |
| Housing colony and infrastructures | 116,474                             | -  | 252                 | -                   | -                    | (116,726)   | -                           | -                                    |
| Jetty and access roads             | 101,116                             | -  | -                   | -                   | -                    | (101,116)   | -                           | -                                    |
| Capital work-in-progress           | 1,356                               | -  | 4,652               | -                   | -                    | (1)   | (6,007)                     | -                                    |
|                                    | <b>1,544,974</b>                    | <b>(3,592)</b>                             | <b>29,516</b>       | <b>(3,277)</b>      | <b>(9,353)</b>       | <b>(1,378,317)</b>                                      | <b>-</b>                    | <b>179,951</b>                       |

| The Group                          | COST                                |  |                     |                     |  |                             |          | Balance as of 30 June 2008<br>RM'000 |
|------------------------------------|-------------------------------------|--|---------------------|---------------------|--|-----------------------------|----------|--------------------------------------|
|                                    | Balance as of 1 July 2007<br>RM'000 | Currency translation differences<br>RM'000 | Additions<br>RM'000 | Disposals<br>RM'000 | Arising from acquisition of a subsidiary company<br>RM'000 | Reclassifications<br>RM'000 |          |                                      |
| Freehold land                      | 4,777                               | -  | -                   | -                   | -  | -                           | -        | 4,777                                |
| Freehold buildings                 | 5,968                               | -  | 18                  | -                   | -  | -                           | -        | 5,986                                |
| Long leasehold buildings           | 44,256                              | 2,905                                      | 64                  | -                   | -  | (2,550)                     | -        | 44,675                               |
| Plant and machinery                | 116,994                             | 6,581                                      | 6,532               | (1,089)             | -  | 608                         | -        | 129,626                              |
| Office equipment                   | 844                                 | 7  | 466                 | (4)                 | 186  | (68)                        | -        | 1,431                                |
| Furniture and fittings             | 779                                 | -  | 19                  | (9)                 | 16   | 71                          | -        | 876                                  |
| Motor vehicles                     | 2,002                               | 39   | 143                 | (68)                | -  | 267                         | -        | 2,383                                |
| Motor vehicles under hire-purchase | 583                                 | -  | 86                  | -                   | 96   | (267)                       | -        | 498                                  |
| Prime movers and trailers          | -                                   | -  | 762                 | -                   | 14,136   | -                           | -        | 14,898                               |
| Office renovation                  | 726                                 | -  | -                   | -                   | -  | -                           | -        | 726                                  |
| Computer equipment                 | 3,022                               | 119  | 395                 | (30)                | 71   | 1,939                       | -        | 5,516                                |
|                                    | <b>179,951</b>                      | <b>9,651</b>                               | <b>8,485</b>        | <b>(1,200)</b>      | <b>14,505</b>  | <b>-</b>                    | <b>-</b> | <b>211,392</b>                       |

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

| The Group                             | ACCUMULATED DEPRECIATION               |  |                                  |                     |                      |  | Balance as of<br>30 June 2007<br>RM'000 |
|---------------------------------------|--|--|----------------------------------|---------------------|----------------------|--|---|
|                                       | Balance as of<br>1 July 2006<br>RM'000 | Currency<br>translation<br>differences<br>RM'000 | Charge for<br>the year<br>RM'000 | Disposals<br>RM'000 | Write-offs<br>RM'000 | Arising from<br>disposal of<br>a subsidiary<br>company<br>RM'000 |   |
| Freehold land                         | -                                      | -  | -                                | -                   | -                    | -  | -                                       |
| Freehold buildings                    | 1,168                                  | -  | 130                              | -                   | -                    | -  | 1,298                                   |
| Long leasehold<br>buildings           | 3,226                                  | (8)  | 1,856                            | -                   | -                    | (2,957)  | 2,117                                   |
| Short leasehold land<br>and buildings | 31,875                                 | -  | 2,032                            | -                   | -                    | (33,907)   | -                                       |
| Pulp and paper mill                   | 419,067                                | -  | 4,602                            | -                   | -                    | (423,669)  | -                                       |
| Plant and machinery                   | 152,055                                | (240)  | 20,828                           | (1,182)             | (7,728)              | (134,368)  | 29,365                                  |
| Office equipment                      | 639                                    | (1)  | 83                               | (81)                | -                    | -  | 640                                     |
| Furniture and fittings                | 17,498                                 | -  | 515                              | (88)                | -                    | (17,219)   | 706                                     |
| Motor vehicles                        | 6,623                                  | (2)  | 399                              | (261)               | -                    | (5,487)  | 1,272                                   |
| Motor vehicles<br>under hire-purchase | 346                                    | -  | 122                              | -                   | -                    | -  | 468                                     |
| Office renovation                     | 644                                    | -  | 29                               | -                   | -                    | -  | 673                                     |
| Computer equipment                    | 927                                    | (8)  | 446                              | (5)                 | -                    | -  | 1,360                                   |
| Housing colony<br>and infrastructures | 65,136                                 | -  | 755                              | -                   | -                    | (65,891)   | -                                       |
| Jetty and access roads                | 62,901                                 | -  | 6,890                            | -                   | -                    | (69,791)   | -                                       |
| Capital work-in-progress              | -                                      | -  | -                                | -                   | -                    | -  | -                                       |
|                                       | <b>762,105</b>                         | <b>(259)</b>                                     | <b>38,687</b>                    | <b>(1,617)</b>      | <b>(7,728)</b>       | <b>(753,289)</b>   | <b>37,899</b>                           |

| The Group                             | ACCUMULATED DEPRECIATION               |  |                                  |                     |                                 |   | Balance as of<br>30 June 2008<br>RM'000 |
|---------------------------------------|--|--|----------------------------------|---------------------|---------------------------------|---|---|
|                                       | Balance as of<br>1 July 2007<br>RM'000 | Currency<br>translation<br>differences<br>RM'000 | Charge for<br>the year<br>RM'000 | Disposals<br>RM'000 | Reclass-<br>ification<br>RM'000 | Arising from<br>acquisition of<br>a subsidiary<br>company<br>RM'000 |   |
| Freehold land                         | -                                      | -  | -                                | -                   | -                               | -   | -                                       |
| Freehold buildings                    | 1,298                                  | -  | 127                              | -                   | -                               | -   | 1,425                                   |
| Long leasehold<br>buildings           | 2,117                                  | 140  | 2,083                            | -                   | -                               | -   | 4,340                                   |
| Plant and machinery                   | 29,365                                 | 1,081  | 11,801                           | (874)               | -                               | -   | 41,373                                  |
| Office equipment                      | 640                                    | 3  | 355                              | (4)                 | (12)                            | 95  | 1,077                                   |
| Furniture and fittings                | 706                                    | -  | 63                               | (7)                 | 12                              | 9   | 783                                     |
| Motor vehicles                        | 1,272                                  | 11   | 259                              | (68)                | 227                             | -   | 1,701                                   |
| Motor vehicles<br>under hire-purchase | 468                                    | -  | 78                               | -                   | (227)                           | 66  | 385                                     |
| Prime movers and trailers             | -                                      | -  | 20                               | -                   | -                               | 10,676  | 10,696                                  |
| Office renovation                     | 673                                    | -  | 26                               | -                   | -                               | -   | 699                                     |
| Computer equipment                    | 1,360                                  | 36   | 295                              | (28)                | -                               | 63  | 1,726                                   |
|                                       | <b>37,899</b>                          | <b>1,271</b>                                     | <b>15,107</b>                    | <b>(981)</b>        | <b>-</b>                        | <b>10,909</b>   | <b>64,205</b>                           |



**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

| The Group                          | ACCUMULATED IMPAIRMENT LOSS |                     |                                  |                     |                     |                    |                    |                    |
|------------------------------------|-----------------------------|---------------------|----------------------------------|---------------------|---------------------|--------------------|--------------------|--------------------|
|                                    | Balance                     | Charge for the year | Arising from                     | Balance             | Charge for the year | Balance            | NET BOOK VALUE     |                    |
|                                    | as of 1 July 2006           |                     | disposal of a subsidiary company | as of 30 June 2007/ |                     | as of 30 June 2008 | As of 30 June 2008 | As of 30 June 2007 |
| RM'000                             | RM'000                      | RM'000              | RM'000                           | RM'000              | RM'000              | RM'000             | RM'000             | RM'000             |
| Freehold land                      | -                           | -                   | -                                | -                   | -                   | -                  | 4,777              | 4,777              |
| Freehold buildings                 | -                           | -                   | -                                | -                   | -                   | -                  | 4,561              | 4,670              |
| Long leasehold buildings           | -                           | -                   | -                                | -                   | -                   | -                  | 40,335             | 42,139             |
| Short leasehold land and buildings | -                           | -                   | -                                | -                   | -                   | -                  | -                  | -                  |
| Pulp and paper mill                | 4,537                       | 3,183               | (7,720)                          | -                   | -                   | -                  | -                  | -                  |
| Plant and machinery                | -                           | -                   | -                                | -                   | -                   | -                  | 88,253             | 87,629             |
| Office equipment                   | -                           | -                   | -                                | -                   | -                   | -                  | 354                | 204                |
| Furniture and fittings             | -                           | -                   | -                                | -                   | -                   | -                  | 93                 | 73                 |
| Motor vehicles                     | -                           | -                   | -                                | -                   | -                   | -                  | 682                | 730                |
| Motor vehicles under hire-purchase | -                           | -                   | -                                | -                   | -                   | -                  | 113                | 115                |
| Prime movers and trailers          | -                           | -                   | -                                | -                   | -                   | -                  | 4,202              | -                  |
| Office renovation                  | -                           | -                   | -                                | -                   | -                   | -                  | 27                 | 53                 |
| Computer equipment                 | -                           | -                   | -                                | -                   | -                   | -                  | 3,790              | 1,662              |
| Housing colony and infrastructures | -                           | -                   | -                                | -                   | -                   | -                  | -                  | -                  |
| Jetty and access roads             | -                           | -                   | -                                | -                   | -                   | -                  | -                  | -                  |
| Capital work-in-progress           | -                           | -                   | -                                | -                   | -                   | -                  | -                  | -                  |
|                                    | 4,537                       | 3,183               | (7,720)                          | -                   | -                   | -                  | 147,187            | 142,052            |

| The Company            | COST                      |           |                             |           |                            |
|------------------------|---------------------------|-----------|-----------------------------|-----------|----------------------------|
|                        | Balance as of 1 July 2006 | Additions | Balance as of 30 June 2007/ | Additions | Balance as of 30 June 2008 |
|                        | RM'000                    |           | 1 July 2007                 |           | RM'000                     |
| RM'000                 | RM'000                    | RM'000    | RM'000                      | RM'000    |                            |
| Freehold land          | 4,777                     | -         | 4,777                       | -         | 4,777                      |
| Office equipment       | 261                       | 1         | 262                         | -         | 262                        |
| Furniture and fittings | 392                       | -         | 392                         | -         | 392                        |
| Motor vehicles         | 554                       | -         | 554                         | -         | 554                        |
| Office renovation      | 256                       | -         | 256                         | -         | 256                        |
| Computer equipment     | 320                       | 4         | 324                         | -         | 324                        |
|                        | 6,560                     | 5         | 6,565                       | -         | 6,565                      |

| The Company            | ACCUMULATED DEPRECIATION  |                     |                             |                     | NET BOOK VALUE             |                    |                    |
|------------------------|---------------------------|---------------------|-----------------------------|---------------------|----------------------------|--------------------|--------------------|
|                        | Balance as of 1 July 2006 | Charge for the year | Balance as of 30 June 2007/ | Charge for the year | Balance as of 30 June 2008 | As of 30 June 2008 | As of 30 June 2007 |
|                        | RM'000                    |                     | 1 July 2007                 |                     | RM'000                     | RM'000             | RM'000             |
| RM'000                 | RM'000                    | RM'000              | RM'000                      | RM'000              | RM'000                     | RM'000             |                    |
| Freehold land          | -                         | -                   | -                           | -                   | -                          | 4,777              | 4,777              |
| Office equipment       | 250                       | 4                   | 254                         | 4                   | 258                        | 4                  | 8                  |
| Furniture and fittings | 387                       | 2                   | 389                         | 1                   | 390                        | 2                  | 3                  |
| Motor vehicles         | 420                       | 56                  | 476                         | 52                  | 528                        | 26                 | 78                 |
| Office renovation      | 256                       | -                   | 256                         | -                   | 256                        | -                  | -                  |
| Computer equipment     | 303                       | 10                  | 313                         | 5                   | 318                        | 6                  | 11                 |
|                        | 1,616                     | 72                  | 1,688                       | 62                  | 1,750                      | 4,815              | 4,877              |

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

Current depreciation has been charged to the following accounts:

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Income statements:                           |                |                |                |                |
| Continuing operations                        | 15,107         | 12,711         | 62             | 72             |
| Discontinued operation (Note 36)             | -              | 25,623         | -              | -              |
|  | <b>15,107</b>  | <b>38,334</b>  | <b>62</b>      | <b>72</b>      |
| Inventories (Note 22)                        | -              | 31             | -              | -              |
| Plantation development expenditure (Note 14) | -              | 322            | -              | -              |
|  | <b>15,107</b>  | <b>38,687</b>  | <b>62</b>      | <b>72</b>      |

In prior financial year, the directors of a subsidiary company reviewed the carrying amount of certain property, plant and equipment and determined that there was an indication of impairment as the carrying amount of the said property, plant and equipment 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 property, plant and equipment. Consequently, an impairment loss of RM3,183,000 (Note 6) had been charged to the income statement of the Group.

As of 30 June 2008, certain freehold land and buildings of the Group with net book values totalling RM9,338,000 (RM9,447,000 in 2007) have been pledged as collaterals to certain local banks for bank overdraft and other credit facilities granted to the Company as mentioned in Note 31.

As of 30 June 2008, certain plant and machinery and leasehold land and building of a foreign subsidiary company with net book values totalling RM54,620,000 (RM55,878,000 in 2007) 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 29.

**11. INVESTMENT PROPERTIES**

|                                  | The Group and<br>The Company |                |
|----------------------------------|------------------------------|----------------|
|                                  | 2008<br>RM'000               | 2007<br>RM'000 |
| <b>Net book value</b>            |                              |                |
| At beginning of year             | 2,318                        | 2,365          |
| Depreciation charge for the year | (47)                         | (47)           |
| At end of the year               | <b>2,271</b>                 | <b>2,318</b>   |
| Cost                             | 2,793                        | 2,793          |
| Accumulated depreciation         | (522)                        | (475)          |
| Net book value                   | <b>2,271</b>                 | <b>2,318</b>   |
| Fair value                       | <b>2,552</b>                 | <b>2,552</b>   |

## 11. INVESTMENT PROPERTIES (continued)

The rental income earned by the Group and the Company from their investment properties amounted to RM12,000 (RM7,000 in 2007) and RM19,000 (RM14,000 in 2007) respectively. Direct operating expenses pertaining to the investment properties of the Group and of the Company that generated rental income during the year amounted to RM6,000 (RM7,000 in 2007).

Direct operating expenses incurred by the Group and the Company for investment properties that did not generate any rental income during the financial year amounted to RM13,000 (RM12,000 in 2007).

The fair value of the investment properties has been arrived at on the basis of valuations carried out by Henry Butcher Malaysia (SEL) Sdn. Bhd., an independent valuer that is not related to the Group. Valuations were based on current prices in an active market for the properties.

As of 30 June 2008, certain freehold land and buildings and long leasehold buildings of the Company included as part of investment properties with net book value totalling RM2,215,000 (RM2,260,000 in 2007) have been pledged as collaterals to certain local banks for bank overdraft and other credit facilities granted to the Company as mentioned in Note 31.

## 12. PREPAID LAND LEASE PAYMENTS

|  | <b>The Group</b> |               |
|--|------------------|---------------|
|  | <b>2008</b>      | <b>2007</b>   |
|  | <b>RM'000</b>    | <b>RM'000</b> |
| Cost:  |                  |               |
| At beginning of year - transfer from property, plant and equipment | <b>4,458</b>     | 12,390        |
| Exchange differences   | <b>291</b>       | (128)         |
| Addition during the year   | -                | 29,270        |
| Disposal of a subsidiary company                                   | -                | (37,074)      |
| At end of year   | <b>4,749</b>     | 4,458         |
| Cumulative amortisation:   |                  |               |
| At beginning of year - transfer from property, plant and equipment | <b>104</b>       | 2,005         |
| Amortisation for the year  | <b>96</b>        | 242           |
| Disposal of a subsidiary company                                   | -                | (2,143)       |
| At end of year   | <b>200</b>       | 104           |
| Unamortised portion:   |                  |               |
| At beginning of year   | <b>4,354</b>     | 10,385        |
| At end of year   | <b>4,549</b>     | 4,354         |

The prepaid land lease payment of a subsidiary company relates to land use rights paid to government authorities of the People's Republic of China. The lease will expire in year 2054.

The prepaid land lease payment of the subsidiary company has been pledged as collateral to a foreign bank for a term loan facility granted to the said subsidiary as mentioned in Note 29.

### 13. FOREST CONCESSIONS

|                                     | The Group      |                |
|-------------------------------------|----------------|----------------|
|                                     | 2008<br>RM'000 | 2007<br>RM'000 |
| At cost:                            |                |                |
| At beginning of year                | -              | 388,200        |
| Disposal of a subsidiary company    | -              | (388,200)      |
| At end of year                      | -              | -              |
| Cumulative amortisation:            |                |                |
| At beginning of year                | -              | 98,064         |
| Amortisation for the year (Note 36) | -              | 7,647          |
| Disposal of a subsidiary company    | -              | (105,711)      |
| At end of year                      | -              | -              |
| Net                                 | -              | -              |

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 were RM131,200,000 and RM257,000,000, respectively. The 158,623 hectares and 118,000 hectares of concession were amortised evenly over their estimated useful lives of 16 years and 99 years, respectively.

### 14. PLANTATION DEVELOPMENT EXPENDITURE

|                                  | The Group      |                |
|----------------------------------|----------------|----------------|
|                                  | 2008<br>RM'000 | 2007<br>RM'000 |
| At cost:                         |                |                |
| At beginning of year             | -              | 157,634        |
| Additions for the year           | -              | 5,395          |
| Disposal of a subsidiary company | -              | (163,029)      |
| At end of year                   | -              | -              |
| Cumulative amortisation:         |                |                |
| At beginning of year             | -              | 5,495          |
| Amortisation for the year        | -              | 3,662          |
| Disposal of a subsidiary company | -              | (9,157)        |
| At end of year                   | -              | -              |
| Net                              | -              | -              |

Additions to plantation development expenditure in 2007 included depreciation of property, plant and equipment amounting to RM322,000.

Amortisation in 2007 amounting to RM3,662,000 has been charged to inventories.

## 15. INVESTMENT IN SUBSIDIARY COMPANIES

|                           | The Company    |                |
|---------------------------|----------------|----------------|
|                           | 2008<br>RM'000 | 2007<br>RM'000 |
| Unquoted shares - at cost | 12,197         | 9,037          |
| Less: Impairment loss     | (800)          | (800)          |
|                           | <b>11,397</b>  | <b>8,237</b>   |
|                           | <b>11,397</b>  | <b>8,237</b>   |

Amount owing by a subsidiary company (non-current portion), which arose as a result of a long-term loan on-lend to LFIB Plantations Sdn. Bhd. as disclosed below, is unsecured, interest-free (bears interest at 1.00% per annum in 2007) and has a tenure of 10 years from 2006.

Amount owing by subsidiary companies (shown under current assets) arose mainly from trade transactions, expenses paid on behalf and unsecured advances which are repayable on demand. The advances bear interest at rates ranging from 1.00% to 6.30% (1.00% to 6.30% in 2007) per annum.

Amount owing to subsidiary companies consists of:

|   | The Company    |                |
|---|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 |
| Advances  | 69,388         | 18,133         |
| Term loan   | 26,200         | 74,212         |
| Long-term loan  | 18,380         | 19,820         |
|   | <b>113,968</b> | 112,165        |
| Less : Amount due within 12 months<br>(shown under current liabilities) | (95,768)       | (68,965)       |
| Non-current portion   | <b>18,200</b>  | 43,200         |
|   | <b>18,200</b>  | 43,200         |

The non-current portion is repayable as follows:

| Financial years ending 30 June: |               |        |
|---------------------------------|---------------|--------|
| 2009                            | -             | 25,000 |
| 2010                            | 18,200        | 18,200 |
|                                 | <b>18,200</b> | 43,200 |
|                                 | <b>18,200</b> | 43,200 |

The advances are interest-free and are repayable on demand. The average effective interest rates per annum for the term loan and long-term loan are as follows:

|                | The Company  |           |
|----------------|--------------|-----------|
|                | 2008<br>%    | 2007<br>% |
| Term loan      | 12.00        | 12.00     |
| Long-term loan | 1.00         | 9.00      |
|                | <b>12.00</b> | 12.00     |
|                | <b>1.00</b>  | 9.00      |

## 15. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The term loan arose in 2004 when Lion Industries Corporation Berhad (“LICB”), the ultimate holding company of the Company, accepted the Company’s offer to lend up to RM100 million, the sum of which was advanced by Sabah Forest Industries Sdn. Bhd. (“SFI”), a former subsidiary company of the Company. LICB in turn advanced the same to Amsteel Mills Sdn. Bhd. (“AMSB”), a subsidiary company 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.

On the disposal of SFI during the last financial year, the amount payable by the Company to SFI, which forms part of the excluded assets of SFI in the disposal transaction, has been transferred to Intra Inspirasi Sdn. Bhd., a wholly-owned subsidiary company of the Company.

The long-term loan principal outstanding of RM18.2 million was granted to the Company in 2006 for on-lend to a subsidiary company, LFIB Plantations Sdn. Bhd., for the proposed development of an oil palm plantation and construction of palm oil mills in the 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.

The subsidiary companies are as follows:

| Name of Companies                              | Country of Incorporation   | Effective Equity Interest |           | Principal Activities  |
|--|----------------------------|---------------------------|-----------|---|
|  |                            | 2008<br>%                 | 2007<br>% |   |
| <b>Direct</b>                                  |                            |                           |           |   |
| Lion Petroleum Products Sdn. Bhd.              | Malaysia                   | <b>100.00</b>             | 100.00    | Manufacturing of petroleum products   |
| Lion Rubber Industries Sdn. Bhd.               | Malaysia                   | <b>100.00</b>             | 100.00    | Investment holding  |
| LFIB Plantations Sdn. Bhd.                     | Malaysia                   | <b>100.00</b>             | 100.00    | Investment holding  |
| Ototek Sdn. Bhd.                               | Malaysia                   | <b>70.00</b>              | 70.00     | Trading and distribution of lubricants, spark plugs and automotive components |
| Posim Marketing Sdn. Bhd.                      | Malaysia                   | <b>100.00</b>             | 100.00    | Trading and distribution of building materials and consumer products          |
| Posim Petroleum Marketing Sdn. Bhd.            | Malaysia                   | <b>100.00</b>             | 100.00    | Trading and distribution of petroleum products                                |
| Posim EMS Sdn. Bhd.                            | Malaysia                   | <b>80.00</b>              | 80.00     | Provision of energy management and conservation services                      |
| Silverstone (Hubei) Rubber and Tyre Co. Ltd. ^ | People’s Republic of China | <b>100.00</b>             | 100.00    | Dormant   |

(Forward)

**15. INVESTMENT IN SUBSIDIARY COMPANIES** (continued)

| Name of Companies   | Country of Incorporation   | Effective Equity Interest |        | Principal Activities                    |
|---|----------------------------|---------------------------|--------|---|
|   |                            | 2008 %                    | 2007 % |   |
| <b>Direct</b>   |                            |                           |        |   |
| Stoller Chemical Company (M) Sdn. Bhd. (In liquidation - voluntary) ^ | Malaysia                   | <b>100.00</b>             | 100.00 | Dormant                                 |
| Quay Class Ltd. ^   | British Virgin Islands     | <b>100.00</b>             | 100.00 | Dormant                                 |
| Intra Inspirasi Sdn. Bhd.   | Malaysia                   | <b>100.00</b>             | 100.00 | Investment holding                      |
| Gama Harta Sdn. Bhd.  | Malaysia                   | <b>100.00</b>             | 100.00 | Investment holding                      |
| Jadeford International Limited ^                                      | British Virgin Islands     | <b>100.00</b>             | 100.00 | Investment holding                      |
| Singa Logistics Sdn. Bhd. #   | Malaysia                   | <b>100.00</b>             | -      | Provision of transportation services    |
| <b>Indirect</b>   |                            |                           |        |   |
| Shandong Silverstone LuHe Rubber & Tyre Co. Ltd. #                    | People's Republic of China | <b>75.00</b>              | 75.00  | Manufacturing and distribution of tyres |
| P.T. Lion Intimung Malinau #  | Republic of Indonesia      | <b>95.00</b>              | 95.00  | 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 2007) has been pledged as collateral to certain local banks for bank overdraft and other credit facilities granted to the Company as mentioned in Note 31.

**Acquisition of a subsidiary company**

On 27 March 2008, the Company entered into a conditional share sale agreement with Amsteel Corporation Berhad ("Amsteel"), a company in which a corporate shareholder of the holding company has substantial financial interest, to acquire from Amsteel its entire 100% equity interest in Singa Logistics Sdn. Bhd. ("Singa Logistics") for a cash consideration of RM2,727,000. Singa Logistics is principally engaged in the provision of transportation services. This acquisition, which was completed on 24 April 2008, was accounted for under the purchase method.

**15. INVESTMENT IN SUBSIDIARY COMPANIES (continued)**

The effects of the abovementioned acquisition on the financial results of the Group from the date of acquisition to 30 June 2008 are as follows:

|   | <b>The Group<br/>2008<br/>RM'000</b> |
|---|--------------------------------------|
| Revenue   | 2,100                                |
| Other operating income                                    | 2                                    |
| Staff costs   | (643)                                |
| Depreciation  | (28)                                 |
| Other operating expenses                                  | (1,225)                              |
| Profit before tax   | 206                                  |
| Income tax expense  | (135)                                |
| Increase in the Group profit attributable to shareholders | <u>71</u>                            |

The effects of the acquisition on the financial position of the Group as at 30 June 2008 are as follows:

|  | <b>The Group<br/>2008<br/>RM'000</b> |
|--|--------------------------------------|
| Property, plant and equipment          | 4,334                                |
| Inventories                            | 5                                    |
| Trade receivables                      | 2,332                                |
| Other receivables and prepaid expenses | 2,393                                |
| Cash and bank balances                 | 3,542                                |
| Trade payables                         | (365)                                |
| Other payables and accrued expenses    | (9,223)                              |
| Hire-purchase payables                 | (25)                                 |
| Tax liabilities                        | (137)                                |
| Deferred tax liabilities               | (58)                                 |
| Net assets                             | <u>2,798</u>                         |

The fair value of the assets acquired and liabilities assumed from the acquisition of the subsidiary company are as follows:

|  | <b>At acquisition date<br/>RM'000</b> |
|--|---------------------------------------|
| Net assets acquired:   |                                       |
| Property, plant and equipment  | 3,596                                 |
| Inventories  | 8                                     |
| Trade receivables  | 385                                   |
| Other receivables and prepaid expenses                               | 355                                   |
| Cash and bank balances   | 3,168                                 |
| Trade payables   | (531)                                 |
| Other payables and accrued expenses                                  | (4,166)                               |
| Hire-purchase payables   | (28)                                  |
| Tax liabilities  | (2)                                   |
| Deferred tax liabilities   | (58)                                  |
| Net assets acquired  | <u>2,727</u>                          |
| Cash and bank balances of subsidiary company acquired                | 3,168                                 |
| Less: Purchase consideration   | (2,727)                               |
| Cash flows on acquisition, net of cash and cash equivalents acquired | <u>441</u>                            |



**15. INVESTMENT IN SUBSIDIARY COMPANIES (continued)**
**Disposal of a subsidiary company**

During the last financial year, the Company disposed of its entire 97.78% equity interest in SFI for a total consideration of RM869,372,000.

The effects of the disposal on the financial position of the Group are as follows:

|   | <b>15.3.2007</b> |
|---|------------------|
|   | <b>RM'000</b>    |
| Property, plant and equipment                                 | 617,308          |
| Prepaid land lease payments                                   | 34,931           |
| Forest concessions  | 282,489          |
| Plantation development expenditure                            | 153,872          |
| Inventories   | 69,408           |
| Receivables   | 24,298           |
| Bank balances   | 5,441            |
| Payables  | (68,497)         |
| Borrowings  | (900)            |
| Equity compensation reserve                                   | (753)            |
| Capital reserve   | (49,189)         |
| Minority interests  | (172,054)        |
|   | <hr/>            |
|   | 896,354          |
| Notional interest on deferred consideration                   | 13,738           |
| Direct costs attributable to the disposal                     | 1,500            |
| Loss on disposal  | (42,220)         |
|   | <hr/>            |
| Total consideration   | <b>869,372</b>   |
|   | <hr/> <hr/>      |
| Satisfied by:   |                  |
| Cash  | 428,515          |
| Deferred consideration  | 422,568          |
| Notional interest on deferred consideration to be accreted    | 11,072           |
| Unrealised loss on foreign exchange                           | 7,217            |
|   | <hr/>            |
|   | 869,372          |
|   | <hr/> <hr/>      |
| Represented by:   |                  |
| Purchase consideration per share purchase agreement           | 944,820          |
| Due diligence and other adjustments to purchase consideration | (75,448)         |
|   | <hr/>            |
|   | 869,372          |
|   | <hr/> <hr/>      |
| Net cash inflows arising on the disposal:                     |                  |
| Cash consideration received                                   | 428,515          |
| Cash and cash equivalents disposed of                         | (5,441)          |
|   | <hr/>            |
|   | <b>423,074</b>   |
|   | <hr/> <hr/>      |

**16. INVESTMENT IN ASSOCIATED COMPANY**

|                                | The Group       |                 | The Company     |                 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                | 2008<br>RM'000  | 2007<br>RM'000  | 2008<br>RM'000  | 2007<br>RM'000  |
| Unquoted shares - at cost      | <b>4,684</b>    | 4,684           | <b>4,684</b>    | 4,684           |
| Share in post-acquisition loss | <b>(4,684)</b>  | (4,684)         | -               | -               |
| Less: Impairment loss          | -               | -               | <b>(4,684)</b>  | (4,684)         |
|                                | <u>-</u>        | <u>-</u>        | <u>-</u>        | <u>-</u>        |
|                                | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |

In 2007, the Directors reviewed the Company's investment in the 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 RM603,000 (Note 6) in the income statement of the Company.

The associated company is as follows:

| Name of Company                            | Country of Incorporation | Effective Equity Interest |           | Principal Activity                                   |
|--|--------------------------|---------------------------|-----------|--|
|  |                          | 2008<br>%                 | 2007<br>% |  |
| <b>Direct</b>                              |                          |                           |           |  |
| Kinabalu Motor Assembly Sendirian Berhad # | Malaysia                 | <b>20.00</b>              | 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 summarised financial information of the associated company are as follows:

|                         | 2008<br>RM'000         | 2007<br>RM'000  |
|-------------------------|------------------------|-----------------|
| Revenue                 | <b>6,002</b>           | 20,353          |
| Expenses                | <b>(14,488)</b>        | (36,725)        |
| Current assets          | <b>10,197</b>          | 19,518          |
| Non-current assets      | <b>12,801</b>          | 22,219          |
| Current liabilities     | <b>(47,391)</b>        | (36,426)        |
| Non-current liabilities | <b>(740)</b>           | (21,958)        |
| Net liabilities         | <u><b>(25,133)</b></u> | <u>(16,647)</u> |

The Group's share of losses of the associated company has been recognised to the extent of the carrying amount of the investment. The cumulative and current year's unrecognised share of losses amounted to RM5,027,000 (RM3,330,000 in 2007) and RM1,697,000 (RM3,330,000 in 2007) respectively.

**17. OTHER INVESTMENTS**

|   | The Group                         |                | The Company    |                |
|---|-----------------------------------|----------------|----------------|----------------|
|   | 2008<br>RM'000                    | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Quoted shares:  |                                   |                |                |                |
| At cost:  | <b>169</b>                        | 169            | <b>161</b>     | 161            |
| Less: Accumulated impairment loss   | <b>(118)</b>                      | (118)          | <b>(118)</b>   | (118)          |
|   | <b>51</b>                         | 51             | <b>43</b>      | 43             |
| Unquoted investments:   |                                   |                |                |                |
| At cost:  |                                   |                |                |                |
| Ordinary shares   | <b>227</b>                        | 227            | <b>175</b>     | 175            |
| Redeemable cumulative convertible preference shares *   | <b>99</b>                         | -              | -              | -              |
|   | <b>326</b>                        | 227            | <b>175</b>     | 175            |
| Less: Accumulated impairment loss   | <b>(151)</b>                      | (151)          | <b>(151)</b>   | (151)          |
|   | <b>175</b>                        | 76             | <b>24</b>      | 24             |
| Unquoted bonds<br>(at cost, adjusted for accretion of interest)<br>Redeemable within one year (Note 23) | <b>103,546</b><br><b>(19,389)</b> | -<br>-         | -<br>-         | -<br>-         |
|   | <b>84,157</b>                     | -              | -              | -              |
| Total   | <b>84,383</b>                     | 127            | <b>67</b>      | 67             |
| Market value of quoted shares   | <b>42</b>                         | 60             | <b>25</b>      | 41             |

\* Represents redeemable cumulative convertible preference shares issued by Silverstone Corporation Berhad, a related party of the Company.

The investment in unquoted bonds by a subsidiary company bears a yield to maturity at rates ranging from 1.00% to 3.00% per annum.

**18. INTANGIBLE ASSETS**

|                           | The Group      |                |
|---------------------------|----------------|----------------|
|                           | 2008<br>RM'000 | 2007<br>RM'000 |
| At cost:                  |                |                |
| At beginning/end of year  | <b>500</b>     | 500            |
| Cumulative amortisation:  |                |                |
| At beginning of year      | <b>96</b>      | 46             |
| Amortisation for the year | <b>50</b>      | 50             |
| At end of year            | <b>(146)</b>   | (96)           |
| Net                       | <b>354</b>     | 404            |

**19. GOODWILL ON CONSOLIDATION**

|   | The Group      |                |
|---|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Goodwill on consolidation:</b>                           |                |                |
| At beginning of year  | 191            | 253,553        |
| Elimination of cumulative amortisation on adoption of FRS 3 | -              | (92,286)       |
| Disposal of a subsidiary company                            | -              | (161,076)      |
| At end of year  | 191            | 191            |
| <b>Cumulative amortisation:</b>                             |                |                |
| At beginning of year  | -              | 92,286         |
| Elimination of cumulative amortisation on adoption of FRS 3 | -              | (92,286)       |
| At end of year  | -              | -              |
| <b>Impairment loss:</b>                                     |                |                |
| At beginning of year  | -              | 161,076        |
| Charge for the year   | 191            | -              |
| Disposal of a subsidiary company                            | -              | (161,076)      |
| At end of year  | (191)          | -              |
|   | -              | 191            |

**20. DEFERRED TAX ASSETS/(LIABILITIES)**

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Deferred Tax Assets</b>                        |                |                |                |                |
| At beginning of year                              | 471            | 319            | -              | -              |
| Net transfer (to)/from income statements (Note 8) | (67)           | 152            | -              | -              |
| At end of year                                    | 404            | 471            | -              | -              |
| <b>Deferred Tax Liabilities</b>                   |                |                |                |                |
| At beginning of year                              | 418            | 418            | 153            | 153            |
| Acquisition of a subsidiary company               | 58             | -              | -              | -              |
| Net transfer from income statements (Note 8)      | 1              | -              | -              | -              |
| At end of year                                    | 477            | 418            | 153            | 153            |

## 20. DEFERRED TAX ASSETS/(LIABILITIES) (continued)

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

|   | <b>The Group</b> |               |
|---|------------------|---------------|
|   | <b>2008</b>      | <b>2007</b>   |
|   | <b>RM'000</b>    | <b>RM'000</b> |
| Temporary differences arising from:     |                  |               |
| Property, plant and equipment           | <b>381</b>       | 334           |
| Inventories                             | -                | 244           |
| Other payables and accrued expenses     | <b>94</b>        | 93            |
| Unutilised tax losses                   | <b>350</b>       | 1,013         |
| Unabsorbed capital allowances           | <b>34</b>        | 31            |
|   | <hr/>            | <hr/>         |
|   | <b>859</b>       | 1,715         |
| Less: Deferred tax asset not recognised | <b>(455)</b>     | (1,244)       |
|   | <hr/>            | <hr/>         |
| Net                                     | <b>404</b>       | 471           |
|   | <hr/> <hr/>      | <hr/> <hr/>   |

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

|                                     | <b>The Group</b> |               | <b>The Company</b> |               |
|-------------------------------------|------------------|---------------|--------------------|---------------|
|                                     | <b>2008</b>      | <b>2007</b>   | <b>2008</b>        | <b>2007</b>   |
|                                     | <b>RM'000</b>    | <b>RM'000</b> | <b>RM'000</b>      | <b>RM'000</b> |
| Temporary differences arising from: |                  |               |                    |               |
| Property, plant and equipment       | <b>679</b>       | 442           | <b>300</b>         | 300           |
| Others                              | <b>(202)</b>     | (24)          | <b>(147)</b>       | (147)         |
|                                     | <hr/>            | <hr/>         | <hr/>              | <hr/>         |
|                                     | <b>477</b>       | 418           | <b>153</b>         | 153           |
|                                     | <hr/> <hr/>      | <hr/> <hr/>   | <hr/> <hr/>        | <hr/> <hr/>   |

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

## 21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS

The Company is a subsidiary company 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:

|   | <b>The Group and<br/>The Company</b> |               |
|---|--------------------------------------|---------------|
|   | <b>2008</b>                          | <b>2007</b>   |
|   | <b>RM'000</b>                        | <b>RM'000</b> |
| Term loan receivable  | <b>26,200</b>                        | 74,212        |
| Less: Amount due within 12 months<br>(shown under current assets) | <b>(26,200)</b>                      | (49,212)      |
|   | <hr/>                                | <hr/>         |
| Non-current portion   | -                                    | 25,000        |
|   | <hr/> <hr/>                          | <hr/> <hr/>   |

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 2007) per annum.

Amount owing by other related companies bears interest at 6.30% (6.30% in 2007) per annum and is repayable on demand.

Amount owing to other related companies is interest-free and repayable on demand.

**21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)**

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

| Name of Company                      | Nature                               | The Company    |                |                |                |
|--------------------------------------|--------------------------------------|----------------|----------------|----------------|----------------|
|                                      |                                      | 2008<br>RM'000 | 2007<br>RM'000 |                |                |
| <b>With subsidiary companies:</b>    |                                      |                |                |                |                |
| Posim Marketing Sdn. Bhd.            | Trade sales                          | <b>82,544</b>  | 100,781        |                |                |
|                                      | Interest income on advances          | 7              | 7              |                |                |
| Lion Petroleum Products Sdn. Bhd.    | Interest income on advances          | <b>89</b>      | 36             |                |                |
|                                      | Rental expenses                      | <b>30</b>      | 30             |                |                |
| Ototek Sdn. Bhd.                     | Interest income on advances          | <b>27</b>      | 48             |                |                |
| Posim EMS Sdn. Bhd.                  | Interest income on advances          | -              | 12             |                |                |
| Lion Rubber Industries Sdn. Bhd.     | Interest income on advances          | -              | 54             |                |                |
| LFIB Plantations Sdn. Bhd.           | Interest income on advances          | -              | 134            |                |                |
| <hr/> <hr/>                          |                                      |                |                |                |                |
| Name of Company                      | Nature                               | The Group      |                | The Company    |                |
|                                      |                                      | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>With holding company:</b>         |                                      |                |                |                |                |
| Lion Industries Corporation Berhad   | Interest income on advances          | <b>5,200</b>   | 8,400          | <b>5,200</b>   | 8,400          |
| <hr/> <hr/>                          |                                      |                |                |                |                |
| <b>With other related companies:</b> |                                      |                |                |                |                |
| JOPP Builders Sdn. Bhd.              | Interest income on advances          | <b>56</b>      | 54             | <b>56</b>      | 54             |
| LLB Harta (M) Sdn. Bhd.              | Interest income on advances          | <b>6,580</b>   | 7,028          | <b>6,580</b>   | 7,028          |
| Antara Steel Mills Sdn. Bhd.         | Trade Sales                          | <b>164</b>     | 68             | -              | -              |
|                                      | Provision of services                | <b>38</b>      | 524            | -              | -              |
| Amsteel Mills Sdn. Bhd.              | Trade sales                          | <b>3,722</b>   | 2,632          | -              | -              |
|                                      | Transport service charges payable    | -              | 524            | -              | -              |
|                                      | Provision of transportation services | <b>452</b>     | -              | -              | -              |

**21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)**

| Name of Company                                  | Nature                               | The Group      |                | The Company    |                |
|--|--------------------------------------|----------------|----------------|----------------|----------------|
|  |                                      | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>With other related companies:</b> (continued) |                                      |                |                |                |                |
| Amsteel Mills Marketing Sdn. Bhd.                | Trade purchases                      | <u>77,421</u>  | <u>22,029</u>  | <u>-</u>       | <u>19,235</u>  |
| <b>With related parties:</b>                     |                                      |                |                |                |                |
| Parkson Corporation Sdn. Bhd.                    | Trade sales                          | 1,125          | 992            | -              | -              |
| Silverstone Polymer Industries Sdn. Bhd.         | Trade sales                          | -              | 88             | -              | -              |
|  | Trade purchases                      | 15,192         | -              | -              | -              |
| Silverstone Berhad                               | Trade sales                          | 689            | 572            | -              | -              |
| Lion Steelworks Sdn. Bhd.                        | Trade sales                          | 181            | 155            | -              | -              |
| Megasteel Sdn. Bhd.                              | Trade sales                          | 2,990          | 2,019          | -              | -              |
|  | Purchase of spare parts              | -              | 169            | -              | -              |
|  | Provision of transportation services | 1,572          | -              | -              | -              |
| Bright Steel Sdn. Bhd.                           | Trade sales                          | 304            | 459            | -              | -              |
|  | Purchase of spare parts              | -              | 852            | -              | -              |
| Lion Plate Mills Sdn. Bhd.                       | Trade sales                          | 133            | 123            | -              | -              |
| Zhucheng Xin An Thermo Electric Power Co. Ltd.   | Purchase of steam energy             | 386            | 2,819          | -              | -              |
| Digital Engines Sdn. Bhd.                        | Procurement of services              | <u>36</u>      | <u>159</u>     | <u>-</u>       | <u>-</u>       |

Other related companies refer to subsidiary companies of Lion Industries Corporation Berhad, the ultimate 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 interests.

**21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)**

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

|                               | The Group      |                | The Company    |                |
|-------------------------------|----------------|----------------|----------------|----------------|
|                               | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Receivables:                  |                |                |                |                |
| Included in trade receivables | 5,525          | 4,765          | -              | 64             |
| Included in other receivables | 27             | 94             | 17             | 86             |
|                               | <u>5,552</u>   | <u>4,859</u>   | <u>17</u>      | <u>150</u>     |
| Payables:                     |                |                |                |                |
| Included in trade payables    | 10,403         | 150            | -              | 1              |
| Included in other payables    | 36             | 283            | -              | -              |
|                               | <u>10,439</u>  | <u>433</u>     | <u>-</u>       | <u>1</u>       |

The Directors of the Company are of the opinion that the transactions above 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    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Fees</b>                                       |                |                |                |                |
| Executive Director                                | 15             | 15             | 15             | 15             |
| Non-executive Directors*                          | 148            | 153            | 148            | 149            |
|   | <u>163</u>     | <u>168</u>     | <u>163</u>     | <u>164</u>     |
| <b>Salaries and other emoluments</b>              |                |                |                |                |
| Executive Director                                | 251            | 246            | 251            | 246            |
| Non-executive Directors                           | -              | 22             | -              | -              |
|   | <u>251</u>     | <u>268</u>     | <u>251</u>     | <u>246</u>     |
| <b>Contributions to defined contribution plan</b> |                |                |                |                |
| Executive Director                                | 24             | 25             | 24             | 25             |
| <b>Total</b>                                      | <u>438</u>     | <u>461</u>     | <u>438</u>     | <u>435</u>     |

\* Included in the fees of non-executive Directors in 2007 is a Director who retired at the 2006 Annual General Meeting.

Included in salaries and other emoluments of executive Director of the Group and of the Company is an amount of RM42,000 (RM25,000 in 2007) representing amounts recognised for share-based payment transactions.



**21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)**

The number of share options over ordinary shares of RM1.00 each in the Company granted to the Executive Director of the Company pursuant to the Company's ESOS is as follows:

|                | <b>Number of Unexercised Options</b> |                      |
|----------------|--------------------------------------|----------------------|
|                | <b>2008</b>                          | <b>2007</b>          |
| Ngan Yow Chong | <u><b>133,300</b></u>                | <u><b>28,300</b></u> |

The share options were granted to the Executive Director on the same terms and conditions as those offered to other eligible executives of the Group (Note 26).

**22. INVENTORIES**

|  | <b>The Group</b>       |                        |
|--|------------------------|------------------------|
|  | <b>2008<br/>RM'000</b> | <b>2007<br/>RM'000</b> |
| Finished goods:  |                        |                        |
| Tyres  | 7,798                  | 9,387                  |
| Others   | 70                     | 49                     |
| Work-in-progress   | 3,553                  | 9,807                  |
| Raw materials  | 10,747                 | 8,374                  |
| Trading merchandise                                      | 1,303                  | 2,007                  |
| Fuel and lubricants                                      | 6,255                  | 5,331                  |
| Others   | 2,546                  | 2,200                  |
|  | <u><b>32,272</b></u>   | <u><b>37,155</b></u>   |
| Less: Allowance for obsolete and slow-moving inventories | (447)                  | (1,178)                |
|  | <u><b>31,825</b></u>   | <u><b>35,977</b></u>   |

During the financial year, depreciation of property, plant and equipment and amortisation of plantation development expenditure of RM Nil and RM Nil (RM31,000 and RM3,662,000 in 2007) respectively have been charged to inventories.

**23. OTHER INVESTMENTS**

|                                      | <b>The Group</b>       |                        |
|--------------------------------------|------------------------|------------------------|
|                                      | <b>2008<br/>RM'000</b> | <b>2007<br/>RM'000</b> |
| Unquoted bonds:                      |                        |                        |
| Redeemable within one year (Note 17) | <u><b>19,389</b></u>   | <u><b>-</b></u>        |

## 24. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

### (a) Trade receivables

Trade receivables are as follows:

|                              | The Group      |                | The Company    |                |
|------------------------------|----------------|----------------|----------------|----------------|
|                              | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Trade receivables            | 77,659         | 68,685         | 6,357          | 7,403          |
| Allowance for doubtful debts | (2,955)        | (2,549)        | (373)          | (581)          |
|                              | <b>74,704</b>  | <b>66,136</b>  | <b>5,984</b>   | <b>6,822</b>   |

Trade receivables comprise amounts outstanding for sale of goods. The credit period ranges from 30 to 60 days (30 to 60 days in 2007).

The currency exposure profile of trade receivables is as follows:

|                      | The Group      |                | The Company    |                |
|----------------------|----------------|----------------|----------------|----------------|
|                      | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Ringgit Malaysia     | 73,950         | 63,884         | 6,357          | 7,403          |
| Chinese Renminbi     | 2,782          | 4,139          | -              | -              |
| United States Dollar | 927            | 662            | -              | -              |
|                      | <b>77,659</b>  | <b>68,685</b>  | <b>6,357</b>   | <b>7,403</b>   |

### (b) Other receivables and prepaid expenses

Other receivables and prepaid expenses consist of:

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Deferred consideration                                 | 119,577        | 422,568        | 119,577        | 422,568        |
| Other receivables                                      | 870            | 1,278          | 25             | 686            |
| Allowance for doubtful debts                           | -              | (325)          | -              | (325)          |
|  | <b>120,447</b> | <b>423,521</b> | <b>119,602</b> | <b>422,929</b> |
| Prepaid expenses                                       | 3,115          | 11,344         | 2,389          | 1,247          |
| Deposits   | 18,226         | 384            | 97             | 83             |
|  | <b>141,788</b> | <b>435,249</b> | <b>122,088</b> | <b>424,259</b> |
| Less: Non-current portion<br>of deferred consideration | -              | (124,272)      | -              | (124,272)      |
|  | <b>141,788</b> | <b>310,977</b> | <b>122,088</b> | <b>299,987</b> |

Deferred consideration of RM119,577,000 (RM422,568,000 in 2007), represents fair value of the outstanding consideration receivable from the purchasers in relation to the disposal of Sabah Forest Industries Sdn. Bhd. ("SFI").

**24. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES (continued)**
**(b) Other receivables and prepaid expenses (continued)**

Included in deposits of the Group in 2008 are amounts paid by subsidiary companies as follows:

- (a) deposits paid for the purchase of inventories amounting to RM6,523,000;
- (b) deposits paid for the purchase of property, plant and equipments amounting to RM3,112,000; and
- (c) deposits amounting to RM7,382,000 paid for the purchase of debts and redeemable cumulative convertible preference shares (Note 39).

The currency exposure profile of deferred consideration is as follows:

|                      | <b>The Group and The Company</b> |               |
|----------------------|----------------------------------|---------------|
|                      | <b>2008</b>                      | <b>2007</b>   |
|                      | <b>RM'000</b>                    | <b>RM'000</b> |
| United States Dollar | <b>116,777</b>                   | 276,228       |
| Ringgit Malaysia     | <b>2,800</b>                     | 146,340       |
|                      | <b>119,577</b>                   | 422,568       |

Included in deferred consideration is an amount of RM116,777,000 (RM276,228,000 in 2007), which has been withheld by the purchasers of SFI pursuant to the terms of sales and purchase agreement entered into for the disposal of SFI, for potential losses that may be suffered by SFI as a result of the litigation as mentioned in Note 33.

**25. FIXED DEPOSITS, CASH AND BANK BALANCES**

|                                     | <b>The Group</b> |               | <b>The Company</b> |               |
|-------------------------------------|------------------|---------------|--------------------|---------------|
|                                     | <b>2008</b>      | <b>2007</b>   | <b>2008</b>        | <b>2007</b>   |
|                                     | <b>RM'000</b>    | <b>RM'000</b> | <b>RM'000</b>      | <b>RM'000</b> |
| Fixed deposits with licensed banks: |                  |               |                    |               |
| Restricted                          | <b>184,378</b>   | 1,500         | <b>182,581</b>     | -             |
| Unrestricted                        | <b>62,646</b>    | 16,239        | <b>59,696</b>      | 10,594        |
|                                     | <b>247,024</b>   | 17,739        | <b>242,277</b>     | 10,594        |
| Cash and bank balances:             |                  |               |                    |               |
| Restricted                          | <b>318</b>       | 1,106         | <b>318</b>         | 1,106         |
| Unrestricted                        | <b>27,537</b>    | 22,121        | <b>412</b>         | 3,294         |
|                                     | <b>27,855</b>    | 23,227        | <b>730</b>         | 4,400         |
|                                     | <b>274,879</b>   | 40,966        | <b>243,007</b>     | 14,994        |

**25. FIXED DEPOSITS, CASH AND BANK BALANCES (continued)**

Included in fixed deposits with licensed banks, and cash and bank balances of the Group and of the Company are amounts totalling RM184,696,000 (RM2,606,000 in 2007) and RM182,899,000 (RM1,106,000 in 2007), respectively, which have been held under Escrow Account for the following purposes:

- (i) Indemnity to SFI and the purchasers of SFI for the legal claims as mentioned in Note 33.
- (ii) Repayment of bank borrowings and payment of interest, commission, fees and other charges to banks as mentioned in Note 31.

Fixed deposits with licensed banks earn interest at rates ranging from 2.50% to 3.47% (2.90% to 3.50% in 2007) per annum and have maturity periods ranging from 1 to 138 days (1 to 30 days in 2007).

The currency exposure profile of fixed deposits, and cash and bank balances is as follows:

|                      | The Group      |                | The Company    |                |
|----------------------|----------------|----------------|----------------|----------------|
|                      | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Ringgit Malaysia     | 263,163        | 29,775         | 243,007        | 14,994         |
| Chinese Renminbi     | 7,141          | 6,882          | -              | -              |
| United States Dollar | 2,341          | 3,902          | -              | -              |
| Indonesia Ruppiah    | 2,234          | 407            | -              | -              |
|                      | <u>274,879</u> | <u>40,966</u>  | <u>243,007</u> | <u>14,994</u>  |

Fixed deposits, and cash and bank balances denominated in Chinese Renminbi of a subsidiary company in the People's Republic of China ("PRC") is subject to the exchange control restrictions of the PRC. The said fixed deposits, and cash and bank balances are available for use by the subsidiary company in the PRC and the exchange control restrictions are applicable only if the monies are remitted to countries outside the PRC.

**26. SHARE CAPITAL**

|  | The Group and<br>The Company |                |
|--|------------------------------|----------------|
|  | 2008<br>RM'000               | 2007<br>RM'000 |
| <b>Authorised:</b>                       |                              |                |
| Ordinary shares of RM1.00 each           |                              |                |
| 500,000,000 at beginning and end of year | <u>500,000</u>               | <u>500,000</u> |
| <b>Issued and fully paid:</b>            |                              |                |
| Ordinary shares of RM1.00 each           |                              |                |
| At beginning of year:                    |                              |                |
| 210,274,371 as of 1 July 2007;           |                              |                |
| 210,153,371 as of 1 July 2006            | <u>210,274</u>               | 210,153        |
| Issued during the year:                  |                              |                |
| 160,800 in 2008; 121,000 in 2007         | <u>161</u>                   | 121            |
| At end of year:                          |                              |                |
| 210,435,171 as of 30 June 2008;          |                              |                |
| 210,274,371 as of 30 June 2007           | <u>210,435</u>               | <u>210,274</u> |

## 26. SHARE CAPITAL (continued)

During the current financial year, the issued and paid-up share capital of the Company was increased from RM210,274,371, comprising 210,274,371 ordinary shares of RM1.00 each to RM210,435,171, comprising 210,435,171 ordinary shares of RM1.00 each, by the issuance of 154,500 new ordinary shares of RM1.00 each at an issue price of RM1.16 per share and 6,300 new ordinary shares of RM1.00 each at an issue price of RM1.04 per share for cash pursuant to the Executive Share Option Scheme ("ESOS") of the Company.

The resulting share premium of RM24,972 arising from the issue of shares has been credited to the share premium account.

The new ordinary shares issued ranked *pari passu* in all respects with the then existing ordinary 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 ESOS shall be allocated, in aggregate, to executive directors and senior management; and
  - (ii) not more than 10% of the shares available under the ESOS 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 share 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:

| Grant Date | Subscription Price Per Share (RM) | Balance as of 1.7.2007 | Number of Options |                  |                    | Balance as of 30.6.2008 |
|------------|-----------------------------------|------------------------|-------------------|------------------|--------------------|-------------------------|
|            |                                   |                        | Granted           | Exercised        | Lapsed             |                         |
| 10.5.2006  | 1.16 *                            | 3,156,100              | -                 | (154,500)        | (2,080,100)        | 921,500                 |
| 29.8.2007  | 1.04                              | -                      | 1,850,300         | (6,300)          | (254,300)          | 1,589,700               |
|            |                                   | <u>3,156,100</u>       | <u>1,850,300</u>  | <u>(160,800)</u> | <u>(2,334,400)</u> | <u>2,511,200</u>        |

\* Subscription price was adjusted from RM3.00 per share to RM1.16 per share on 19 June 2007 consequent upon the capital distribution of RM2.00 per share to the shareholders of the Company.

**26. SHARE CAPITAL** (continued)

The number of options exercisable at the end of the financial year are as follows:

|                     | <b>2008</b> | <b>2007</b> |
|---------------------|-------------|-------------|
| Options exercisable | 2,104,000   | 2,912,300   |

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

| <b>Exercise dates</b> | <b>Average fair value<br/>per share at<br/>issue date<br/>RM</b> | <b>Exercise price<br/>per share<br/>RM</b> | <b>Number of<br/>share options</b> |
|-----------------------|--|--|------------------------------------|
| <b>2008</b>           |  |  |                                    |
| July 2007             | 1.75   | 1.16                                       | 28,000                             |
| August 2007           | 1.75   | 1.16                                       | 126,500                            |
| November 2007         | 0.52   | 1.04                                       | 6,300                              |
| <b>2007</b>           |  |  |                                    |
| June 2007             | 1.75   | 3.00                                       | 121,000                            |

|  | <b>The Group and The Company<br/>2008<br/>RM</b> | <b>2007<br/>RM</b> |
|--|--|--------------------|
| Ordinary share capital - at par                | <b>160,800</b>                                   | 121,000            |
| Share premium                                  | <b>24,972</b>                                    | 242,000            |
| Proceeds received on exercise of share options | <b>185,772</b>                                   | 363,000            |
| Fair value at exercise dates of shares issued  | <b>273,651</b>                                   | 211,750            |

The options outstanding at the end of the financial year have a weighted average exercise price of RM1.09 (RM1.16 in 2007) per share option and a weighted average remaining contractual life of 2 years (3 years in 2007). All options not exercised would expire on 31 August 2010.

The fair value of share options granted was estimated by using a Binomial Option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of share options measured at grant date and the assumptions are as follows:

|   | <b>Grant Date<br/>29.8.2007</b> | <b>10.5.2006</b> |
|---|---------------------------------|------------------|
| Estimated average fair value of shares options (RM) | <b>0.52</b>                     | 1.75             |
| Weighted average share price (RM)                   | <b>1.14</b>                     | 3.35             |
| Expected life (years)                               | <b>3</b>                        | 3                |
| Expected dividend yield (%)                         | <b>1</b>                        | 1                |
| Risk-free interest rate (%)                         | <b>3</b>                        | 3                |
| Expected volatility (%)                             | <b>64</b>                       | 64               |

## 27. RESERVES

|                                    | The Group        |                | The Company      |                |
|------------------------------------|------------------|----------------|------------------|----------------|
|                                    | 2008<br>RM'000   | 2007<br>RM'000 | 2008<br>RM'000   | 2007<br>RM'000 |
| <b>Non-distributable reserves:</b> |                  |                |                  |                |
| Share premium                      | <b>688,028</b>   | 688,003        | <b>688,028</b>   | 688,003        |
| Equity compensation reserve        | <b>1,196</b>     | 412            | <b>1,196</b>     | 412            |
| Translation adjustment account     | <b>(224)</b>     | (3,606)        | -                | -              |
| Capital reserve                    | <b>161</b>       | 122            | <b>161</b>       | 122            |
| Capital redemption reserve         | <b>9</b>         | 9              | -                | -              |
|                                    | <b>689,170</b>   | 684,940        | <b>689,385</b>   | 688,537        |
| Accumulated losses                 | <b>(142,398)</b> | (133,312)      | <b>(339,773)</b> | (337,643)      |
|                                    | <b>546,772</b>   | 551,628        | <b>349,612</b>   | 350,894        |

### Share premium

Share premium arose from the premium on the issuance of new ordinary shares in current and prior financial years and also share-based payment transactions for options already exercised by employees being reclassified from the equity compensation reserve.

### Equity compensation reserve

Equity compensation reserve relates to the equity-settled share options granted to employees and is made up of the cumulative value of services received from employees recorded on grant of share options, net of the amount reclassified to share premium and capital reserve for options exercised and lapsed.

### Translation adjustment account

Exchange difference arising from the 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      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Share options lapsed reclassified<br>from equity compensation reserve | <b>161</b>     | 122            | <b>161</b>     | 122            |

### 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.

**28. HIRE-PURCHASE PAYABLES**

|   | <b>The Group</b> |               |
|---|------------------|---------------|
|   | <b>2008</b>      | <b>2007</b>   |
|   | <b>RM'000</b>    | <b>RM'000</b> |
| Total outstanding   | 73               | 173           |
| Less: Interest-in-suspense                                  | (9)              | (29)          |
|   | <u>64</u>        | <u>144</u>    |
| Principal portion   | <u>64</u>        | <u>144</u>    |
| Payable as follows:   |                  |               |
| Within the next 12 months (shown under current liabilities) | 51               | 105           |
| After the next 12 months                                    | 13               | 39            |
|   | <u>64</u>        | <u>144</u>    |

The interest rates implicit in these hire-purchase obligations range from 2.80% to 5.55% (2.80% to 5.00% in 2007) per annum.

**29. LONG-TERM BORROWINGS**

|   | <b>The Group</b> |               |
|---|------------------|---------------|
|   | <b>2008</b>      | <b>2007</b>   |
|   | <b>RM'000</b>    | <b>RM'000</b> |
| Term loan - secured                         | 26,542           | 41,434        |
| Less: Amount due within 12 months (Note 31) | (26,542)         | (16,529)      |
|   | <u>-</u>         | <u>24,905</u> |
| Non-current portion                         | <u>-</u>         | <u>24,905</u> |

The non-current portion is repayable as follows:

|                                    | <b>The Group</b> |               |
|------------------------------------|------------------|---------------|
|                                    | <b>2008</b>      | <b>2007</b>   |
|                                    | <b>RM'000</b>    | <b>RM'000</b> |
| Financial year ending 30 June 2009 | <u>-</u>         | <u>24,905</u> |

The term loan, which is obtained by a foreign subsidiary company and denominated in Chinese Renminbi, bears interest at rates ranging from 7.00% to 8.50% (5.94% to 7.13% in 2007) per annum. The said term loan is secured by:

- (a) a fixed charge over the following property, plant and equipment of the subsidiary company:
  - (i) leasehold land and building with carrying value of RM37,610,000 (RM37,113,000 in 2007); and
  - (ii) plant and machinery with carrying value of RM21,559,000 (RM23,119,000 in 2007).
- (b) corporate guarantee by a corporate shareholder of the subsidiary company to the extent of RM Nil (RM18,022,000 in 2007).



### 30. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

#### (a) Trade payables

Trade payables comprise amounts outstanding for trade purchases. The credit period ranges from 30 to 90 days (30 to 90 days in 2007).

The currency exposure profile of trade payables is as follows:

|                      | The Group      |                | The Company    |                |
|----------------------|----------------|----------------|----------------|----------------|
|                      | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Ringgit Malaysia     | 23,643         | 22,596         | 12,809         | 14,337         |
| Chinese Renminbi     | 16,440         | 13,251         | -              | -              |
| United States Dollar | 11,100         | 829            | -              | -              |
|                      | <b>51,183</b>  | <b>36,676</b>  | <b>12,809</b>  | <b>14,337</b>  |

#### (b) Other payables and accrued expenses

Other payables and accrued expenses consist of:

|                  | The Group      |                | The Company    |                |
|------------------|----------------|----------------|----------------|----------------|
|                  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Other payables   | 19,896         | 11,151         | 21             | 5              |
| Accrued expenses | 14,790         | 15,599         | 5,148          | 6,006          |
|                  | <b>34,686</b>  | <b>26,750</b>  | <b>5,169</b>   | <b>6,011</b>   |

Included in other payables of the Group is an amount of RM33,000 (RM282,000 in 2007) representing an 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 is interest-free (bears interest at rates ranging from 5.00% to 7.00% per annum in 2007) and is repayable on demand.

### 31. BANK BORROWINGS

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Bank overdrafts (Note 37)                                | 1,686          | 1,084          | 1,057          | 1,084          |
| Bankers acceptances,<br>trust receipts and bills payable | 7,955          | 14,199         | 4,594          | 7,208          |
| Revolving credits  | -              | 1,063          | -              | 1,063          |
| Term loan (Note 29)                                      | 26,542         | 16,529         | -              | -              |
| Total  | <b>36,183</b>  | <b>32,875</b>  | <b>5,651</b>   | <b>9,355</b>   |

As of 30 June 2008, the Company has bank overdraft and other credit facilities totalling RM5,900,000 (RM9,915,000 in 2007) obtained from certain local banks, which bear interest at rates ranging from 4.88% to 6.16% (4.84% to 6.34% in 2007) per annum.

### 31. BANK BORROWINGS (continued)

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 and a subsidiary company with carrying value of RM10,240,000 (RM10,370,000 in 2007); and
  - (ii) long leasehold land and building of the Company with carrying value of RM112,000 (RM116,000 in 2007).
- (b) An assignment of the sale and purchase agreements over other buildings of the Company with carrying value of RM1,201,000 (RM1,220,000 in 2007).
- (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.
- (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., 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 belonging to Posim Marketing Sdn. Bhd.

As of 30 June 2008, certain subsidiary companies have bank overdraft and other credit facilities totalling RM11,875,000 (RM11,875,000 in 2007) obtained from certain local banks. These facilities, which bear interest at rates ranging from 5.00% to 8.00% (4.80% to 8.00% in 2007) per annum, are secured by corporate guarantee by the Company to the extent of RM11,875,000 (RM11,875,000 in 2007) and fixed deposits of a subsidiary company.

### 32. 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.

## 32. FINANCIAL INSTRUMENTS (continued)

### (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 29 and 31. The interest rates for the hire-purchase payables, which are fixed at the inception of the hire-purchase arrangements, are disclosed in Note 28.

### (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 amounts 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.

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

The carrying amounts and the estimated fair values of the Group's and the Company's financial instruments as of 30 June 2008 are as follows:

|                                     | The Group                 |                      | The Company               |                      |
|-------------------------------------|---------------------------|----------------------|---------------------------|----------------------|
|                                     | Carrying Amount<br>RM'000 | Fair Value<br>RM'000 | Carrying Amount<br>RM'000 | Fair Value<br>RM'000 |
| <b>2008</b>                         |                           |                      |                           |                      |
| <b>Financial Assets</b>             |                           |                      |                           |                      |
| Other investments:                  |                           |                      |                           |                      |
| Quoted shares                       | 51                        | 42                   | 43                        | 25                   |
| Unquoted bonds                      | 84,157                    | ^                    | -                         | -                    |
| Amount owing by subsidiary company  | -                         | -                    | 18,200                    | *                    |
| <b>Financial Liabilities</b>        |                           |                      |                           |                      |
| Borrowings - term loan              | 26,542                    | 26,542               | -                         | -                    |
| Hire-purchase payables              | 64                        | 63                   | -                         | -                    |
| Amount owing to subsidiary company: |                           |                      |                           |                      |
| Long-term loan                      | -                         | -                    | 18,200                    | *                    |
| <b>2007</b>                         |                           |                      |                           |                      |
| <b>Financial Assets</b>             |                           |                      |                           |                      |
| Other investments:                  |                           |                      |                           |                      |
| Quoted shares                       | 51                        | 60                   | 43                        | 41                   |
| Amount owing by holding company     | 25,000                    | 26,230               | 25,000                    | 26,230               |
| Amount owing by subsidiary company  | -                         | -                    | 18,200                    | *                    |
| Deferred consideration              | 124,272                   | 124,272              | 124,272                   | 124,272              |
| <b>Financial Liabilities</b>        |                           |                      |                           |                      |
| Borrowings - term loan              | 41,434                    | 39,906               | -                         | -                    |
| Hire-purchase payables              | 144                       | 142                  | -                         | -                    |
| Amount owing to subsidiary company: |                           |                      |                           |                      |
| Term loan                           | -                         | -                    | 25,000                    | 26,230               |
| Long-term loan                      | -                         | -                    | 18,200                    | *                    |

\* It is not practical to determine the fair value of this long-term loan with sufficient reliability given that this loan does not have fixed terms of repayment.

^ It is not practical to determine the fair value of these unquoted bonds because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

### 32. FINANCIAL INSTRUMENTS (continued)

#### *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 and deferred consideration*

The fair value of non-current intercompany indebtedness and deferred consideration of the Group and the Company is estimated using the discounted cash flow 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.

### 33. CONTINGENT LIABILITIES

|  | The Group         |                   | The Company       |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2008<br>RM'000    | 2007<br>RM'000    | 2008<br>RM'000    | 2007<br>RM'000    |
| Legal claims in respect of the termination of contracts for the extraction and sale of timber                              | 313,300           | 313,300           | 313,300           | 313,300           |
| Corporate guarantees given to financial institutions for the granting of credit facilities to certain subsidiary companies | -                 | -                 | 11,875            | 11,875            |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

Indemnity contracts have been signed between the Company and Avenel Sdn. Bhd., the former immediate holding company, whereby Avenel Sdn. Bhd. 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 2007) and any other claims brought by third parties against SFI wherein the cause of action arises prior to the completion of the corporate exercise.

As part of the disposal of SFI, the Company agreed to indemnify SFI and the purchasers in full for all losses, damages, liabilities, claims, costs and expenses which SFI and the purchasers may incur or sustain as a result of or arising from the litigation suits where the cause of action arises prior to the completion of the disposal of SFI.

### 33. CONTINGENT LIABILITIES (continued)

Included in the legal claims is an amount of RM128,874,435 (RM128,874,435 in 2007) representing the claim made by UNP Plywood Sdn. Bhd. ("UNP Plywood") against SFI for alleged wrongful termination of the Extraction and Purchasing Agreements dated 28 June 1993 and 13 August 1993. On 23 February 2007, the High Court dismissed the claim by UNP Plywood. UNP Plywood appealed to the Court of Appeal in Malaysia on 20 March 2007 against the decision of the High Court. On 26 March 2008, the Court of Appeal allowed UNP Plywood's appeal and entered judgement against SFI for damages to be assessed. SFI had filed an application to the Federal Court for leave against the decision of the Court of Appeal and, on 26 August 2008, the Federal Court granted SFI leave to appeal.

The Directors of the Company, after consultation with the legal counsel, are of the opinion that it is more likely than not the abovementioned legal claim will not result in outflow of resources to settle the said legal claim.

### 34. CAPITAL COMMITMENTS

As of 30 June 2008, the Group has the following capital commitments:

|   | The Group      |                |
|---|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 |
| Approved and contracted for in respect of purchase of property, plant and equipment | <u>18,897</u>  | <u>-</u>       |

### 35. 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
- petroleum and automotive products
- tyre
- others

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

As disclosed in Note 15, the Company completed the disposal of a subsidiary which carries out the Group's timber extraction and pulp and paper operations during the previous financial year.

The inter-segment transactions were conducted at market value.

**35. SEGMENT INFORMATION** (continued)

| <b>The Group<br/>2008</b>            | <b>Building<br/>materials<br/>and steel<br/>products<br/>RM'000</b> | <b>Petroleum<br/>and<br/>automotive<br/>products<br/>RM'000</b> | <b>Tyre<br/>RM'000</b> | <b>Others<br/>RM'000</b> | <b>Eliminations<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--------------------------------------|---|---|------------------------|--------------------------|--------------------------------|-------------------------|
| <b>Revenue</b>                       |   |   |                        |                          |                                |                         |
| External customers                   | 222,996   | 64,369  | 102,802                | 2,678                    | -                              | 392,845                 |
| Inter-segment sales                  | -   | 43  | -                      | -                        | (43)                           | -                       |
| Total revenue                        | <u>222,996</u>  | <u>64,412</u>   | <u>102,802</u>         | <u>2,678</u>             | <u>(43)</u>                    | <u>392,845</u>          |
| <b>Results</b>                       |   |   |                        |                          |                                |                         |
| Segment results                      | 5,542   | 10,107  | (25,424)               | (5,786)                  | (100)                          | (15,661)                |
| Unallocated expenses                 |   |   |                        |                          |                                | (896)                   |
| Unallocated income                   |   |   |                        |                          |                                | 11,836                  |
| Loss from operations                 |   |   |                        |                          |                                | (4,721)                 |
| Finance costs                        |   |   |                        |                          |                                | (3,636)                 |
| Loss before tax                      |   |   |                        |                          |                                | (8,357)                 |
| Income tax expense                   |   |   |                        |                          |                                | (8,389)                 |
| Loss for the year                    |   |   |                        |                          |                                | <u>(16,746)</u>         |
| <b>Assets</b>                        |   |   |                        |                          |                                |                         |
| Segment assets                       | 128,353   | 49,139  | 173,700                | 127,762                  | -                              | 478,954                 |
| Unallocated<br>corporate assets      |   |   |                        |                          |                                | 431,735                 |
| Consolidated<br>total assets         |   |   |                        |                          |                                | <u>910,689</u>          |
| <b>Liabilities</b>                   |   |   |                        |                          |                                |                         |
| Segment liabilities                  | 34,347  | 15,052  | 69,415                 | 3,303                    | -                              | 122,117                 |
| Unallocated corporate<br>liabilities |   |   |                        |                          |                                | 7,587                   |
| Consolidated<br>total liabilities    |   |   |                        |                          |                                | <u>129,704</u>          |
| <b>Other Information</b>             |   |   |                        |                          |                                |                         |
| Capital expenditures                 | 136   | 1,603   | 5,978                  | 768                      | -                              | 8,485                   |
| Depreciation                         | 174   | 2,025   | 12,815                 | 140                      | -                              | 15,154                  |
| Amortisation                         | -   | -   | 96                     | 50                       | -                              | 146                     |
| Other non-cash<br>expenses/(income)  | 721   | 1,153   | (3,163)                | 1,923                    | -                              | 634                     |

(Forward)

**35. SEGMENT INFORMATION (continued)**

| The Group<br>2007                      | Timber<br>extraction<br>and pulp<br>and paper<br>- Discontinued<br>operation<br>RM'000 | Building<br>materials<br>and steel<br>products<br>RM'000 | Petroleum<br>and<br>automotive<br>products<br>RM'000 | Tyre<br>RM'000 | Others<br>RM'000 | Eliminations<br>RM'000 | Total<br>RM'000 |
|--|--|--|--|----------------|------------------|------------------------|-----------------|
| <b>Revenue</b>                         |  |  |  |                |                  |                        |                 |
| External customers                     | 246,447  | 156,883  | 56,553   | 79,644         | 2,719            | -                      | 542,246         |
| Inter-segment sales                    | -  | -  | 24   | -              | -                | (24)                   | -               |
| Total revenue                          | <u>246,447</u>   | <u>156,883</u>   | <u>56,577</u>  | <u>79,644</u>  | <u>2,719</u>     | <u>(24)</u>            | <u>542,246</u>  |
| <b>Results</b>                         |  |  |  |                |                  |                        |                 |
| Segment results                        | (20,578)   | (46)   | 6,515  | (8,922)        | (3,970)          | (140)                  | (27,141)        |
| Unallocated expenses                   |  |  |  |                |                  |                        | (42,618)        |
| Unallocated income                     |  |  |  |                |                  |                        | 15,482          |
| Loss from operations                   |  |  |  |                |                  |                        | (54,277)        |
| Finance costs                          |  |  |  |                |                  |                        | (4,286)         |
| Share in results of associated company | -  | -  | -  | -              | (603)            | -                      | (603)           |
| Loss before tax                        |  |  |  |                |                  |                        | (59,166)        |
| Income tax expense                     |  |  |  |                |                  |                        | (4,714)         |
| Loss for the year                      |  |  |  |                |                  |                        | <u>(63,880)</u> |
| <b>Assets</b>                          |  |  |  |                |                  |                        |                 |
| Segment assets                         | -  | 68,024   | 40,654   | 177,823        | 18,705           | -                      | 305,206         |
| Unallocated corporate assets           |  |  |  |                |                  |                        | 610,908         |
| Consolidated total assets              |  |  |  |                |                  |                        | <u>916,114</u>  |
| <b>Liabilities</b>                     |  |  |  |                |                  |                        |                 |
| Segment liabilities                    | -  | 32,177   | 6,766  | 26,792         | 77               | -                      | 65,812          |
| Unallocated corporate liabilities      |  |  |  |                |                  |                        | 58,721          |
| Consolidated total liabilities         |  |  |  |                |                  |                        | <u>124,533</u>  |
| <b>Other Information</b>               |  |  |  |                |                  |                        |                 |
| Capital expenditures                   | 43,273   | 44   | 1,362  | 19,339         | 163              | -                      | 64,181          |
| Depreciation                           | 25,976   | 212  | 2,205  | 10,291         | 50               | -                      | 38,734          |
| Amortisation                           | 11,309   | -  | -  | 242            | 50               | -                      | 11,601          |
| Other non-cash expenses                | 7,637  | 574  | 73   | -              | 47,436           | -                      | <u>55,720</u>   |



### 35. SEGMENT INFORMATION (continued)

#### Geographical Segments

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

- (i) Malaysia - building materials and steel products, petroleum and automotive products
- (ii) People's Republic of China - tyre

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

|                            | <b>Revenue</b>         |                        |
|----------------------------|------------------------|------------------------|
|                            | <b>2008<br/>RM'000</b> | <b>2007<br/>RM'000</b> |
| Malaysia                   | <b>290,043</b>         | 378,877                |
| People's Republic of China | <b>57,893</b>          | 54,118                 |
| Other countries            | <b>44,909</b>          | 109,251                |
|                            | <b>392,845</b>         | 542,246                |

|                            | <b>Total assets</b>    |                        | <b>Capital expenditures</b> |                        |
|----------------------------|------------------------|------------------------|-----------------------------|------------------------|
|                            | <b>2008<br/>RM'000</b> | <b>2007<br/>RM'000</b> | <b>2008<br/>RM'000</b>      | <b>2007<br/>RM'000</b> |
| Malaysia                   | <b>721,762</b>         | 720,975                | <b>2,507</b>                | 44,710                 |
| People's Republic of China | <b>173,700</b>         | 177,823                | <b>5,978</b>                | 19,339                 |
| Other countries            | <b>15,227</b>          | 17,316                 | -                           | 132                    |
|                            | <b>910,689</b>         | 916,114                | <b>8,485</b>                | 64,181                 |

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

### 36. DISCONTINUED OPERATION

On 16 March 2007, the Company announced that the disposal of its entire 97.78% shareholding in Sabah Forest Industries Sdn. Bhd. ("SFI") has been completed. Following this disposal, the Group exited the timber extraction and pulp and paper operations as SFI was previously the sole contributor to this business segment.

The loss for the year from the discontinued operation is analysed as follows:

|   | <b>The Group<br/>2007<br/>RM'000</b> |
|---|--------------------------------------|
| Loss from timber extraction, pulp and paper operations for the year | (20,981)                             |
| Loss on disposal of SFI   | (42,220)                             |
|   | <b>(63,201)</b>                      |

**36. DISCONTINUED OPERATION** (continued)

The results of the timber extraction, pulp and paper operations were as follows:

|   | Note | <b>The Group<br/>Period ended<br/>15 March 2007<br/>(8 1/2 Months)<br/>RM'000</b> |
|---|------|---|
| Revenue   | 5    | 246,447   |
| Other operating income  |      | 5,265   |
| Changes in inventories of finished goods, trading<br>merchandise and work-in-progress |      | 1,583   |
| Raw materials and consumables used  |      | (145,736)   |
| Staff costs   |      | (29,439)  |
| Extraction fees   |      | (4,880)   |
| Timber royalties  |      | (2,771)   |
| Other production expenses   |      | (33,738)  |
| Depreciation of property, plant and equipment   | 10   | (25,623)  |
| Amortisation of forest concessions  | 13   | (7,647)   |
| Other operating expenses  |      | (24,039)  |
|   |      | <hr/>   |
| Loss from operations  |      | (20,578)  |
| Finance costs   | 7    | (403)   |
|   |      | <hr/>   |
| Loss before tax   |      | (20,981)  |
| Income tax expense  |      | -   |
|   |      | <hr/>   |
| Loss after tax  |      | (20,981)  |
|   |      | <hr/> <hr/>   |

The cash flows of the timber extraction, pulp and paper operations were as follows:

|                            | <b>The Group<br/>Period ended<br/>15 March 2007<br/>(8 1/2 Months)<br/>RM'000</b> |
|----------------------------|---|
| Cash flows from/(used in): |   |
| Operating activities       | 46,971  |
| Investing activities       | (39,286)  |
| Financing activities       | (6,551)   |
|                            | <hr/>   |
| Net cash flows             | 1,134   |
|                            | <hr/> <hr/>   |

### 37. CASH AND CASH EQUIVALENTS

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

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Fixed deposits with licensed banks<br>(unrestricted) (Note 25) | <b>62,646</b>  | 16,239         | <b>59,696</b>  | 10,594         |
| Cash and bank balances<br>(unrestricted) (Note 25)             | <b>27,537</b>  | 22,121         | <b>412</b>     | 3,294          |
| Bank overdrafts<br>(Note 31)                                   | <b>(1,686)</b> | (1,084)        | <b>(1,057)</b> | (1,084)        |
|  | <b>88,497</b>  | 37,276         | <b>59,051</b>  | 12,804         |

### 38. PRIOR YEARS' ADJUSTMENTS

During the financial year, the Group adopted all the new and revised FRSs issued by MASB that are relevant to its operations and effective for accounting periods beginning on or after 1 July 2007 as described in Note 2. The Group also made adjustment to property, plant and equipment in respect of long leasehold building over taken up in prior year. Accordingly, certain comparative figures have been restated as follows:

#### Consolidated income statement for the year ended 30 June 2007

| The Group                                     | As<br>previously<br>reported<br>RM'000 | Adoption of<br>FRS 117<br>RM'000 | As<br>restated<br>RM'000 |
|---|--|----------------------------------|--------------------------|
| Depreciation of property, plant and equipment | (12,953)                               | 242                              | (12,711)                 |
| Amortisation of prepaid land lease payments   | -                                      | (242)                            | (242)                    |

#### Consolidated balance sheet as of 30 June 2007

| The Group                           | As<br>previously<br>reported<br>RM'000 | Adoption of<br>FRS 117<br>RM'000 | Adjustment<br>RM'000 | As<br>restated<br>RM'000 |
|-------------------------------------|--|----------------------------------|----------------------|--------------------------|
| Property, plant and equipment       | 191,682                                | (4,354)                          | (45,276)             | 142,052                  |
| Prepaid land lease payments         | -                                      | 4,354                            | -                    | 4,354                    |
| Other payables and accrued expenses | (72,026)                               | -                                | 45,276               | (26,750)                 |

### 39. SIGNIFICANT EVENTS

- (a) In relation to the proposed acquisition of the USD debts issued by AMB Harta (L) Limited, a wholly-owned subsidiary company of Silverstone Corporation Berhad (“SCB”) (“SPV Debts”), and the RM bonds (“SCB Bonds”) and redeemable cumulative convertible preference shares of RM0.01 each issued at a premium of RM0.99 by SCB (“RCCPS”) with an aggregate nominal amount of approximately RM515.20 million of which up to approximately RM229.97 million will be funded by the proceeds from the disposal by the Company of its entire 97.78% shareholding in Sabah Forest Industries Sdn Bhd, the utilisation of which had been approved by the Securities Commission on 14 March 2008:
- (i) Jadedford International Limited (“Jadedford”), a wholly-owned subsidiary company of the Company, had during the financial year completed the acquisitions of the following debt securities:
- (a) SPV Debts of an aggregate nominal value of approximately USD64.55 million (approximately RM214.73 million) for a cash consideration of approximately USD31.01 million (approximately RM100.34 million); and
- (b) 1,947,280 RCCPS for a cash consideration of RM97,364.
- (ii) The following wholly-owned subsidiary companies of the Company had on the respective dates entered into agreements with the respective sellers:
- (a) Gama Harta Sdn Bhd and Jadedford, on 30 November 2007 - a conditional sale and purchase agreement with Amsteel Mills Sdn Bhd (“AMSB”), the holding company of the Company, for the acquisition from AMSB, of SCB Bonds with an aggregate nominal value of approximately RM117.63 million and 6,699,994 RCCPS for an aggregate cash consideration of up to approximately RM51.15 million (“Proposed AMSB Debt Acquisition”).
- (b) Jadedford on 30 November 2007 - a call option agreement with Raiffeisen Zentralbank Osterreich AG, Singapore Branch (“RZB”) for the proposed acquisition from RZB, of SPV Debts with an aggregate nominal value of approximately USD17.37 million (approximately RM58.57 million), and 3,000,818 RCCPS for an aggregate cash consideration of up to approximately USD8.69 million (approximately RM29.30 million) (“Proposed RZB Debt Acquisition”).

On 8 August 2008, parties to the agreements in relation to the Proposed AMSB Debt Acquisition and the Proposed RZB Debt Acquisition had mutually agreed to exclude the acquisition by Jadedford of the 6,699,994 RCCPS from AMSB and 3,000,818 RCCPS from RZB, from the respective agreements and accordingly varied the consideration therefor and excluded Jadedford as a party to the Proposed AMSB Debt Acquisition.

The Proposed AMSB Debt Acquisition and the Proposed RZB Debt Acquisition are pending completion.

- (b) The Company had on 28 May 2008 served a notice of conditional take-over offer (“Offer”) on the Board of Directors of SCB to acquire:
- (i) the remaining 339,878,875 ordinary shares of RM1.00 each fully paid in SCB (“SCB Shares”) not already held by the Company, representing approximately 99.95% of SCB’s existing issued and paid-up ordinary share capital, and all the new SCB Shares that may be issued and allotted prior to the closing date of the Offer pursuant to the conversion of any remaining RCCPS (collectively the “Offer Shares”), to be satisfied by the issue and allotment of 1 new ordinary share of RM1.00 each in the Company (“LFIB Share”) at an issue price of RM1.00 each (“Issue Price”) for every 15 existing Offer Shares held, or an aggregate of up to 24,393,608 new LFIB Shares; and
- (ii) the remaining 28,627,764 RCCPS not already held by Jadedford, representing approximately 93.63% of the existing RCCPS in issue (“Offer RCCPS”), to be satisfied by the issue and allotment of 2 new LFIB Shares at the Issue Price for every 33 existing Offer RCCPS held, or an aggregate of up to 1,735,016 new LFIB Shares.

The offer document in relation to the Offer had been despatched to the holders of the SCB Shares and the RCCPS on 19 September 2008.

## STATEMENT BY DIRECTORS

The Directors of **LION FOREST INDUSTRIES BERHAD** state that, in their opinion, the financial statements of the Group and of the Company, which comprise the balance sheets as of 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 96, are drawn up in accordance with the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 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 2008 and of the results of their business 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**

**CHAN HO WAI**

Kuala Lumpur  
24 September 2008

## 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 financial statements of the Group and of the Company, which comprise the balance sheets as of 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 96 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 **NGAN YOW CHONG**  
at **KUALA LUMPUR** in the **FEDERAL**  
**TERRITORY** this 24th day of September,  
2008.

Before me,

**W259**  
**AHMAD B. LAYA**  
COMMISSIONER FOR OATHS

Kuala Lumpur

## LIST OF GROUP PROPERTIES

AS OF 30 JUNE 2008

| Address  | Tenure/<br>Expiry Date<br>for Leasehold | Area                 | Description                        | Existing Use/<br>Age of<br>Building<br>(Year) | Net<br>Book Value<br>(RM million) | Date of<br>Acquisition |
|--|---|----------------------|------------------------------------|---|-----------------------------------|------------------------|
| 3, Jalan SS 13/3B<br>47500 Petaling Jaya<br>Selangor Darul Ehsan   | Freehold                                | 10,005<br>sq feet    | Industrial<br>land and<br>building | Factory<br>(19)                               | 0.9                               | 6.8.1992               |
| Lot 72<br>Persiaran Jubli Perak<br>40000 Shah Alam<br>Selangor Darul Ehsan   | Freehold                                | 5<br>acres           | Industrial<br>land and<br>building | Factory<br>(14)                               | 9.3                               | 30.12.1991             |
| 12 & 12/1<br>Jalan Nangka Tiga<br>Taman Rumpun Bahagia<br>75300 Bacang<br>Melaka   | Leasehold<br>21.7.2084                  | 1,650<br>sq feet     | Land and<br>building               | 2-storey<br>shop office<br>(23)               | 0.1                               | 13.4.1998              |
| Centre Point Business Park<br>Unit No. B-8-1 & B-8-2<br>5, Jalan Tanjung<br>Karamat 26/35, Seksyen 26<br>40400 Shah Alam<br>Selangor Darul Ehsan | Freehold                                | 2,716<br>sq feet     | Building                           | Office<br>(10)                                | 0.4                               | 18.3.1999              |
| 50-2 & 50-3<br>Jalan Wangsa 2/5<br>Taman Wangsa Permai<br>52200 Kuala Lumpur   | Leasehold<br>21.10.2087                 | 1,400<br>sq feet     | Land and<br>building               | 2-storey<br>shop office<br>(10)               | 0.2                               | 17.3.1999              |
| 15, Jalan Permatang Rawa 1<br>Kawasan Perniagaan<br>Permatang Rawa<br>14000 Bukit Mertajam<br>Pulau Pinang                                       | Freehold                                | 2,240<br>sq feet     | Land and<br>building               | 3-storey<br>shop office<br>(9)                | 0.6                               | 9.2.1999               |
| B2-2-39B<br>Jalan Pinggiran 1/3<br>Taman Pinggiran Putra<br>Seksyen 1<br>43300 Seri Kembangan<br>Selangor Darul Ehsan                            | Leasehold<br>13.12.2097                 | 678<br>sq feet       | Building                           | Office<br>(6)                                 | 0.1                               | 16.7.2004              |
| LuHe Industrial Zone<br>Zhucheng City<br>Shandong Province<br>People's Republic of China   | Leasehold<br>20.12.2054                 | 157,049<br>sq metres | Land and<br>building               | Office<br>and plant<br>(4)                    | 44.8                              | 21.12.2004             |

## ANALYSIS OF SHAREHOLDINGS

### Share Capital as at 30 September 2008

|                            |   |                                 |
|----------------------------|---|---------------------------------|
| Authorised Capital         | : | RM500,000,000                   |
| Issued and Paid-up Capital | : | RM210,435,171                   |
| Class of Shares            | : | Ordinary shares of RM1.00 each  |
| Voting Rights              | : | One (1) vote per ordinary share |

### Distribution of Shareholdings as at 30 September 2008

| Size of Shareholdings                    | No. of Shareholders | % of Shareholders | No. of Shares      | % of Shares   |
|--|---------------------|-------------------|--------------------|---------------|
| Less than 100                            | 15                  | 0.46              | 407                | 0.01          |
| 100 to 1,000                             | 1,103               | 33.78             | 1,048,015          | 0.50          |
| 1,001 to 10,000                          | 1,744               | 53.42             | 6,700,737          | 3.18          |
| 10,001 to 100,000                        | 337                 | 10.32             | 10,418,100         | 4.95          |
| 100,001 to less than 5% of issued shares | 64                  | 1.96              | 24,670,641         | 11.72         |
| 5% and above of issued shares            | 2                   | 0.06              | 167,597,271        | 79.64         |
|  | <u>3,265</u>        | <u>100.00</u>     | <u>210,435,171</u> | <u>100.00</u> |

### Substantial Shareholders as at 30 September 2008

| Substantial Shareholders              | Direct Interest |             | Indirect Interest |             |
|---------------------------------------|-----------------|-------------|-------------------|-------------|
|                                       | No. of Shares   | % of Shares | No. of Shares     | % of Shares |
| 1. Tan Sri William H.J. Cheng         | –               | –           | 167,988,512       | 79.83       |
| 2. Datuk Cheng Yong Kim               | –               | –           | 167,988,512       | 79.83       |
| 3. Lion Realty Pte Ltd                | –               | –           | 167,988,512       | 79.83       |
| 4. Lion Development (Penang) Sdn Bhd  | –               | –           | 167,988,512       | 79.83       |
| 5. Horizon Towers Sdn Bhd             | –               | –           | 167,597,271       | 79.64       |
| 6. Lion Corporation Berhad            | –               | –           | 167,597,271       | 79.64       |
| 7. Lion Industries Corporation Berhad | 45,127,236      | 21.44       | 122,470,035       | 58.20       |
| 8. Amsteel Mills Sdn Bhd              | 122,470,035*    | 58.20       | –                 | –           |
| 9. LLB Steel Industries Sdn Bhd       | –               | –           | 122,470,035       | 58.20       |
| 10. Steelcorp Sdn Bhd                 | –               | –           | 122,470,035       | 58.20       |
| 11. Lion Diversified Holdings Berhad  | –               | –           | 167,597,271       | 79.64       |
| 12. LDH (S) Pte Ltd                   | –               | –           | 167,597,271       | 79.64       |
| 13. Narajaya Sdn Bhd                  | –               | –           | 167,597,271       | 79.64       |
| 14. LLB Nominees Sdn Bhd              | –               | –           | 58,323,730        | 27.72       |

\* Amsteel Mills Sdn Bhd had assigned the exercise of its voting rights in the Company of 58,323,730 shares (27.72%) to LLB Nominees Sdn Bhd and 13,331,138 shares (6.34%) to Lion Industries Corporation Berhad.

**Thirty Largest Registered Shareholders as at 30 September 2008**

| <b>Registered Shareholders</b>   | <b>No. of Shares</b> | <b>% of Shares</b> |
|--|----------------------|--------------------|
| 1. AMSEC Nominees (Tempatan) Sdn Bhd<br>AmTrustee Berhad for Amsteel Mills Sdn Bhd (CS-AMSTEEL0)                         | 122,470,035          | 58.20              |
| 2. RHB Merchant Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Lion Industries Corporation Berhad         | 45,127,236           | 21.44              |
| 3. HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN for The Hongkong And Shanghai Banking Corporation Limited (HBFS-B CLT 500) | 3,243,000            | 1.54               |
| 4. HLB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Oh Kim Sun  | 2,238,600            | 1.06               |
| 5. Amsteel Equity Capital Sdn Bhd  | 1,680,800            | 0.80               |
| 6. Pacific & Orient Insurance Co Berhad  | 1,300,000            | 0.62               |
| 7. Mayban Securities Nominees (Asing) Sdn Bhd<br>UOB Kay Hian Private Limited for Li Yonglin (Margin)                    | 1,051,700            | 0.50               |
| 8. Wu Teng Siong   | 1,042,000            | 0.50               |
| 9. Pacific & Orient Insurance Co Berhad  | 1,000,000            | 0.48               |
| 10. CIMSEC Nominees (Asing) Sdn Bhd<br>Exempt AN for CIMB-GK Securities Pte Ltd (Retail Clients)                         | 848,000              | 0.40               |
| 11. CIMSEC Nominees (Tempatan) Sdn Bhd<br>CIMB for Lim Boon Liat (PB)  | 740,000              | 0.35               |
| 12. HDM Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Oh Kim Sun (M12)                                   | 601,500              | 0.29               |
| 13. Ng Teng Song   | 549,700              | 0.26               |
| 14. Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Ratnasinggam s/o Kanagasabai (39B)   | 469,000              | 0.22               |
| 15. Kenanga Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Chin Kiam Hsung                                | 374,100              | 0.18               |
| 16. A.A. Anthony Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Lee Chong Choon                           | 364,800              | 0.17               |
| 17. Ong Sai Hoon   | 344,000              | 0.16               |
| 18. Sivash Holdings Berhad   | 338,700              | 0.16               |
| 19. Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Low Mei Loon (Dealer 072)            | 337,700              | 0.16               |
| 20. HSBC Nominees (Asing) Sdn Bhd<br>Morgan Stanley & Co. International Plc (Firm A/C)                                   | 295,500              | 0.14               |
| 21. Public Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Lau Lai Peng (KLC/AFF)                          | 285,000              | 0.14               |
| 22. Lee Kek Ming   | 272,000              | 0.13               |
| 23. Chin Kiam Hsung  | 237,900              | 0.11               |
| 24. Affin Nominees (Tempatan) Sdn Bhd<br>Lion Group Medical Assistance Fund  | 237,000              | 0.11               |
| 25. HDM Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Tan Tung Lai (M12)                                 | 234,300              | 0.11               |
| 26. HDM Nominees (Asing) Sdn Bhd<br>UOB Kay Hian Pte Ltd for See Kim Chong   | 230,000              | 0.11               |
| 27. Panoron Sdn Bhd  | 228,204              | 0.11               |
| 28. CIMSEC Nominees (Tempatan) Sdn Bhd<br>CIMB Bank for Mohamed Tamrin bin Munir (MY0347)                                | 224,000              | 0.11               |
| 29. Kenanga Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for Wu Teng Siong                                     | 221,000              | 0.11               |
| 30. TA Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Loh Tai Cheong @ Chin Tai Cheong                    | 220,000              | 0.10               |



### Directors' Interests in Shares in the Company and its Related Companies as at 30 September 2008

The Directors' interests in shares in the Company and its related companies as at 30 September 2008 are as follows:

|   | Nominal Value<br>per Ordinary<br>Share | Direct Interest  |                | Indirect Interest                |                  |
|---|--|------------------|----------------|----------------------------------|------------------|
|   |  | No. of<br>Shares | % of<br>Shares | No. of<br>Shares                 | % of<br>Shares   |
| <b>The Company</b>  | RM1.00                                 |                  |                |                                  |                  |
| Tan Sri William H.J. Cheng  |  | –                | –              | 167,988,512                      | 79.83            |
| Ngan Yow Chong  |  | –                | –              | 133,300 <sup>(a)</sup>           | N/A              |
| Dato' Mohamad bin Haji Ahmad                                      |  | 12,000           | 0.01           | –                                | –                |
| <b>Related Companies</b>  |  |                  |                |                                  |                  |
| <b>Lion Industries Corporation Berhad</b>                         | RM1.00                                 |                  |                |                                  |                  |
| Tan Sri William H.J. Cheng  |  | –                | –              | 336,981,643                      | 47.27            |
| Dato' Mohamad bin Haji Ahmad                                      |  | 3,276            | *              | –                                | –                |
| Lin Chung Dien  |  | 25,320           | *              | –                                | –                |
| <b>Tan Sri William H.J. Cheng</b>                                 |  |                  |                |                                  |                  |
| Lion-Kimtrans Logistics Sdn Bhd                                   | RM1.00                                 | –                | –              | 3,750,000                        | 75.00            |
| LLB Enterprise Sdn Bhd  | RM1.00                                 | –                | –              | 690,000                          | 69.00            |
| 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            |
| 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           |
| <b>Investments in the People's Republic of China</b>              |  |                  |                |                                  |                  |
|   |  |                  |                | <b>Indirect Interest<br/>USD</b> | <b>% Holding</b> |
| Beijing Trostel Property<br>Development Co Ltd                    |  |                  |                | 6,650,000                        | 95.00            |
| Shandong Silverstone LuHe<br>Rubber & Tyre Co Ltd                 |  |                  |                | 30,000,000                       | 75.00            |
| Tianjin Baden Real Estate<br>Development Co Ltd                   |  |                  |                | 5,000,000                        | 95.00            |
| Tianjin Hua Shi Auto Meter<br>Co Ltd (In liquidation - voluntary) |  |                  |                | 10,878,944                       | 56.00            |

**Notes:**

<sup>(a)</sup> Represents options granted pursuant to the Company's Executive Share Option Scheme to subscribe for 133,300 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, none of the other Directors of the Company had any interest in shares in the Company or its related companies as at 30 September 2008.

## MATERIAL CONTRACTS

### INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

1. Letter of Offer dated 11 December 2003 issued by the Company to Lion Industries Corporation Berhad ("LICB"), the holding company of the Company, with the agreement of Sabah Forest Industries Sdn Bhd ("SFI"), then 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 issued by SFI to AMSB), collectively companies wherein a Director and certain major shareholders of the Company have interests, and Financing Agreement dated 23 June 2004 made among the Company, SFI, LICB and AMSB whereby the Company lent 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 advanced 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.

By a Novation cum Supplemental Agreement dated 14 March 2007 entered into among the Company, SFI, Intra Inspirasi Sdn Bhd ("Intra Inspirasi"), a wholly-owned subsidiary of the Company, LICB and AMSB, SFI assigned and transferred, by way of a novation, all its rights and obligations under the Facility to Intra Inspirasi. Pursuant to the Novation Cum Supplemental Agreement, the Facility is to be secured by the creation of the following:

- (a) 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) 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 created in favour of the existing lenders of AMSB.
2. Sale and Purchase Agreement dated 30 November 2007 (as amended by the letters dated 30 May 2008, 30 July 2008 and 8 August 2008) ("AMSB Agreement") entered into among Gama Harta Sdn Bhd ("Gama Harta"), Jadeford International Limited ("Jadeford"), both wholly-owned subsidiaries of the Company, and AMSB for the proposed acquisition (i) by Gama Harta of the zero-coupon redeemable secured Class B and Class C RM denominated bonds issued by Silverstone Corporation Berhad ("SCB") with an aggregate nominal value of approximately RM117.63 million; and (ii) by Jadeford of 6,699,994 redeemable cumulative convertible preference shares of RM0.01 each issued at a premium of RM0.99 by SCB ("RCCPS"), for an aggregate cash consideration of up to approximately RM51.15 million.

Pursuant to the supplemental letter dated 8 August 2008, parties to the AMSB Agreement had mutually agreed to exclude the acquisition by Jadeford of the 6,699,994 RCCPS from the AMSB Agreement and accordingly varied the consideration therefor and excluded Jadeford as a party to the AMSB Agreement.

3. Call Option Agreement dated 30 November 2007 (as amended by the letters dated 30 May 2008, 30 July 2008 and 8 August 2008) ("RZB Call Option Agreement") entered into between Jadeford and Raiffeisen Zentralbank Osterreich AG, Singapore Branch ("RZB") for the proposed acquisition by Jadeford of the zero-coupon redeemable Class B and Class C USD denominated debts issued by AMB Harta (L) Limited, a wholly-owned subsidiary of SCB, with an aggregate nominal value of approximately USD17.37 million (approximately RM58.57 million) and 3,000,818 RCCPS (collectively the "Debt Securities") from RZB, for an aggregate cash consideration of up to approximately USD8.69 million (approximately RM29.30 million). A Director and certain major shareholders of the Company have interests in the Debt Securities held by RZB.

Pursuant to the supplemental letter dated 8 August 2008, parties to the RZB Call Option Agreement had mutually agreed to exclude the acquisition by Jadeford of the 3,000,818 RCCPS from the RZB Call Option Agreement and accordingly varied the consideration therefor.

4. Share Sale Agreement dated 27 March 2008 entered into between the Company and Amsteel Corporation Berhad, a company wherein a Director and certain major shareholders of the Company have interests, for the acquisition by the Company of the entire equity interest comprising 1,000,000 ordinary shares of RM1.00 each fully paid in Singa Logistics Sdn Bhd, for a cash consideration of RM2.727 million.

## OTHER INFORMATION

### NON-AUDIT FEES

The amount of non-audit fees paid to external auditors for the financial year was RM5,000 (RM45,000 in 2007).

### OPTIONS EXERCISED DURING THE FINANCIAL YEAR

During the financial year ended 30 June 2008, a total of 160,800 options were exercised by eligible executive employees (including the Executive Director) of the Group at an exercise price of RM1.16 per share (154,500 shares) and RM1.04 (6,300 shares) pursuant to the Executive Share Option Scheme of the Company. Details of the options exercised are disclosed in Note 26 to the Financial Statements.

### RECURRENT RELATED PARTY TRANSACTIONS

The aggregate value of transactions conducted during the financial year ended 30 June 2008 were as follows:

| Nature of Recurrent Transactions  | Related Parties  | Amount<br>RM'000                               |
|---|--|--|
| <b>(a) Trading and distribution</b>   |  |  |
| (i) Purchase of steel bars, wire rods, scrap iron, hot rolled coils, billets and other related steel and building materials | Lion Industries Corporation Berhad Group<br>("LICB Group") <sup>(1)</sup>  | 77,421   |
| (ii) Sale of steel bars, wire rods, scrap iron, hot rolled coils, billets and other related steel and building materials    | Lion Diversified Holdings Berhad Group<br>("LDHB Group") <sup>(1)</sup><br>Lion Corporation Berhad Group<br>("LCB Group") <sup>(1)</sup><br>LICB Group <sup>(1)</sup>  | 1,125<br>147<br>10<br>1,282                    |
| (iii) Sale of lubricants, spark plugs and other automotive and petroleum products   | LICB Group <sup>(1)</sup><br>LCB Group <sup>(1)</sup><br>Silverstone Corporation Berhad Group<br>("SCB Group") <sup>(1)</sup><br>Amsteel Corporation Berhad Group<br>("Amsteel Group") <sup>(1)</sup><br>LDHB Group <sup>(1)</sup><br>Ributasi Holdings Sdn Bhd Group <sup>(2)</sup> | 3,876<br>3,460<br>829<br>54<br>7<br>3<br>8,229 |
| (iv) Purchase of spare parts, tyres and other related products  | SCB Group <sup>(1)</sup>   | 15,845   |

| Nature of Recurrent Transactions                                  | Related Parties  | Amount<br>RM'000   |  |           |
|---|--|--|--|-----------|
| (b) Others  | (i) Obtaining of staff training and development and secretarial services<br>SCB Group <sup>(1)</sup><br>LCB Group <sup>(1)</sup><br>Amsteel Group <sup>(1)</sup> | 24<br>20<br>3<br><hr/> 47  |  |           |
|   |  | (ii) Obtaining of security services and equipment                    | Amsteel Group <sup>(1)</sup>   | <hr/> 9   |
|   |  | (iii) Purchase of steam for use in the tyre manufacturing operations | Shandong LuHe Group Co Ltd Group <sup>(3)</sup>                      | <hr/> 386 |
|   |  | (iv) Provision of installation services of equipments                | Intelligent Building Automation Systems Sdn Bhd Group <sup>(4)</sup> | <hr/> 3   |
| (v) Provision of technical development and research of equipments | Digital Engines Sdn Bhd Group <sup>(4)</sup>   | <hr/> 36   |  |           |
| (vi) Purchase of office furniture and other equipment             | LCB Group <sup>(1)</sup>   | <hr/> 2  |  |           |
| (vii) Provision of transportation and forwarding services         | LCB Group <sup>(1)</sup><br>LICB Group <sup>(1)</sup><br>Amsteel Group <sup>(1)</sup>  | 1,572<br>490<br>2<br><hr/> 2,064                                     |  |           |
|   |  | <hr/>  |  |           |

**Notes:**

“Group” includes subsidiaries and associated companies

- (1) Companies in which a Director and certain major shareholders of the Company have interests.
- (2) A company in which a Director and a major shareholder of the Company have interests.
- (3) Major shareholder of a subsidiary of the Company.
- (4) Companies in which a Director of a subsidiary of the Company has an interest.

**STATUS OF UTILISATION OF PROCEEDS FROM CORPORATE PROPOSALS AS AT 30 SEPTEMBER 2008**

|   | Proposed Utilisation<br>RM million | Utilisation Status   |  |
|---|------------------------------------|----------------------|--|
|   |                                    | Actual<br>RM million | Unutilised/<br>Outstanding<br>RM million |
| Disposal of 97.78% equity interest in Sabah Forest Industries Sdn Bhd for a cash consideration of USD261.0 million (approximately RM944.82 million).  |                                    |                      |  |
| (i) Capital distribution  | 420.31                             | 420.55               | (0.24)*                                  |
| (ii) Tyre division  | 104.36                             | 10.51                | 93.85                                    |
| (iii) Plantation division   | 70.00                              | –                    | 70.00                                    |
| (iv) Payment to the State Government of Sabah   | 4.08                               | –                    | 4.08                                     |
| (v) Estimated expenses  | 1.50                               | 1.50                 | –  |
| (vi) Acquisition of debts issued by AMB Harta (L) Limited, a wholly-owned subsidiary of Silverstone Corporation Berhad (“SCB”) and the bonds and Redeemable Cumulative Convertible Preference Shares issued by SCB and estimated expenses related thereto | 229.97                             | 106.4                | 123.57                                   |
|   | 830.22                             | 538.96               | 291.26                                   |
| (vii) Funding and investment relating to the business and/or working capital of the Group#  | 49.63                              | 14.83                | 34.80                                    |
|   | 879.85                             | 553.79               | 326.06                                   |
| (viii) Provisional and final adjustment   | 8.79                               |                      |  |
| (ix) Adjustment on foreign exchange   | 56.18                              |                      |  |
|   | 944.82                             |                      |  |

\* A total cash payment of approximately RM420.55 million was distributed to all entitled shareholders of which RM0.24 million was sourced from internally generated funds.

# Pending Securities Commission’s approval.

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CDS ACCOUNT NUMBER

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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# FORM OF PROXY

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-Sixth Annual General Meeting of the Company to be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 19 November 2008 at 9.30 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. Dato' Dali Mahmud Hashim                   |     |         |
| 4. To re-elect as Director, Mr Chan Ho Wai                                     |     |         |
| 5. To re-elect as Director, Mr Lin Chung Dien                                  |     |         |
| 6. To re-appoint Auditors  |     |         |
| 7. Authority to Directors to issue shares                                      |     |         |
| 8. Proposed Shareholders' Mandate for Recurrent Related Party Transactions     |     |         |
| 9. Proposed Amendments to the Articles of Association of the Company           |     |         |

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 ..... 2008

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.