LION FOREST INDUSTRIES BERHAD

2007

LION FOREST INDUSTRIES BERHAD

A Member of The Lion Group

(82056-X)

Laporan Tahunan 2007 Annual Report

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Twenty-Fifth 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 29 November 2007 at 9.15 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 2007. **Resolution 1**

2. To approve the payment of Directors' fees amounting to RM164,000 (2006 : RM176,000). **Resolution 2**

3. To re-elect Directors:

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

   Y. Bhg. Dato' Kalsom binti Abd. Rahman **Resolution 3**
   Cik Zainab binti Dato' Hj. Mohamed **Resolution 4**

4. To re-appoint Auditors to hold office until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration. **Resolution 5**

5. Special Business

   To consider and if thought fit, pass the following resolutions as ordinary resolutions:

5.1 Authority to Directors to issue shares

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

5.2 Proposed Shareholders' Mandate for Recurrent Related Party Transactions

"THAT approval be given for the Company and its subsidiaries to enter into 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 the Circular to Shareholders of the Company dated 14 November 2007 ("Related Parties") 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 of the Company. **Resolution 7**

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

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

By Order of the Board

WONG PHOOI LIN
YASMIN WEILI TAN BINTI ABDULLAH
Secretaries

Kuala Lumpur
7 November 2007

Notes:

1. *Proxy*
   - *A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or the hand of an officer or attorney duly authorised.*
   - *An instrument appointing a proxy executed in Malaysia need not be witnessed. The signature to an instrument appointing a proxy executed outside Malaysia shall be attested by a solicitor, notary public, consul or magistrate.*
   - *The instrument of proxy shall be deposited at the Registered Office of the Company, Level 46, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting.*
   - *Form of Proxy sent through facsimile transmission shall not be accepted.*
2. *Resolution 6*

   This authorisation will empower the Directors of the Company to issue shares in the Company up to an amount not exceeding in total 10% of the issued 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.
3. *Resolution 7*

   This approval will allow the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with those related parties as set out in paragraph 3.2 of the Circular to Shareholders dated 14 November 2007, 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 of the Company.

   The Circular to Shareholders setting out the details on the Proposed Shareholders' Mandate for Recurrent Related Party Transactions will be despatched on 14 November 2007.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Details of the Directors standing for re-election at the Twenty-Fifth Annual General Meeting of the Company are set out in the Directors' Profile on pages 4 to 6 of the 2007 Annual Report.

CORPORATE INFORMATION

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

DIRECTORS' PROFILE

Tan Sri William H.J. Cheng
Non-Independent Non-Executive Chairman

Y. Bhg. Tan Sri William H.J. Cheng, a Malaysian, aged 64, 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 97 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 four (4) Board Meetings of the Company held during the financial year ended 30 June 2007.

Ngan Yow Chong
Executive Director

Mr Ngan Yow Chong, a Malaysian, aged 50, was appointed the Executive Director of the Company on 22 August 2001. He is also a member of the Company's Remuneration Committee and Executive Share Option Scheme Committee.

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

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

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

Mr Ngan has a direct shareholding of 26,200 ordinary shares of RM1.00 each and 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 four (4) Board Meetings of the Company held during the financial year ended 30 June 2007.

Dato' Mohamad bin Haji Ahmad
Independent Non-Executive Director

Y. Bhg. Dato' Mohamad bin Haji Ahmad, a Malaysian, aged 63, 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 served as Chairman and Director of his private companies which are involved in building and construction, property development and agriculture.

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

Dato' Mohamad attended all four (4) Board Meetings of the Company held during the financial year ended 30 June 2007.

Dato' Dali Mahmud Hashim
Independent Non-Executive Director

Y. Bhg. Dato' Dali Mahmud Hashim, a Malaysian, aged 66, 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. In December 1998, he retired from the administrative and diplomatic service.

Dato' Dali attended all four (4) Board Meetings of the Company held during the financial year ended 30 June 2007.

Dato' Kalsom binti Abd. Rahman
Independent Non-Executive Director

Y. Bhg. Dato' Kalsom binti Abd. Rahman, a Malaysian, aged 59, 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 Oregon, the United States of America. She served in various capacities in the Ministry of International Trade and Industry both at headquarters and overseas offices as well as the Chief Executive Officer and Chairman of the Small and Medium Industries Development Corporation. Currently, Dato' Kalsom is 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:

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

Save for the subsidiaries of MIDF, all the above companies are listed on Bursa Malaysia Securities Berhad.

Dato' Kalsom attended three (3) of the four (4) Board Meetings of the Company held during the financial year ended 30 June 2007.

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

Cik Zainab binti Dato' Hj. Mohamed, a Malaysian, aged 49, was appointed to the Board on 10 December 2001. She is also a member of the Company's Audit Committee, Nomination Committee and Remuneration Committee.

Cik Zainab obtained her Diploma in Accountancy from the Universiti Teknologi MARA (UiTM) in 1978 and 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 four (4) Board Meetings of the Company held during the financial year ended 30 June 2007.

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

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("Board") recognises the importance of practising 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 2007 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 2007, four (4) board meetings were held and each Director attended at least 50% of the total board meetings held during the financial year. Details of attendance and a brief profile of each member of the Board are set out in the Directors' Profile section of this Annual Report.

Board Composition and Balance

The Board comprises six (6) Directors, five (5) 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 facilitates the discharge of the Board's stewardship.

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

There is a clear division of responsibilities between the Chairman and the 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 the matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

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

Supply of Information

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

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

The Directors also have access to the advice and services of the Company Secretaries who are responsible for 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 15 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 have also attended 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 attendance of the Directors at the aforementioned seminars and programmes, and the Continuing Updates as adequate to enhance their 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 15 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 2007 are categorised as follows:

	Fees RM'000	Salaries & Other Emoluments RM'000	Total RM'000
Executive Director	15	271	286
Non-executive Directors	153	22	175
	168	293	461

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

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

* Including a Director who retired at the previous Annual General Meeting.

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 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 to 14 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 for 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 2007, 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

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

AUDIT COMMITTEE REPORT

COMPOSITION

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

- **Members**

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

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

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

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

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

- **Secretaries**

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

TERMS OF REFERENCE

- **Membership**

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

- **Meetings and Minutes**

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

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

- **Authority**

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

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

- **Duties**

The duties of the Audit Committee are:

(i) To consider the appointment, resignation and dismissal of external auditors and the audit fee.

(ii) To discuss with the external auditors, prior to the commencement of audit, the nature and scope of audit and to ensure co-ordination of audit where more than one audit firm is involved.

(iii) To review and assess the annual and quarterly financial statements prior to the approval of the Board, focusing on:

- going concern assumption
- compliance with accounting standards and regulatory requirements
- changes in accounting policies and practices
- significant issues arising from audit.

(iv) To discuss problems and reservations arising from the interim and final external audits, and any matter the external auditors may wish to discuss (in the absence of management, where necessary).

(v) To review the external auditors' management letter and management's response thereto.

(vi) To establish the following with the internal audit function:

- review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work
- review internal audit programme
- ensure co-ordination of external audit with internal audit
- consider the major findings of internal audit reviews/investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function.

(vii) To review any related party transaction and conflict of interest situation that may arise within the Company and the Group.

(viii) To consider the appointment of independent advisers for corporate proposals involving related parties.

(ix) To assess the quality and effectiveness of the system of internal control and efficiency of operations, and to review the risk policy and implementation of the risk management framework.

(x) To promptly report to Bursa Securities on any matter where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Securities.

(xi) To review any appraisal or assessment of the performance of the members of the internal audit function, approve any appointment or termination of senior staff members of the internal audit function and be informed of any resignation of internal audit staff members and reasons thereof.

(xii) To perform any other such function as may be agreed to by the Audit Committee and the Board.

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year under review, five (5) Audit Committee Meetings were held. Except for Y. Bhg. Dato' Kalsom who was absent for two (2) meetings, all other members attended all the five (5) Audit Committee 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 a meeting with the external auditors without 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 with the Shareholders' Mandate.

NOMINATION COMMITTEE

Chairman	:	Y. Bhg. Dato' Dali Mahmud Hashim *(Independent Non-Executive Director)*
Members	:	Y. Bhg. Dato' Mohamad bin Haji Ahmad *(Independent Non-Executive Director)* Cik Zainab binti Dato' Hj. Mohamed *(Independent Non-Executive Director)*

Terms of Reference :

- To recommend to the Board, candidates for directorships in Lion Forest Industries Berhad
- To consider, in making its recommendations, candidates for directorships proposed by the Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any Director or shareholder
- To recommend to the Board, Directors to fill the seats on Board Committees
- To assist the Board in reviewing on an annual basis, the required mix of skills and experience and other qualities, including core competencies which non-executive Directors should bring to the Board
- To assess, on an annual basis, the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual Director, based on the process and procedure laid out by the Board

REMUNERATION COMMITTEE

Chairman	:	Y. Bhg. Dato' Dali Mahmud Hashim *(Independent Non-Executive Director)*
Members	:	Mr Ngan Yow Chong *(Non-Independent Executive Director)* Cik Zainab binti Dato' Hj. Mohamed *(Independent Non-Executive Director)*

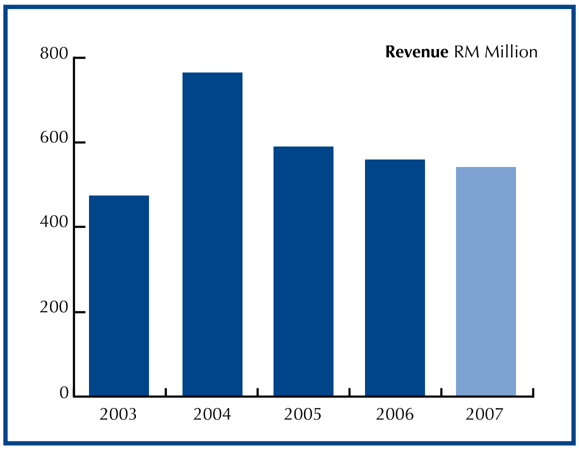
Terms of Reference :

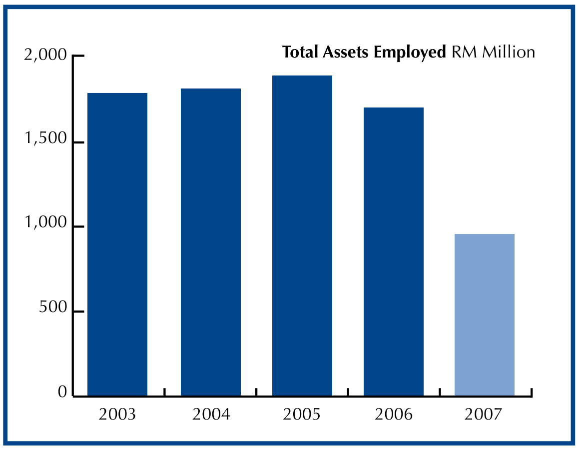
- To recommend to the Board the remuneration of the executive Directors in all its forms, drawing from outside advice as necessary
- To carry out other responsibilities, functions or assignments as may be defined by the Board from time to time

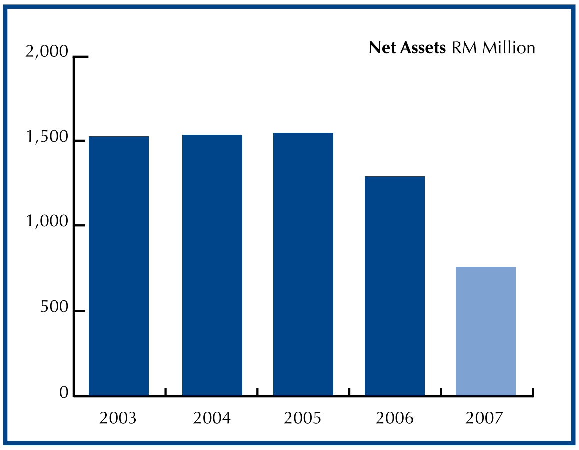
5 YEARS GROUP FINANCIAL HIGHLIGHTS

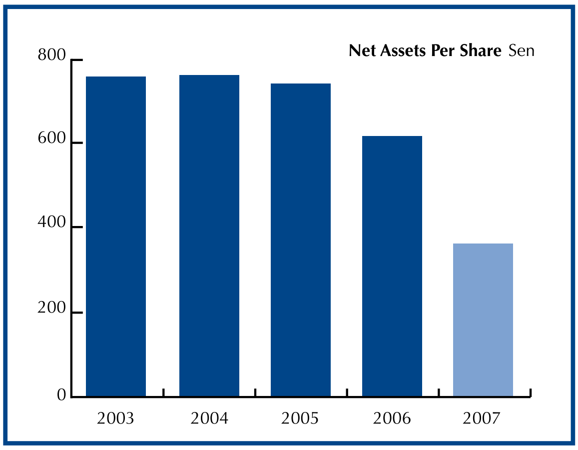
Financial years ended 30 June	**2003 RM'000**	**2004 RM'000**	**2005 RM'000**	**2006 RM'000**	**2007 RM'000**
Revenue	475,150	765,096	590,388	559,755	**542,246**
Profit/(Loss) before taxation	10,368	39,357	36,076	(239,673)	**(59,166)**
Profit/(Loss) after taxation	7,386	34,312	29,744	(241,594)	**(63,880)**
Dividends:					
Rate (%)	8.0	17.5	16.0	–	–
Amount (net of tax)	12,104	35,563	33,586	–	–
Total assets employed	1,792,951	1,818,872	1,897,843	1,709,113	**961,390**
Net assets	1,531,593	1,539,606	1,552,019	1,295,136	**761,902**
Net tangible assets	1,339,828	1,357,987	1,380,546	1,294,491	**761,307**
	Sen	**Sen**	**Sen**	**Sen**	**Sen**
Net assets per share	754	758	739	616	**362**
Earnings/(Loss) per share	3.4	16.5	14.0	(111.9)	**(28.8)**

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



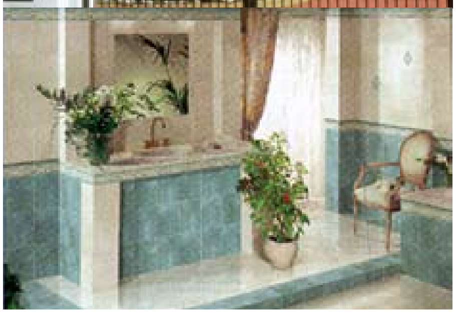






THE GROUP'S BUSINESSES

- 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 deals in the trading and distribution of building and construction materials such as (from top left) steel bars, cement, roofing and wall tiles.
- *Bahagian Bahan Binaan menjalankan urus niaga menjual dan mengedar bahan - bahan untuk pembinaan seperti (dari atas kiri) besi, simen dan jubin bumbung serta dinding.*

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

PENYATA PENGERUSI

Bagi pihak Lembaga Pengarah ("Lembaga"), saya dengan sukacita membentangkan Laporan Tahunan dan Penyata Kewangan Beraudit Lion Forest Industries Berhad bagi tahun kewangan yang berakhir 30 Jun 2007.

PRESTASI KEWANGAN

Pelupusan Sabah Forest Industries Sdn Bhd ("SFI") menandakan Kumpulan tidak lagi menceburi perniagaan pengeluaran pulpa, kertas dan kayu balak. Sejak beberapa tahun kebelakangan ini, prestasi SFI adalah jauh daripada memuaskan dan pelupusannya memberi peluang untuk Kumpulan membuka nilai pelaburan dalam segmen berkenaan.

Pelupusan tersebut membolehkan Kumpulan memberi ganjaran kepada para pemegang saham sebahagian daripada hasil pelupusannya untuk mengumumkan pengagihan modal pada asas RM2.00 bagi setiap saham biasa yang dipegang. Bakinya pula diperuntukkan untuk pelbagai pembangunan modal, antaranya peluasan operasi pembuatan tayar dan penubuhan segmen perniagaan dan juga pelaburan baru yang bertujuan mewujudkan asas pendapatan kekal bagi tempoh jangka panjang.

Selaras dengan keperluan baru pelaporan kewangan, Kumpulan pada tahun ini, telah menggunakan Piawaian Pelaporan Kewangan baru dan yang diterima pakai. Kesan penggunaannya tidak menjejaskan keputusan kewangan Kumpulan dengan ketara dan tepat pada masanya serta dapat digunakan terutamanya untuk pelaporan berasingan dibuat untuk prestasi operasi yang diteruskan dan juga dihentikan. Bagi operasi yang diteruskan, kemajuan ketara bagi perolehan di dalam segmen tayar dan bahan pembinaan dapat dilihat. Secara kolektif, operasi yang diteruskan telah menampakkan pemulihan dan mencatat keuntungan sebelum cukai bernilai RM4 juta berbanding kerugian RM15 juta dalam tahun sebelumnya.

PERKEMBANGAN KORPORAT

(i) Dalam tahun kewangan, Syarikat telah menyelesaikan pelupusan keseluruhan pegangannya dalam SFI kepada JP Morgan Special Situations Asia Corporation dan Ballarpur Industries Limited bagi pertimbangan tunai berjumlah AS$261 juta (bersamaan anggaran RM944.82 juta) sebagai penyelarasan ekoran syarat-syarat persetujuan pelupusan. Syarikat telah mengagihkan bayaran tunai berjumlah RM420.55 juta kepada semua pemegang saham Syarikat yang layak, hasil yang diperolehi daripada pelupusan SFI.

(ii) Pada 21 September 2007, Syarikat telah mengumumkan bahawa Jadeford International Limited, anak syarikat milik penuh telah melantik Pengurus untuk menyusun dan/atau melaksanakan pengambilan alih hutang AMB Harta (L) Limited secara opsyen panggilan ke atas penjual-penjual.

Pengurus telah melaksana dan menerima pindahan pengambilan alih pertama hutang dalam mata wang dolar AS Kelas B, berjamin, boleh tebus berkupon sifar ("SPV Kelas B") dengan nilai nominal sekitar AS$9.07 juta (bersamaan anggaran RM31.36 juta) bagi pertimbangan tunai berjumlah AS$5.44 juta (bersamaan anggaran RM18.82 juta) pada 19 September, 2007.

Pengurus seterusnya, diberikan hak untuk melaksanakan pengambilan alih kedua hutang SPV Kelas B dan hutang dalam mata wang dolar AS Kelas C berjamin, boleh tebus berkupon sifar dengan agregat nilai nominal sekitar AS$32.62 juta (bersamaan anggaran RM112.54 juta) bagi pertimbangan tunai sekitar AS$16.58 juta (bersamaan anggaran RM57.20 juta) dalam tempoh empat bulan daripada tarikh perjanjian opsyen dengan lanjutan tambahan selama dua bulan.

KAJIAN OPERASI

Tayar

Prestasi industri tayar China berkait rapat dengan sektor industri automotif dan infrastruktur yang merupakan dua segmen pasaran yang berkembang pesat. Bahagian perniagaan tayar kita kini memasuki tahun kedua operasi menyaksikan tahap penggunaan kilang yang bertambah baik daripada 26% kepada 60%. Pada masa yang sama, tenaga kerja kita turut meningkat daripada 370 pekerja kepada 415 pekerja untuk menyokong pertumbuhan berkenaan. Seiring dengan kemajuan ini, kami juga telah menyesuaikan produk kami kepada piawaian tempatan dan juga keadaan jalan raya di China. Terdapat pelbagai cabaran yang sering kita alami antaranya trak diisi dengan muatan berlebihan oleh para pengguna akhir. Sehubungan itu, kita terus memperuntukkan sumber untuk aspek pembangunan, penyelidikan dan kejuruteraan untuk meningkatkan kualiti tayar kita.

Rangkaian pengagihan kita yang berkembang memberikan tumpuan terutamanya kepada pasaran penggantian tayar. Memandangkan pasaran ini satu pasaran yang sensitif pada harga, operasi kita tidak berupaya menanggung sepenuhnya peningkatan kos bahan mentah menerusi penerapan harga produk. Tekanan komersil terus menyebabkan penjualan pada harga yang rendah. Justeru itu, adalah penting untuk kita menguasai pasaran yang lebih besar untuk menambah pulangan menerusi produktiviti yang tinggi. Meskipun bahagian perniagaan tayar kita belum mengalami pemulihan dan meraih untung, kita melihat potensi yang besar dalam industri tayar berdasarkan industri automotif yang berkembang pesat di China.

Bahan Binaan

Sektor pembinaan Malaysia akhirnya menyaksikan pertumbuhan yang positif dalam suku kedua pada tahun kewangan 2007 selepas mengalami pengecutan berterusan selama tiga tahun. Perkembangan terbaru industri itu disokong dengan pelaksanaan projek di bawah Rancangan Malaysia Ke-9, penubuhan Wilayah Pembangunan Iskandar di Johor dan pengumuman terbaru pembangunan Wilayah Koridor Ekonomi Utara dan Timur. Kesan sepenuhnya masih belum dirasai lagi kerana berlaku kelewatan dalam pelaksanaan projek. Sementara itu, pasaran hartanah kediaman tidak bermaya bagi segmen rumah berharga rendah hingga sederhana kerana keadaan pasaran yang lembap manakala pasaran kediaman mewah kurang terjejas kerana disokong oleh kelonggaran dalam peraturan pemilikan kepada pembeli warga asing.

Pertumbuhan dalam segmen perniagaan bahan binaan Kumpulan kekal rendah tahun ini tetapi dijangka akan meningkat selari dengan pemulihan dalam industri pembinaan. Sebagai orang tengah dalam merapatkan jurang antara para pemaju/kontraktor/peniaga dan juga pengilang itu sendiri, perniagaan pengedaran bahan binaan kita kini memerlukan perancangan strategik di peringkat yang lebih tinggi dan penyelarasan untuk menambah nilai kepada para pelanggan dan juga pembekal. Keadaan persekitaran yang ada semakin sengit dengan para pemaju menubuhkan syarikat perdagangan sendiri untuk berurusan secara terus dengan para pengeluar. Mekanisme kawalan harga kerajaan ke atas produk infrastruktur telah memaksa para pengeluar mengurangkan rebat sekali gus menyusutkan margin.

Sehubungan itu, kita secara aktif telah mengukuhkan lagi hubungan rapat dengan dengan para pelanggan dan mendapatkan sokongan daripada prinsipal. Liputan pengagihan kita yang luas di cawangan-cawangan serantau berserta struktur operasi yang baik telah membolehkan perniagaan mengharungi kesukaran setakat ini. Dalam menghadapi cabaran di hadapan, kita terus berusaha untuk memperbaiki struktur operasi dan membangunkan produk eksklusif untuk mengukuhkan model perniagaan.

Minyak Pelincir dan Lain-lain

Industri minyak pelincir menjadi semakin sengit berikutan para pemain utama berusaha meraih kelebihan daripada skala ekonomi dan menguruskan perniagaan mereka di peringkat sejagat. Penyatuan industri terus meninggalkan kesan kepada ekonomi perkilangan dan juga perniagaan berasaskan pembekalan minyak asas dan seterusnya penguasaan pasaran dan kedudukannya.

Dalam negara, pasaran minyak pelincir ditentukan terutamanya oleh perkembangan aktiviti perkilangan dan bilangan kenderaan di atas jalan. Peningkatan bilangan pemilikan kenderaan dan jarak perjalanan bagi setiap kenderaan memberi kelebihan kepada penggunaan minyak pelincir. Bagaimanapun, dijangka akan ada pengeluar produk yang menawarkan pengunaan tenaga lebih cekap, mesra alam sekitar dan menjimatkan kos. Seiring dengan peningkatan harga minyak asas yang berterusan, operasi kita kini berdepan dengan cabaran baru melalui persaingan daripada pelbagai hala. Sehubungan itu, kita sentiasa bersedia dalam kedudukan strategik, pengiklanan dan promosi serta proses rangkaian bekalan kita. Untuk berdaya saing, kita juga berusaha mengukuhkan operasi perniagaan dengan mempelbagai dan menambah produk yang berkaitan, satu langkah yang menguntungkan kerana kita memiliki rangkaian pelanggan yang kukuh.

Usaha niaga kita dalam perniagaan perladangan melalui cadangan pembangunan 40,000 hektar di Malinau Regency masih belum bermula meskipun banyak perbincangan telah dibuat dengan pihak berkuasa di Indonesia. Meskipun begitu, Kumpulan masih lagi mencari tapak yang sesuai di beberapa kawasan untuk pembangunan yang sama.

Pulpa, Kertas dan Kayu Balak – Operasi Diberhentikan

Berikutan persaingan yang sengit, SFI terus mencatat pencapaian yang buruk sebelum pelupusannya. Untuk bersaing dengan berkesan, SFI perlu beroperasi dalam kapasiti dan skala lebih besar yang memerlukan perbelanjaan modal yang banyak untuk meningkatkan keupayaan kilang pulpa dan kertas sedia ada. Oleh kerana Kumpulan berada pada kedudukan yang tidak membolehkannya membuat pelaburan besar seumpama itu, pelupusan SFI merupakan peluang untuk meraih nilai daripada pelaburan pada penilaian yang menarik.

TANGGUNGJAWAB SOSIAL KORPORAT

Kita menyedari akan pentingnya tanggungjawab sosial korporat ("CSR") sebagai sebahagian dari pelengkap perniagaan dan telah menerapkan rangka kerja kebertanggungjawaban dan ketelusan CSR dalam rancangan perniagaan untuk meningkatkan keyakinan para pemegang berkepentingan. Sehubungan dengan itu, CSR menjadi satu komponen penting dalam amalan perniagaan yang baik yang disasarkan untuk kebaikan bersama masyarakat dan juga alam sekitar.

Dalam melaksanakan aktiviti perniagaannya, Kumpulan sentiasa prihatin akan tanggungjawabnya sebagai warga korporat, untuk menyumbang kembali kepada masyarakat sambil meningkatkan hasil perolehan dan juga nilai para pemegang saham. Kumpulan memberikan tumpuan untuk mambantu masyarakat dalam bidang pendidikan dan penjagaan kesihatan menerusi dua buah yayasan.

Yayasan Lion-ASM menyalurkan dana untuk pelbagai keperluan seperti pendidikan, kebajikan dan penyelidikan saintifik; dan setiap tahun ia memberikan biasiswa dan pinjaman pendidikan kepada pelajar yang melanjutkan pelajaran di universiti-universiti tempatan. Dana Bantuan Perubatan Kumpulan Lion pula menawarkan bantuan kewangan kepada rakyat Malaysia yang memerlukan rawatan perubatan.

PROSPEK

Kumpulan merancang untuk merebut peluang daripada pertumbuhan pasaran automotif China yang kukuh melalui peluasan pelaburan dalam segmen tayar. Selain meluaskan kehadirannya di pasaran China, segmen tayar akan melaksanakan inisiatif membangunkan jenama untuk menguasai bahagian pasaran yang lebih besar.

Dalam pasaran domestik, Bahagian Bahan Binaan dijangka akan mencatatkan prestasi yang lebih baik berikutan pemulihan industri pembinaan manakala Bahagian Minyak Pelincir dan Aksesori Kenderaan dijangka akan kekal pada kedudukan yang menguntungkan.

PENGHARGAAN

Bagi pihak Lembaga Pengarah, saya ingin mengucapkan terima kasih kepada pasukan pengurusan dan kakitangan di semua peringkat di atas dedikasi dan usaha gigih anda semua. Saya juga ingin merakamkan penghargaan Lembaga Pengarah kepada para pelanggan, pembiaya, rakan niaga, Kerajaan dan pemegang saham yang dihargai atas sokongan dan keyakinan mereka yang berterusan kepada Kumpulan.

Saya juga ingin merakamkan penghargaan dan terima kasih kepada para Pengarah di atas panduan dan sumbangan mereka yang tidak ternilai di sepanjang tahun.

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 2007.

FINANCIAL PERFORMANCE

The disposal of Sabah Forest Industries Sdn Bhd ("SFI") marked the Group's exit from the pulp, paper and timber business. In recent years, the performance of SFI had been far from satisfactory and the disposal offered an opportunity for the Group to unlock its investments in this segment.

The divestment had enabled the Group to reward its shareholders by utilising part of the proceeds to declare a capital distribution on the basis of RM2.00 for every one ordinary share held. The remaining proceeds had been earmarked for various capital development, amongst others, the expansion of the tyre operations and the establishment of new business segments and investments, all of which are intended to create a sustainable income base for the longer term.

In line with the new financial reporting requirement, the Group has in this year adopted the new and applicable Financial Reporting Standards. The impact of the adoption did not materially affect the results of the Group and had been timely and applicable especially in respect of segregated reporting for continuing and discontinued operations performance. In our continuing operations, there was significant improvement in revenue in the tyre and building materials segments. Collectively, the continuing operations turned around and recorded a profit before tax of RM4 million from a loss before tax of RM15 million in the previous year.

CORPORATE DEVELOPMENT

(i) During the year, the Company completed the disposal of its entire shareholding in SFI to JP Morgan Special Situations Asia Corporation and Ballarpur Industries Limited for a total cash consideration of USD261 million (equivalent to approximately RM944.82 million) as adjusted pursuant to the terms of the disposal agreements. The Company distributed a total cash payment of RM420.55 million to all entitled shareholders of the Company, the source of which was derived from the proceeds from the disposal of SFI.

(ii) On 21 September 2007, the Company announced that Jadeford International Limited, a wholly-owned subsidiary of the Company, has appointed a Manager to arrange and/or execute the acquisition of the debts of AMB Harta (L) Limited by way of a call option on the sellers.

The Manager exercised and accepted the transfer of the first acquisition of zero-coupon redeemable secured Class B USD-denominated debts ("Class B SPV Debts") with a nominal value of approximately USD9.07 million (equivalent to approximately RM31.36 million) for a cash consideration of approximately USD5.44 million (equivalent to approximately RM18.82 million) on 19 September 2007.

The Manager further has a right to make the second acquisition of the Class B SPV Debts and zero-coupon redeemable secured Class C USD-denominated debts with an aggregate nominal value of approximately USD32.62 million (equivalent to approximately RM112.54 million) for a cash consideration of approximately USD16.58 million (equivalent to approximately RM57.20 million) within a period of four months from the date of the option agreement with a further extension of two months.

REVIEW OF OPERATIONS

Tyre

The performance of the Chinese tyre industry is linked to the automotive and infrastructure sectors, both of which are fast growing market segments in China. As our Tyre Division entered its second year of operation, our plant utilisation improved from 26% to 60%. Similarly, we also saw our workforce increased from 370 employees to 415 employees to support the growth. Along with this progress, we had improved on our products to suit the local usage standards and the road conditions in China. There were various challenges to overcome, amongst which was the overloading of trucks by the end-users. In this regard, we continuously allocated resources for the research, development and engineering aspects of the business to enhance the quality of our tyres.

Our growing distribution network was mainly focused on the replacement market. As this is a price-sensitive market, our operations had not been able to recover rising raw material costs to the full extent through product pricing. Commercial pressures had continually kept selling price down. Hence, it is crucial that we gain a larger market share to improve returns from higher productivity. Although our Tyre Division has yet to turn around and become profitable, we see vast potential in the tyre industry given the booming automotive sector in China.

Building Materials

The Malaysian construction sector finally saw positive growth in the 2nd quarter of FY2007 after continuous contraction in the past three consecutive years. The industry's recent growth was underpinned by the implementation of projects under the 9th Malaysia Plan, the establishment of the Iskandar Development Region in Johor and the recently announced development plans for the Northern and Eastern Corridor Economic Regions. In this respect, the impact had not been fully felt as yet due to delays in project implementation. Meanwhile, the residential property market had been lacklustre in the mass low-to-medium-end segment due to the soft market conditions, whilst the higher-end market was less affected, supported by the easing of ownership rules for foreigners.

Growth in the Group's building materials business segment remained low this year, but is expected to pick up in tandem with improvement in the construction industry. As a middleman bridging the gap between developers/contractors/dealers and the manufacturers, our business of distributing building materials now demands a greater level of strategic planning and coordination in adding value to both our customers as well as our suppliers. The market environment has become increasingly competitive with developers establishing in-house trading companies to deal directly with manufacturers. Governmental price control mechanisms for infrastructural development products had forced producers to put the squeeze on rebates thereby eroding margins.

In this regard, we had actively reinforced close rapport with our customers and support from principals. Our wide distribution coverage in the regional branches together with a reliable operating structure had enabled the business to navigate through these adversities. To meet the challenges ahead, we will strive to continuously improve our operating structure and build on exclusive products to strengthen our business model.

Lubricants and Others

The lubricants industry is becoming increasingly more competitive with leading players seeking advantages in economies of scale and managing their business on a global basis. Industry consolidation continued to impact on the manufacturing and business economics, on base oil supply positions and consequently on market share and ranking.

Domestically, the lubricant market was mainly characterized by expansions in manufacturing activities and the number of motor vehicles on the road. The increase in motor vehicle ownership and the rising number of kilometres travelled per vehicle bode well for an increase in lubricant consumption. However, there were also expectations to provide products of higher energy efficiency which are environmentally friendly and yet cost-effective. Coupled with continued base oil price increase, our operations also faced new challenges from different fronts posed by our competitors. In this respect, we remained vigilant in our strategic positioning, advertising and promotion and the supply chain process. To be competitive, we also sought to strengthen our business operations by diversifying and adding on related products, a move that had benefited us due to our strong customer network.

Our venture into the plantation business via the proposed development of 40,000 hectares in the Malinau Regency has yet to kick-start despite numerous discussions held with the relevant authorities in Indonesia. Nonetheless, the Group is on the look-out for suitable sites in various areas for similar development.

Pulp, Paper And Timber – Discontinued Operation

In the light of stiff competition, SFI continued to record adverse results in the period prior to its disposal. To compete effectively, SFI needed to operate on a larger capacity and scale which would then require substantial capital expenditure to upgrade the existing pulp and paper mill. As the Group was not in a position to embark on such a huge investment, the disposal of SFI represented a good opportunity to realise its investment at attractive valuations.

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. In this regard, CSR is becoming an important component of good business practice aimed at improving society and the environment.

In carrying out its business activities, the Group is mindful of its responsibility 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 through two Foundations.

The 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.

PROSPECTS

The Group intends to capitalise on the strong growth in the Chinese automotive market through the expansion of its investments in the Tyre Division. Besides building on its presence in China, the tyre business will implement brand building initiatives to capture a bigger share of the market.

In the domestic market, the Building Materials Division is expected to perform better in the light of the recovery of the construction industry, whilst our Lubricant and Motor Accessories Division is expected to maintain its profitable position.

ACKNOWLEDGEMENT

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

I would also like to convey my appreciation and gratitude to my fellow Directors for their invaluable guidance and contribution throughout the year.

TAN SRI WILLIAM H.J.CHENG
Chairman

主席报告

我谨代表董事部，欣然向您提呈金狮森林工业有限公司，截至2007年6月30日止财政年度内的常年报告及已审核财务报表。

财务表现

脱售沙巴森林工业私人有限公司（“沙巴森林工业”），意味着本集团退出制浆、造纸和伐木业务。这几年来，沙巴森林工业的表现远远无法令人满意，因此这项脱售为本集团提供退出在此领域投资的机会。

这项脱售计划让本集团有能力回馈股东，使用部分所得款项来进行每股2令吉的资本回退，馀款则指定供做其他业务发展，包括扩展轮胎业务及成立新的业务和投资，而这一切主要是放眼为长期创造可持续的收入基础。

配合新的会计报表规定，本集团今年采纳新的会计准则。尽管这项采纳并没有对本集团的业绩产生任何实质影响，但财务报表的新呈现方式更是合时及适用， 尤其是将持续经营和停止经营的业务表现分开报告。我们的持续经营，轮胎和建材业务的收入取得显着改善，并且转亏为盈，从之前一年的1千500万令吉税前亏损改善至400万令吉税前盈利。

企业发展

(i) 检讨年度内，本公司以现金2亿6千100万美元（大约相等于9亿4千482万令吉）(已根据合约上所同意的售价进行调整）完成脱售持有的沙巴森林工业全部股权给 JP Morgan Special Situations Asia Corporation 和 Ballarpur Industries Limited。本公司将脱售沙巴森林工业所得的部分款项，拨出4亿2千55万令吉来进行资本回退。

(ii) 2007年9月21日，本公司宣布旗下独资子公司 Jadeford International Limited 已委任执行人，以通过卖方的回购选择权方式，安排及/或执行收购 AMB Harta（L）Limited 的债务。

有关执行人在2007年9月19日以现金约544万美元(大约相等于1千882万令吉)，执行及接受第一批面值约907万美元(大约相等于3千136万令吉）的零利率可赎回有担保B级美元计价债券的转让。

有关执行人拥有进一步的权利，可在选择权合约日期算起的4个月内，并可进一步延长两个月，以现金1千658万美元（大约相等于5千720万令吉)的代价，收购累积面值约3千262万美元（大约相等于1亿1千254万令吉）的第二批B级特别目的工具债券的零利率可赎回有担保C级美元计价债券。

业务检讨

轮胎

中国轮胎业的表现和汽车及基本建设领域息息相关，而后两者可说是火速成长的领域。鉴于我们的轮胎业务进入运作的第二年，工厂的利用率已从26%提高至60%。相同的，我们也见到了员工总数从370人增加至415人，为成长中的业务提供支援。与此同时，我们也不断改善产品的品质，以便能够符合中国当地的使用标准及道路状况。我们的运作面对的各种挑战其中包括用户超载。因此， 我们继续分配资源以对这方面的业务进行研究、发展及改善工程技术，以加强我们生产的产品品质。

我们成长中的分销网络主要专注在替换市场。由于这是个价格敏感的市场，我们的运作无法通过产品售价来抵消日涨的原料成本。商业压力持续使轮胎售价不断下调，因此必须取得更大的市场占有率，以便能够通过更高的产能来改善回酬。尽管我们的轮胎业务仍未转亏为盈，但鉴于中国汽车业蓬勃成长，我们预见了当地轮胎业的庞大潜能。

建筑材料

经过连续3年的成长萎缩後，马来西亚的建筑业终於在本财政年度的第二季取得成长。第九大马计划下推介的各种计划、依斯干达发展特区及最近宣布的北马经济走廊特区及东海岸经济走廊特区，让建筑业近来获得成长动力。不过，由于一些计划的展延，使到建筑业仍未能全面感受到这些工程所带来的全面影响。另一方面，住宅产业领域的低档至中档市场因为市场疲软而表现乏善可陈，惟高档市场则因为外国人置产限制放宽而获得支持力量，受到较小影响。

本集团建材业务在这一年保持低成长，但预料将随着建筑业改善的脚步而渐有起色。作为跨接发展商/承包商/代理及制造商的中间人，我们的建材分销业务如今需要更高层次的策略规划及协调，以便能够为顾客和供应商提供加值。这个领域的运作环境已变得越来越具竞争性，主要是因为许多发展商成立本身内部的贸易公司，直接和制造商交易。政府对基建产品的统制价机制也逼使生产商压榨回扣，进而侵蚀我们的利润。

这方面，我们积极加强和顾客的和谐关系，并巩固来自总厂的支持。我们广泛的分销网络及可信赖的运作结构，至今仍能让我们在这方面的业务，成功克服这些不利因素。为了应付未来挑战，我们致力於持续改善运作结构，发展更独特的产品，以加强我们的商业模式。

润滑油及其他

润滑油工业越来越具竞争性，主要是因为市场领导者从经济规模中寻求好处，并以全球基础来管理他们的业务。业者的合并巩固，也继续对制造业务和商业经济、基础油供应情况，甚至市场占有率和排名产生影响。

在国内，润滑油市场主要是受到制造业活动和路上行驶的汽车的数量所影响。拥车量的增加及车辆行驶里程的增加将有助于提高润滑油的消费。不过，人们也期望润滑油能够具有更高的能源效益、环保及成本效益。随着基础油价格不断扬升，我们的运作也面对競争对手各种新挑战。这方面，我们在拟定策略、定位、广告宣传和促销，及供应链程序方面都保持谨慎态度；为了保持竞争力，我们也寻求通过多元化和增加相关产品来加强商业运作，而由于我们拥有强大的顾客网络，这是能够让我们受惠的一个步骤。

我们通过在印尼马利瑙区收购4万公顷土地，进军种植业务的建议，尽管已和印尼相关当局讨论无数次，但计划仍然未能开始推行。虽然如此，本集团仍在不同地区寻找合适的地点，以展开相同的发展计划。

制浆、造纸和伐木 - 停止经营的业务

由於面对激烈竞争，沙巴森林工业在被脱售之前继续写下欠佳的业绩表现。为了能够有效竞争，沙巴森林工业必须以更大的产能和规模运作，而这需要非常庞大的资本开销来提升现有的制浆和造纸厂。由于本集团无意进行这类投资，因此，以可观的价值脱售沙巴森林工业可说是实现在沙巴森林工业投资价值的机会。

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中不可或缺的一部分，以加强利益相关者的信心、责任感和透明度。在这方面，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。

本公司在展开商业活动时，深切了解作为企业公民的责任，在对股东在企业的价值作出贡献的同时，也要回馈社会。因此本集团通过两项基金，以教育和医疗服务来回馈社会。

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生。金狮集团医药援助基金则为迫切需要医疗的马来西亚人提供财务援助。

展望

本集团计划通过扩展轮胎业务投资，来从中国强劲成长的汽车市场中掌握更多商业机会。除了要在中国占有一席之位，本集团的轮胎业务将致力建立更强的品牌，以取得更大的市场占有率。

本地市场方面，建材业务料将因为建筑业的复苏而表现更佳，而我们的润滑油和汽车配件业务则料可保持盈利水平。

鸣谢

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

对于董事们这一年来不懈的领导和贡献，我谨表达最深切的谢意。

主席
丹斯里钟廷森

FINANCIAL STATEMENTS 2007

For The Financial Year Ended 30 June 2007

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 2007.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiary companies and of the associated company are as listed in Notes 16 and 17 to the Financial Statements respectively.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year other than as disclosed in Note 16 to the Financial Statements.

SIGNIFICANT EVENTS

Significant corporate events during the year and subsequent events are disclosed in Notes 39 and 40 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:

	The Group RM'000	The Company RM'000
Continuing operations:		
Profit/(Loss) before tax	4,035	(91,930)
Income tax expense	(4,714)	(2,418)
Loss for the year	(679)	(94,348)
Discontinued operations:		
Loss for the year	(63,201)	–
Total loss for the year from continuing and discontinued operations	(63,880)	(94,348)
Attributable to:		
Equity holders of the Company	(60,452)	
Minority interests	(3,428)	
	(63,880)	

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

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 RM210,153,371, comprising 210,153,371 ordinary shares of RM1.00 each to RM210,274,371, comprising 210,274,371 ordinary shares of RM1.00 each, by way of the issue of 121,000 new ordinary shares of RM1.00 each pursuant to the exercise of 121,000 options under the Company's Executive Share Option Scheme at an issue price of RM3.00 per share.

The resulting share premium of RM242,000 arising from the issue of shares has been credited to the share premium account.

The new ordinary shares issued ranked *pari passu* in all material 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 employees 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 of number of options granted, exercised and lapsed pursuant to the ESOS during the financial year are as follows:

		Number of Options			
Grant Date	**Subscription Price Per Share**	**Balance as of 1.7.2006**	**Exercise**	**Lapsed**	**Balance as of 30.6.2007**
10.5.2006	RM3.00*	3,579,700	(121,000)	(302,600)	3,156,100
26.6.2006	RM2.67	22,400	–	(22,400)	–
		3,602,100	(121,000)	(325,000)	3,156,100

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

OTHER FINANCIAL INFORMATION

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

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

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

(a) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

(c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

(d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

(b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

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

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

DIRECTORS

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

Tan Sri William H.J. Cheng
Ngan Yow Chong
Dato' Mohamad bin Haji Ahmad
Dato' Dali Mahmud Hashim
Dato' Kalsom binti Abd. Rahman
Zainab binti Dato' Hj. Mohamed
Jen (B) Tan Sri Dato' Zain Mahmud Hashim (retired on 13.11.2006)

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Dato' Kalsom binti Abd. Rahman and Cik Zainab binti Dato' Hj. Mohamed retire by rotation at the forthcoming Annual General Meeting 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 1.7.2006	**Additions**	**Disposals**	**Balance as of 30.6.2007**
Direct Interest				
Dato' Mohamad bin Haji Ahmad	12,000	–	–	12,000
Ngan Yow Chong	–	66,200	(30,000)	36,200
Indirect Interest				
Tan Sri William H.J. Cheng	170,488,512	–	(2,500,000)	167,988,512

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

	Number of Options over Ordinary Shares of RM1.00 each			
	Balance as of 1.7.2006	**Granted**	**Exercised**	**Balance as of 30.6.2007**
Ngan Yow Chong	94,500	–	(66,200)	28,300

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

	Nominal Value Per Ordinary Share	Number of Shares			
		Balance as of 1.7.2006	**Additions**	**Disposals**	**Balance as of 30.6.2007**
Direct Interest					
Dato' Mohamad bin Haji Ahmad					
Lion Industries Corporation Berhad	RM1.00	3,276	–	–	3,276
Indirect Interest					
Tan Sri William H.J. Cheng					
Lion Industries Corporation Berhad	RM1.00	323,938,625	13,000,000	–	336,938,625
Lion-Kimtrans Logistics Sdn. Bhd.	RM1.00	–	75	–	75
LLB Enterprise Sdn. Bhd.	RM1.00	690,000	–	–	690,000
LLB Strategic Holdings Berhad	RM1.00	4,050,000	–	–	4,050,000
Marvenel Sdn. Bhd.	RM1.00	100	–	–	100
Ototek Sdn. Bhd.	RM1.00	1,050,000	–	–	1,050,000
Posim EMS Sdn. Bhd.	RM1.00	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

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

Investments in the People's Republic of China	Currency	Balance as of 1.7.2006	Additions	Disposals	Balance as of 30.6.2007
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

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company has received or become entitled to receive any benefit, other than those disclosed as Directors' remuneration in the financial statements, by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, 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 interest 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.

HOLDING COMPANY

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

AUDITORS

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

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

TAN SRI WILLIAM H.J. CHENG

NGAN YOW CHONG

Kuala Lumpur
1 October 2007

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

We have audited the accompanying balance sheets as of 30 June 2007 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

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

In our opinion:

(a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 ("Act") and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of:

  (i) the state of affairs of the Group and of the Company as of 30 June 2007 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and

  (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' reports of the subsidiary companies, of which we have not acted as auditors, as mentioned in Note 16 to the Financial Statements, being financial statements that have been included in the consolidated financial statements.

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

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

DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants

YEE YOON CHONG
1829/07/09 (J)
Partner

Petaling Jaya
1 October 2007

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

	Note	The Group 2007 RM'000	The Group 2006 RM'000 Restated	The Company 2007 RM'000	The Company 2006 RM'000 Restated
Continuing operations					
Revenue	5	**295,799**	233,538	**102,225**	134,073
Other operating income		**24,125**	16,678	**23,335**	15,811
Changes in inventories of finished goods, trading merchandise and work-in-progress		**2,335**	7,123	**–**	(136)
Raw materials and consumables used		**(85,561)**	(53,561)	**–**	–
Purchase of trading merchandise		**(164,906)**	(147,696)	**(100,749)**	(107,875)
Staff costs	6	**(15,547)**	(12,701)	**(1,017)**	(2,394)
Other production expenses		**(15,234)**	(16,767)	**–**	–
Depreciation of:					
Property, plant and equipment	11	**(12,953)**	(12,035)	**(72)**	(81)
Investment properties	12	**(47)**	(47)	**(47)**	(47)
Amortisation of intangible assets	13	**(50)**	(46)	**–**	–
Loss on disposal of subsidiary company		**–**	–	**(94,494)**	–
Impairment loss on investment in a subsidiary company	16	**–**	–	**(800)**	(279,421)
Other operating expenses		**(19,440)**	(24,707)	**(9,697)**	(6,254)
Profit/(Loss) from operations		**8,521**	(10,221)	**(81,316)**	(246,324)
Finance costs	7	**(3,883)**	(3,345)	**(10,614)**	(10,256)
Share in results of associated company		**(603)**	(1,772)	**–**	–
Profit/(Loss) before tax		**4,035**	(15,338)	**(91,930)**	(256,580)
Income tax expense	8	**(4,714)**	(1,990)	**(2,418)**	(1,640)
Loss for the year from continuing operations		**(679)**	(17,328)	**(94,348)**	(258,220)
Discontinued operations					
Loss for the year from discontinued operations	36	**(63,201)**	(224,266)	**–**	–
Loss for the year	6	**(63,880)**	(241,594)	**(94,348)**	(258,220)
Attributable to:					
Equity holders of the Company		**(60,452)**	(234,850)		
Minority interests		**(3,428)**	(6,744)		
		(63,880)	(241,594)		

(Forward)

	Note	The Group 2007	The Group 2006 Restated
Loss per ordinary share (sen)	9		
Basic, for profit/(loss) from continuing operations		**1.16**	(5.60)
Basic, for loss from discontinued operations		**(29.93)**	(106.26)
Basic, for loss for the year		**(28.77)**	(111.86)
Diluted, for profit/(loss) from continuing operations		**N/A**	N/A
Diluted, for loss from discontinued operations		**N/A**	N/A
Diluted, for loss for the year		**N/A**	N/A

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

BALANCE SHEETS

AS OF 30 JUNE 2007

	Note	The Group 2007 RM'000	The Group 2006 RM'000 Restated	The Company 2007 RM'000	The Company 2006 RM'000 Restated
ASSETS					
Non-current Assets					
Property, plant and equipment	11	**191,682**	835,243	**4,877**	4,944
Investment properties	12	**2,318**	2,365	**2,318**	2,365
Intangible assets	13	**404**	454	**–**	–
Forest concessions	14	**–**	290,136	**–**	–
Plantation development expenditure	15	**–**	152,139	**–**	–
Investment in subsidiary companies	16	**–**	–	**8,237**	953,399
Investment in associated company	17	**–**	603	**–**	603
Other investments	18	**127**	99	**67**	39
Goodwill on consolidation	19	**191**	191	**–**	–
Deferred tax assets	20	**471**	319	**–**	–
Amount owing by holding company	21	**25,000**	50,000	**25,000**	50,000
Amount owing by subsidiary company	16	**–**	–	**18,200**	18,200
Deferred consideration	23	**124,272**	–	**124,272**	–
Total Non-current Assets		**344,465**	1,331,549	**182,971**	1,029,550
Current Assets					
Inventories	22	**35,977**	105,154	**–**	–
Trade receivables	23	**66,136**	80,759	**6,822**	9,818
Other receivables and prepaid expenses	23	**310,977**	21,861	**299,987**	1,088
Amount owing by holding company	21	**49,212**	20,000	**49,212**	20,000
Amount owing by subsidiary companies	16	**–**	–	**38,102**	37,864
Amount owing by other related companies	21	**113,657**	110,343	**112,464**	109,383
Fixed deposits with licensed banks	24	**17,739**	23,476	**10,594**	–
Cash and bank balances	25	**23,227**	15,971	**4,400**	2,172
Total Current Assets		**616,925**	377,564	**521,581**	180,325
Total Assets		**961,390**	1,709,113	**704,552**	1,209,875

(Forward)

	Note	The Group 2007 RM'000	The Group 2006 RM'000 Restated	The Company 2007 RM'000	The Company 2006 RM'000 Restated
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued capital	26	**210,274**	210,153	**210,274**	210,153
Reserves	27	**551,628**	1,084,983	**350,894**	865,629
Equity attributable to equity holders of the Company		**761,902**	1,295,136	**561,168**	1,075,782
Minority interests		**29,679**	206,011	**–**	–
Total Equity		**791,581**	1,501,147	**561,168**	1,075,782
Non-current and Deferred Liabilities					
Hire-purchase payables	28	**39**	144	**–**	–
Long-term borrowings	29	**24,905**	27,093	**–**	–
Deferred tax liabilities	20	**418**	418	**153**	153
Amount owing to subsidiary company	16	**–**	–	**43,200**	68,200
Total Non-current and Deferred Liabilities		**25,362**	27,655	**43,353**	68,353
Current Liabilities					
Trade payables	30	**36,676**	51,075	**14,337**	14,232
Other payables and accrued expenses	30	**72,131**	95,928	**6,011**	787
Amount owing to subsidiary companies	16	**–**	–	**68,965**	37,329
Amount owing to other related companies	21	**523**	1,766	**523**	1,766
Bank borrowings	31	**32,875**	29,905	**9,355**	10,422
Tax liabilities		**2,242**	1,637	**840**	1,204
Total Current Liabilities		**144,447**	180,311	**100,031**	65,740
Total Liabilities		**169,809**	207,966	**143,384**	134,093
Total Equity and Liabilities		**961,390**	1,709,113	**704,552**	1,209,875

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

The Group	Note	Issued capital RM'000	Share premium RM'000	Equity compensation reserve RM'000	Translation adjustment account RM'000	Capital reserve RM'000	Capital redemption reserve RM'000	Retained earnings/ (Accumulated loss) RM'000	Attributable to equity holders of the Company RM'000	Minority interests RM'000	Total equity RM'000
Balance as of 1 July 2005		209,941	1,107,826	–	(46)	49,189	9	185,100	1,552,019	211,615	1,763,634
Share-based payments:											
Effect of changes in accounting policy for FRS 2	38	–	–	655	–	–	–	–	655	17	672
Net loss for the year:											
As previously stated		–	–	–	–	–	–	(234,195)	(234,195)	(6,727)	(240,922)
Effect of changes in accounting policy for FRS 2	38	–	–	17	–	–	–	(672)	(655)	(17)	(672)
As restated		–	–	17	–	–	–	(234,867)	(234,850)	(6,744)	(241,594)
Dividends	10	–	–	–	–	–	–	(23,093)	(23,093)	–	(23,093)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	(536)	(536)
Issue of shares	26	212	426	–	–	–	–	–	638	–	638
Issue of subsidiary shares to minority shareholders		–	–	–	–	–	–	–	–	1,162	1,162
Translation adjustment for the year		–	–	–	(233)	–	–	–	(233)	497	264
Balance as of 30 June 2006		210,153	1,108,252	672	(279)	49,189	9	(72,860)	1,295,136	206,011	1,501,147
Balance as of 1 July 2006											
As previously stated		**210,153**	**1,108,252**	**–**	**(279)**	**49,189**	**9**	**(72,188)**	**1,295,136**	**206,011**	**1,501,147**
Effect of changes in accounting policy for FRS 2	38	**–**	**–**	**672**	**–**	**–**	**–**	**(672)**	**–**	**–**	**–**
As restated		**210,153**	**1,108,252**	**672**	**(279)**	**49,189**	**9**	**(72,860)**	**1,295,136**	**206,011**	**1,501,147**
Net loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(60,452)**	**(60,452)**	**(3,428)**	**(63,880)**
Issue of shares	26	**121**	**242**	**–**	**–**	**–**	**–**	**–**	**363**	**–**	**363**
Capital distribution	39	**–**	**(420,548)**	**–**	**–**	**–**	**–**	**–**	**(420,548)**	**–**	**(420,548)**
Disposal of subsidiary company		**–**	**–**	**(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)**
Balance as of 30 June 2007		**210,274**	**688,003**	**412**	**(3,606)**	**122**	**9**	**(133,312)**	**761,902**	**29,679**	**791,581**

(Forward)

The Company	Note	Issued capital RM'000	Share premium RM'000	Equity com-pensation reserve RM'000	Capital reserve RM'000	Retained earnings/ (Accumulated loss) RM'000	Total RM'000
Balance as of 1 July 2005		209,941	1,107,826	–	–	38,018	1,355,785
Share-based payments:							
Effect of changes in accounting policy for FRS 2	38	–	–	672	–	–	672
Net loss for the year:							
As previously stated		–	–	–	–	(257,993)	(257,993)
Effect of changes in accounting policy for FRS 2	38	–	–	–	–	(227)	(227)
As restated		–	–	–	–	(258,220)	(258,220)
Issue of shares	26	212	426	–	–	–	638
Dividends paid	10	–	–	–	–	(23,093)	(23,093)
Balance as of 30 June 2006		210,153	1,108,252	672	–	(243,295)	1,075,782
Balance as of 1 July 2006							
As previously stated		**210,153**	**1,108,252**	**–**	**–**	**(243,068)**	**1,075,337**
Effect of changes in accounting policy for FRS 2	38	**–**	**–**	**672**	**–**	**(227)**	**445**
As restated		**210,153**	**1,108,252**	**672**	**–**	**(243,295)**	**1,075,782**
Net loss for the year		**–**	**–**	**–**	**–**	**(94,348)**	**(94,348)**
Issue of shares	26	**121**	**242**	**–**	**–**	**–**	**363**
Capital distribution	39	**–**	**(420,548)**	**–**	**–**	**–**	**(420,548)**
Disposal of subsidiary company		**–**	**–**	**(753)**	**–**	**–**	**(753)**
Share-based payments		**–**	**57**	**493**	**122**	**–**	**672**
Balance as of 30 June 2007		**210,274**	**688,003**	**412**	**122**	**(337,643)**	**561,168**

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

The Group	2007 RM'000	2006 RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Net loss for the year	**(63,880)**	(241,594)
Adjustments for:		
(Gain)/Loss on disposal of:		
Subsidiary company	**42,220**	–
Property, plant and equipment	**(103)**	(70)
Depreciation of:		
Property, plant and equipment	**38,576**	56,608
Investment properties	**47**	47
Allowance for slow-moving and obsolete inventories	**10,868**	1,233
Amortisation of:		
Forest concessions	**7,647**	10,796
Intangible assets	**50**	46
Goodwill on consolidation	**–**	10,146
Unrealised loss on foreign exchange	**7,144**	–
Income tax expense recognised in income statements	**4,714**	1,921
Finance costs	**4,286**	3,706
Impairment loss on:		
Property, plant and equipment	**3,183**	1,089
Other investments	**66**	203
Goodwill on consolidation	**–**	161,076
Allowance for doubtful debts	**2,326**	1,139
Inventories written down	**1,716**	477
Property, plant and equipment written-off	**1,625**	–
Share-based payment expenses	**672**	672
Share in results of associated company	**603**	1,772
Interest income	**(20,035)**	(16,113)
Accretion of notional interest on deferred consideration	**(2,666)**	–
Allowance for doubtful debts no longer required	**(463)**	(332)
Loss on striking off of a subsidiary company	**–**	131
Operating Profit/(Loss) Before Working Capital Changes	**38,596**	(7,047)
(Increase)/Decrease in:		
Inventories; adjusted for depreciation of property, plant and equipment of RM31,000 (RM2,788,000 in 2006) and amortisation of plantation development expenditure of RM3,662,000 (RM996,000 in 2006)	**(9,122)**	2,104
Trade receivables	**343**	12,346
Other receivables and prepaid expenses	**(4,587)**	(6,779)
Increase in:		
Trade payables	**3,314**	20,698
Other payables and accrued expenses; excluding hire-purchase payables	**27,118**	13,251
Cash Generated From Operations	**55,662**	34,573
Interest received	**4,806**	616
Income tax paid	**(4,261)**	(3,089)
Net Cash From Operating Activities	**56,207**	32,100

(Forward)

The Group	**Note**	**2007 RM'000**	**2006 RM'000**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment (Note)		**(58,786)**	(72,243)
Additions to other investments		**(94)**	–
Proceeds from disposal of property, plant and equipment		**1,763**	172
Disposal of a subsidiary company (Note 16)		**423,074**	–
(Increase)/Decrease in:			
Amount owing by holding company		**4,188**	27,016
Amount owing by other related companies		**(282)**	(5,390)
Plantation development expenditure; adjusted for depreciation of property, plant and equipment of RM322,000 (RM156,000 in 2006)		**(5,073)**	(6,120)
Cash at banks held under Escrow Account and fixed deposits pledged		**(531)**	(1,027)
Interest received from other related companies		**4,050**	5,961
Intangible assets acquired		**–**	(500)
Net Cash From/(Used In) Investing Activities		**368,309**	(52,131)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts and current portion of term loan		**(23,384)**	6,187
Amount owing to other related companies		**(1,243)**	309
Proceeds from issue of shares		**363**	638
Capital distribution to shareholders		**(420,548)**	–
Payment of hire-purchase payables		**(236)**	(225)
Finance costs paid		**(3,822)**	(3,667)
Proceeds from term loan		**25,456**	34,883
Dividends paid		**–**	(23,093)
Dividends paid to minority shareholder of subsidiary company		**–**	(536)
Net Cash From/(Used In) Financing Activities		**(423,414)**	14,496
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,102**	(5,535)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**35,434**	40,939
Effect of exchange differences		**740**	30
CASH AND CASH EQUIVALENTS AT END OF YEAR	37	**37,276**	35,434

Note: During the financial year, the Group acquired property, plant and equipment at an aggregate cost of RM58,786,000 (RM72,508,000 in 2006) of which RM Nil (RM265,000 in 2006) was acquired under hire-purchase arrangements. Cash payments for the acquisition of property, plant and equipment amounted to RM58,786,000 (RM72,243,000 in 2006).

(Forward)

The Company	2007 RM'000	2006 RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Net loss for the year	**(94,348)**	(258,220)
Adjustments for:		
Loss on disposal of subsidiary company	**94,494**	–
Finance costs	**10,614**	10,256
Unrealised loss on foreign exchange	**7,144**	–
Income tax expense recognised in income statements	**2,418**	1,640
Impairment loss on:		
Investment in a subsidiary company	**800**	279,421
Investment in an associated company	**603**	4,081
Other investments	**66**	203
Share-based payment expenses	**227**	227
Allowance for doubtful debts	**–**	262
Depreciation of:		
Property, plant and equipment	**72**	81
Investment properties	**47**	47
Interest income	**(19,596)**	(15,773)
Accretion of notional interest on deferred consideration	**(2,666)**	–
Allowance for doubtful debts no longer required	**(269)**	(111)
Dividend income	**(140)**	(23,765)
Operating Loss Before Working Capital Changes	**(534)**	(1,651)
(Increase)/Decrease in:		
Inventories	**–**	136
Trade receivables	**3,265**	6,127
Other receivables and prepaid expenses	**(5,851)**	1,078
Increase/(Decrease) in:		
Trade payables	**105**	(2,267)
Other payables and accrued expenses	**4,471**	(429)
Cash Generated From Operations	**1,456**	2,994
Interest received	**3,823**	163
Income tax paid	**(2,744)**	(681)
Net Cash From Operating Activities	**2,535**	2,476

(Forward)

	Note	2007 RM'000	2006 RM'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Proceeds from disposal of a subsidiary company (Note 16)		**428,515**	–
Purchase of property, plant and equipment		**(5)**	(2)
(Increase)/Decrease in:			
Other investments		**(94)**	–
Amount owing by holding company		**4,188**	27,016
Amount owing by subsidiary companies		**(238)**	(22,549)
Amount owing by other related companies		**(3,081)**	(5,335)
Cash at banks held under Escrow Account and fixed deposits pledged		**(31)**	(27)
Interest received from:			
Subsidiary companies		**291**	113
Other related companies		**7,082**	5,961
Dividend received from subsidiary companies		**102**	23,728
Addition to investment in subsidiary companies		**–**	(300)
Net Cash From Investing Activities		**436,729**	28,605
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts		**(839)**	1,070
Amount owing to subsidiary companies		**6,636**	(436)
Amount owing to other related companies		**(1,243)**	309
Proceeds from issue of shares		**363**	638
Capital distribution to shareholders		**(420,548)**	–
Finance costs paid		**(10,614)**	(10,256)
Dividends paid		**–**	(23,093)
Net Cash Used In Financing Activities		**(426,245)**	(31,768)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**13,019**	(687)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**(215)**	472
CASH AND CASH EQUIVALENTS AT END OF YEAR	37	**12,804**	(215)

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The principal activities of the subsidiary companies and of the associated company are as listed in Notes 16 and 17, respectively.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year other than as disclosed in Note 16.

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 1 October 2007.

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.

Changes in Accounting Policies

In the current financial year, the Group and the Company adopted all of the new and revised Financial Reporting Standards ("FRS") issued by MASB that are relevant to their operations and effective for periods beginning on or after 1 January 2006 as follows:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Properties

The application of the revised FRS 101 has resulted in a change in the presentation of the income statements, balance sheets, statements of changes in equity and cash flow statements. In particular, post-tax profit or loss of discontinued operations and post-tax gain or loss on disposal of discontinued operations are now presented as a single amount in the income statements of the Group. The changes in the presentation have been applied retrospectively.

With the exception of FRS 2, FRS 3, FRS 5, FRS 136 and FRS 140 as explained below, the adoption of the other FRSs above does 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.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Share-based Payment

FRS 2 requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares of the Company ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). For share options, the fair value of the options determined at the grant date will need to be recognised as an expense over the vesting period.

Prior to 1 July 2006, no compensation expense was recognised in the income statements for share options granted. The Group and the Company recognised an increase in issued and paid-up share capital and share premium when the options were exercised. Upon the adoption of FRS 2, the total fair value of share options granted to employees and directors is recognised as an employee cost with a corresponding increase in the equity compensation reserve within equity over the vesting period.

The Group has applied FRS 2 in accordance with its transitional provision which allows this change in accounting policy to be applied to share options that were granted after 31 December 2004 and had not vested on 1 July 2006. The application is retrospective and accordingly, certain comparative figures have been restated as disclosed in Note 38.

Goodwill on Consolidation

In prior years, goodwill on consolidation is amortised evenly over 25 years and is stated at cost less accumulated amortisation and any impairment losses and was subject to impairment testing only when there were indications of impairment.

With the adoption of FRS 3 and FRS 136 on 1 July 2006, goodwill is no longer amortised and is tested annually for impairment, including in the year of its initial recognition, or more frequently when there is an indication that the cash-generating unit to which goodwill was allocated may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period. Because the change in this accounting policy has been applied prospectively, the change had no impact on amounts reported in prior periods. The transitional provisions of FRS 3, however, have required the Group to eliminate on 1 July 2006 the carrying amount of the related accumulated amortisation of RM92,286,000 with a corresponding decrease in goodwill. The carrying amount of goodwill as of 1 July 2006 of RM191,000 ceased to be amortised.

Non-current Assets Held For Sale and Discontinued Operations

FRS 5 requires a component of an entity to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. Such a component represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of the component.

An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The assets and liabilities of a discontinued operation (a disposal group) that are classified as held for sale are measured in accordance with FRS 5. Immediately before classification as held for sale, the carrying amounts of all the assets and liabilities in the disposal group are measured in accordance with the applicable FRSs. Then, on initial classification as held for sale, the disposal group is recognised at the lower of carrying amount and fair value less costs to sell.

Investment Properties

In prior years, land and buildings held to earn rentals or for capital appreciation or both and not occupied by the Group were classified as property, plant and equipment and were stated at cost less accumulated depreciation and any impairment losses.

With the adoption of FRS 140 on 1 July 2006, such land and buildings are reclassified as investment properties. The Group has chosen to apply the cost model under FRS 140 and accordingly, investment properties are stated at cost less accumulated depreciation and any impairment losses.

The reclassification of the assets as investment properties has been accounted for retrospectively and as disclosed in Note 38, certain comparative figures have been restated.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

Accounting Standards Issued but Not Yet Effective

The following new and revised FRSs, Amendments and Interpretations have been issued but not yet effective until future periods:

Relevant to the Group's Operations

FRS 117 Leases
FRS 124 Related Party Disclosures
FRS 139 Financial Instruments: Recognition and Measurement
Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
IC Interpretation 8 Scope of FRS 2

FRS 117 is effective for accounting periods beginning on or after 1 October 2006 and requires the classification of leasehold land as prepaid lease payments. Such prepaid lease payments will be amortised evenly over the lease term of the land. The adoption of FRS 117 will also require the Group to account for its leasehold properties classified as investment properties using the fair value model under FRS 140 whereby no depreciation will be charged and any gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise. The Group will apply this standard from financial period beginning 1 July 2007.

FRS 124 is effective for accounting periods beginning on or after 1 October 2006 and will affect the identification of related parties and some other related party disclosures. The Group will apply this standard from financial period beginning 1 July 2007.

The effective date of FRS 139 is yet to be determined by MASB. 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 when it becomes effective.

Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation is effective for accounting periods beginning on or after 1 July 2007. This amendment requires exchange differences arising from monetary items forming part of net investment in a foreign operation to be recognised in a separate component of equity in the consolidated financial statements regardless of the currency of the monetary item. Previously, such treatment is only allowed where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation. The Group will apply this amendment from financial period beginning 1 July 2007.

IC Interpretation 8 Scope of FRS 2 is effective for accounting periods beginning on or after 1 July 2007 and requires unidentifiable goods or services received as consideration for equity instruments of the entity to be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received. Such measurement shall be determined at the grant date except for cash-settled transactions, where the liability shall be remeasured at each reporting date until it is settled. The Group will apply this interpretation from financial period beginning 1 July 2007.

Not Relevant to the Group's Operations

FRS 6 Exploration for and Evaluation of Mineral Resources
(effective 1 January 2007)

Amendment to FRS 119_{2004} Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
(effective 1 January 2007)

IC Interpretation 1 Changes in Existing Decommissioning, Restoration & Similar Liabilities
(effective 1 July 2007)

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

IC Interpretation 2 Members' Shares in Co-operative Entities & Similar Instruments (effective 1 July 2007)

IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration & Environmental Rehabilitation Funds (effective 1 July 2007)

IC Interpretation 6 Liabilities arising from Participating in a Specific Market - Waste Electrical & Electronic Equipment (effective 1 July 2007)

IC Interpretation 7 Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies (effective 1 July 2007)

In addition, on 15 June 2007, MASB issued the Framework for the Preparation and Presentation of Financial Statements ("the Framework") and 10 revised FRSs.

The revised FRSs are as follows:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 126	Accounting and Reporting by Retirement Benefit Plans
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

The above FRSs shall apply to annual periods beginning on or after 1 July 2007 except for the following renamed FRSs which have the same effective dates as their original Standards, i.e., annual periods beginning on or after 1 January 2003:

(a)	FRS 119	Employee Benefits, which supersedes FRS 119_{2004} Employee Benefits and Amendment to FRS 119_{2004} Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures;
(b)	FRS 126	Accounting and Reporting by Retirement Benefit Plans, which supersedes FRS 126_{2004} Accounting and Reporting by Retirement Benefit Plans; and
(c)	FRS 129	Financial Reporting in Hyperinflationary Economies, which supersedes FRS 129_{2004} Financial Reporting in Hyperinflationary Economies.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

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.

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 the 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 reassessment, 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.

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, associated company and quoted investments.

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

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

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

Income Tax

Income tax 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).

3. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Income Tax (continued)

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 income statements in the period 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 period.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)

(ii) Post-employment benefits

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

(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 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.

Associated Company

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

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

Impairment of Assets Excluding Goodwill

The carrying amounts of property, plant and equipment, investment properties, intangible assets, forest concessions, plantation development expenditure, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment and Depreciation (continued)

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

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

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.

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%.

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 said 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are made when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. 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, the provisions are reviewed by the Directors and adjusted to reflect the current best estimate. The 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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Property, plant and equipment	**3,183**	1,089	**–**	–
Other investments	**66**	203	**66**	203
Investment in subsidiary companies	**–**	–	**800**	279,421
Investment in associated company	**–**	–	**603**	4,081
Goodwill on consolidation	**–**	161,076	**–**	–

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

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

(ii) 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.

Recoverability of Intangible Assets

During the financial year, management assessed the recoverability of its intangible assets which are included in the balance sheets as of 30 June 2007 at RM404,169. The marketing of products and services for which these intangible assets relate to continues to progress in a very satisfactory manner, and customers' reactions have reconfirmed management's previous estimates of anticipated revenue from the related energy management and conservation products and services. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. Management will monitor the situation closely, and adjustments made in future periods if future market activity indicates such adjustments are appropriate.

5. REVENUE

	The Group		The Company	
	2007 RM'000	**2006 RM'000**	**2007 RM'000**	**2006 RM'000**
Continuing operations				
Sales of goods:				
External customers	**295,799**	233,538	**1,304**	18,094
Subsidiary company	**–**	–	**100,781**	92,214
Gross dividend income from subsidiary companies	**–**	–	**140**	23,765
	295,799	233,538	**102,225**	134,073
Discontinued operations				
Sales of goods:				
External customers	**246,447**	326,217	**–**	–
	542,246	559,755	**102,225**	134,073

6. LOSS FOR THE YEAR

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

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest income on:				
Advances to holding company	**8,400**	9,536	**8,400**	9,536
Advances to other related companies	**7,082**	5,961	**7,082**	5,961
Fixed deposits with licensed banks	**4,307**	168	**3,660**	–
Advances to subsidiary companies	**–**	–	**291**	113
Others	**246**	448	**163**	163
Accretion of notional interest on deferred consideration	**2,666**	–	**2,666**	–
Realised gain on foreign exchange	**587**	333	**789**	–
Allowance for doubtful debts no longer required	**463**	332	**269**	111
Rental income from:				
Investment properties	**7**	7	**7**	7
Others	**263**	397	**7**	7
Gain on disposal of property, plant and equipment	**103**	70	**–**	–
Bad debts recovered	**–**	19	**–**	19
Allowance for slow-moving and obsolete inventories	**(10,868)**	(1,233)	**–**	–
Unrealised loss on foreign exchange	**(7,144)**	–	**(7,144)**	–
Impairment loss on:				
Investment in associated company	**–**	–	**(603)**	(4,081)
Property, plant and equipment (Note 11)	**(3,183)**	(1,089)	**–**	–
Other investments (Note 18)	**(66)**	(203)	**(66)**	(203)
Allowance for doubtful debts	**(2,326)**	(1,139)	**–**	(262)
Inventories written down	**(1,716)**	(477)	**–**	–
Property, plant and equipment written off	**(1,625)**	–	**–**	–
Rental of premises payable to:				
Third parties	**(716)**	(933)	**(112)**	(73)
Subsidiary company	**–**	–	**(30)**	(64)
Directors' remuneration (Note 21)	**(461)**	(510)	**(435)**	(477)
Lease rental	**(204)**	(328)	**(23)**	(88)
Auditors' remuneration:				
Statutory:				
Current year	**(174)**	(189)	**(32)**	(31)
Underprovision in prior year	**(7)**	(7)	**–**	(2)
Special audit	**(45)**	–	**(45)**	–
Hire of plant and machinery	**(120)**	(1,403)	**–**	–
Loss on striking off of a subsidiary company	**–**	(131)	**–**	–

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 RM4,004,000 and RM81,000 (RM4,730,000 and RM227,000 in 2006), respectively. The Group and the Company recognised total expenses of RM672,000 and RM227,000 (RM672,000 and RM227,000 in 2006), respectively related to share-based payment transactions during the financial year, of which an amount of RM25,000 (RM25,000 in 2006) relates to the Executive Director and included as part of the executive Directors' salaries and other emoluments as disclosed in Note 21.

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 RM12,000 (RM10,000 in 2006).

7. FINANCE COSTS

	The Group 2007 RM'000	The Group 2006 RM'000	The Company 2007 RM'000	The Company 2006 RM'000
Continuing operations				
Interest expense on:				
Advances from a corporate shareholder of a subsidiary company (Note 30)	**3**	2,326	**–**	–
Bank overdrafts and other borrowings	**3,846**	980	**594**	520
Hire-purchase	**34**	39	**–**	–
Advances from subsidiary companies	**–**	–	**10,020**	9,736
	3,883	3,345	**10,614**	10,256
Discontinued operations				
Interest expense on bank overdrafts and other borrowings	**403**	361	**–**	–
	4,286	3,706	**10,614**	10,256

8. INCOME TAX EXPENSE

Income tax expense consists of the following:

	The Group 2007 RM'000	The Group 2006 RM'000	The Company 2007 RM'000	The Company 2006 RM'000
Continuing operations				
Current taxation:				
Estimated tax payable	**4,873**	2,929	**2,532**	1,284
Under/(Over) provision in prior years	**(7)**	(1,192)	**(114)**	48
	4,866	1,737	**2,418**	1,332
Deferred tax (Note 20):				
Current year	**(152)**	(76)	**–**	(21)
Underprovision in prior years	**–**	329	**–**	329
	(152)	253	**–**	308
	4,714	1,990	**2,418**	1,640
Discontinued operations				
Current taxation:				
Overprovision in prior years	**–**	(69)	**–**	–
	4,714	1,921	**2,418**	1,640

8. INCOME TAX EXPENSE (continued)

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

	The Group		The Company	
	2007 RM'000	**2006 RM'000**	**2007 RM'000**	**2006 RM'000**
Profit/(Loss) before tax:				
Continuing operations	**4,035**	(15,338)	**(91,930)**	(256,580)
Discontinued operations	**(63,201)**	(224,335)	**–**	–
	(59,166)	(239,673)	**(91,930)**	(256,580)
Tax at applicable tax rate of 27% (28% in 2006)	**(15,974)**	(67,108)	**(24,821)**	(71,842)
Tax effects of (non-taxable)/ non-deductible items:				
Dividend income	**–**	–	**(38)**	(6,654)
Depreciation of non-qualifying capital expenditure	**115**	398	**28**	30
Other non-deductible items	**19,835**	63,248	**27,363**	79,729
Other non-taxable items	**–**	(88)	**–**	–
Effects of different tax rates in other countries	**745**	2,034	**–**	–
Double deduction of expenses	**–**	(1,933)	**–**	–
Deferred tax assets not recognised	**–**	6,233	**–**	–
Under/(Over) provision in prior years:				
Current tax payable	**(7)**	(1,192)	**(114)**	48
Deferred tax	**–**	329	**–**	329
	4,714	1,921	**2,418**	1,640

As of 30 June 2007, the balances in the tax-exempt accounts of the Company are as follows:

	The Company	
	2007 RM'000	**2006 RM'000**
Tax-exempt accounts in respect of:		
Income tax waived in accordance with the Income Tax (Amendment) Act, 1999	**7,579**	7,579
Tax-exempt dividends received	**27,398**	27,398
	34,977	34,977

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.

	2007 RM'000	2006 RM'000
Profit/(Loss) attributable to ordinary equity holders of the Company:		
From continuing operations	**2,440**	(11,748)
From discontinued operations	**(62,892)**	(223,102)
Loss attributable to ordinary equity holders of the Company	**(60,452)**	(234,850)
Weighted average number of ordinary shares in issue ('000)	**210,153**	209,956
Basic earnings/(loss) per share (sen) for:		
Profit/(Loss) from continuing operations	**1.16**	(5.60)
Loss from discontinued operations	**(29.93)**	(106.26)
Loss for the year	**(28.77)**	(111.86)

Fully diluted

As of the balance sheet date, the options over 3,156,100 (3,602,100 in 2006) unissued ordinary shares granted to confirmed executive employees and the Executive Director pursuant to the Company's ESOS have an anti-dilutive effect and therefore the fully diluted loss per ordinary share is not presented. The terms of the unexercised options are set out in Note 26.

10. DIVIDENDS

	The Group and The Company	
	2007 RM'000	2006 RM'000
Final dividend - Nil in 2006; 11%, tax exempt, in 2005	–	23,093

A final dividend of 11%, tax-exempt, amounting to RM23,093,463 proposed in respect of the financial year ended 30 June 2005 was paid by the Company in 2006. Gross dividend per share in 2006 was 11 sen.

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

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

The Group	COST Balance as of 1 July 2005 RM'000	Currency translation differences RM'000	Additions RM'000	Disposals RM'000	Write-offs RM'000	Reclass-ifications RM'000	Balance as of 30 June 2006 RM'000
Freehold land	4,777	–	–	–	–	–	4,777
Freehold buildings	5,915	–	20	–	–	–	5,935
Long leasehold land and buildings	51,538	61	39,917	–	–	2,659	94,175
Short leasehold land and buildings	75,021	–	22	–	–	(2,659)	72,384
Pulp and paper mill	768,464	–	–	–	–	–	768,464
Plant and machinery	374,417	85	18,209	(597)	–	14,419	406,533
Office equipment	832	–	91	(29)	(1)	–	893
Furniture and fittings	19,315	–	557	(866)	–	1,105	20,111
Motor vehicles	8,050	–	552	(959)	–	273	7,916
Motor vehicles under hire-purchase	856	–	–	–	–	(273)	583
Office renovation	674	–	53	–	–	–	727
Computer equipment	1,977	1	468	–	–	–	2,446
Housing colony and infrastructures	116,419	–	55	–	–	–	116,474
Jetty and access roads	100,834	–	282	–	–	–	101,116
Capital work-in-progress	4,598	–	12,282	–	–	(15,524)	1,356
	1,533,687	147	72,508	(2,451)	(1)	–	1,603,890

	COST Balance as of 1 July 2006 RM'000	Currency translation differences RM'000	Additions RM'000	Disposals RM'000	Write-offs RM'000	Arising from disposal of a subsidiary company RM'000	Reclass-ifications RM'000	Balance as of 30 June 2007 RM'000
Freehold land	**4,777**	**–**	**–**	**–**	**–**	**–**	**–**	**4,777**
Freehold buildings	**5,935**	**–**	**33**	**–**	**–**	**–**	**–**	**5,968**
Long leasehold land and buildings	**94,175**	**(2,366)**	**8,664**	**–**	**–**	**(6,483)**	**–**	**93,990**
Short leasehold land and buildings	**72,384**	**–**	**32,222**	**–**	**–**	**(104,606)**	**–**	**–**
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)**	**–**
	1,603,890	**(4,970)**	**58,786**	**(3,277)**	**(9,353)**	**(1,415,391)**	**–**	**229,685**

(Forward)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group	ACCUMULATED DEPRECIATION Balance as of 1 July 2005 RM'000	Charge for the year RM'000	Disposals RM'000	Write-offs RM'000	Reclass-ifications RM'000	Balance as of 30 June 2006 RM'000
Freehold land	–	–	–	–	–	–
Freehold buildings	1,038	130	–	–	–	1,168
Long leasehold land and buildings	625	344	–	–	3,131	4,100
Short leasehold land and buildings	33,159	2,978	–	–	(3,131)	33,006
Pulp and paper mill	402,466	16,601	–	–	–	419,067
Plant and machinery	123,299	29,264	(508)	–	–	152,055
Office equipment	591	78	(29)	(1)	–	639
Furniture and fittings	17,896	455	(853)	–	–	17,498
Motor vehicles	6,893	416	(959)	–	273	6,623
Motor vehicles under hire-purchase	456	163	–	–	(273)	346
Office renovation	619	25	–	–	–	644
Computer equipment	568	359	–	–	–	927
Housing colony and infrastructures	60,536	4,600	–	–	–	65,136
Jetty and access roads	58,762	4,139	–	–	–	62,901
Capital work-in-progress	–	–	–	–	–	–
	706,908	59,552	(2,349)	(1)	–	764,110

	ACCUMULATED DEPRECIATION Balance as of 1 July 2006 RM'000	Currency translation differences RM'000	Charge for the year RM'000	Disposals RM'000	Write-offs RM'000	Arising from disposal of a subsidiary company RM'000	Balance as of 30 June 2007 RM'000
Freehold land	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Freehold buildings	**1,168**	**–**	**130**	**–**	**–**	**–**	**1,298**
Long leasehold land and buildings	**4,100**	**(8)**	**2,003**	**–**	**–**	**(3,874)**	**2,221**
Short leasehold land and buildings	**33,006**	**–**	**2,127**	**–**	**–**	**(35,133)**	**–**
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 under hire-purchase	**346**	**–**	**122**	**–**	**–**	**–**	**468**
Office renovation	**644**	**–**	**29**	**–**	**–**	**–**	**673**
Computer equipment	**927**	**(8)**	**446**	**(5)**	**–**	**–**	**1,360**
Housing colony and infrastructures	**65,136**	**–**	**755**	**–**	**–**	**(65,891)**	**–**
Jetty and access roads	**62,901**	**–**	**6,890**	**–**	**–**	**(69,791)**	**–**
Capital work-in-progress	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	764,110	**(259)**	**38,929**	**(1,617)**	**(7,728)**	**(755,432)**	**38,003**

(Forward)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group	ACCUMULATED IMPAIRMENT LOSS Balance as of 1 July 2005 RM'000	Charge for the year RM'000	Balance as of 30 June 2006/ 1 July 2006 RM'000	Charge for the year RM'000	Arising from disposal of a subsidiary company RM'000	Balance as of 30 June 2007 RM'000	NET BOOK VALUE As of 30 June 2007 RM'000	As of 30 June 2006 RM'000
Freehold land	–	–	**–**	**–**	**–**	**–**	**4,777**	4,777
Freehold buildings	–	–	**–**	**–**	**–**	**–**	**4,670**	4,767
Long leasehold land and buildings	–	–	**–**	**–**	**–**	**–**	**91,769**	90,075
Short leasehold land and buildings	–	–	**–**	**–**	**–**	**–**	**–**	39,378
Pulp and paper mill	3,448	1,089	**4,537**	**3,183**	**(7,720)**	**–**	**–**	344,860
Plant and machinery	–	–	**–**	**–**	**–**	**–**	**87,629**	254,478
Office equipment	–	–	**–**	**–**	**–**	**–**	**204**	254
Furniture and fittings	–	–	**–**	**–**	**–**	**–**	**73**	2,613
Motor vehicles	–	–	**–**	**–**	**–**	**–**	**730**	1,293
Motor vehicles under hire-purchase	–	–	**–**	**–**	**–**	**–**	**115**	237
Office renovation	–	–	**–**	**–**	**–**	**–**	**53**	83
Computer equipment	–	–	**–**	**–**	**–**	**–**	**1,662**	1,519
Housing colony and infrastructures	–	–	**–**	**–**	**–**	**–**	**–**	51,338
Jetty and access roads	–	–	**–**	**–**	**–**	**–**	**–**	38,215
Capital work-in-progress	–	–	**–**	**–**	**–**	**–**	**–**	1,356
	3,448	1,089	**4,537**	**3,183**	**(7,720)**	**–**	**191,682**	835,243

The Company	COST Balance as of 1 July 2005 RM'000	Additions RM'000	Write-offs RM'000	Balance as of 30 June 2006/ 1 July 2006 RM'000	Additions RM'000	Balance as of 30 June 2007 RM'000
Freehold land	4,777	–	–	**4,777**	**–**	**4,777**
Office equipment	289	1	(29)	**261**	**1**	**262**
Furniture and fittings	392	–	–	**392**	**–**	**392**
Motor vehicles	554	–	–	**554**	**–**	**554**
Office renovation	256	–	–	**256**	**–**	**256**
Computer equipment	319	1	–	**320**	**4**	**324**
	6,587	2	(29)	**6,560**	**5**	**6,565**

	ACCUMULATED DEPRECIATION Balance as of 1 July 2005 RM'000	Charge for the year RM'000	Write-offs RM'000	Balance as of 30 June 2006/ 1 July 2006 RM'000	Charge for the year RM'000	Balance as of 30 June 2007 RM'000	NET BOOK VALUE As of 30 June 2007 RM'000	As of 30 June 2006 RM'000
Freehold land	–	–	–	**–**	**–**	**–**	**4,777**	4,777
Office equipment	275	4	(29)	**250**	**4**	**254**	**8**	11
Furniture and fittings	385	2	–	**387**	**2**	**389**	**3**	5
Motor vehicles	364	56	–	**420**	**56**	**476**	**78**	134
Office renovation	256	–	–	**256**	**–**	**256**	**–**	–
Computer equipment	284	19	–	**303**	**10**	**313**	**11**	17
	1,564	81	(29)	**1,616**	**72**	**1,688**	**4,877**	4,944

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Current depreciation has been charged to the following accounts:

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income statements:				
Continuing operations	**12,953**	12,035	**72**	81
Discontinued operations (Note 36)	**25,623**	44,573	**–**	–
	38,576	56,608	**72**	81
Inventories	**31**	2,788	**–**	–
Plantation development expenditure (Note 15)	**322**	156	**–**	–
	38,929	59,552	**72**	81

During the current financial year, the directors of a subsidiary company reviewed the carrying amount of certain plant and equipment and determined that there was an indication of impairment as the carrying amount 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 plant and equipment. Consequently, an impairment loss of RM3,183,000 (RM1,089,000 in 2006) (Note 6) had been charged to the income statement of the Group.

As of 30 June 2007, certain freehold land and buildings and long leasehold land and buildings of the Group with net book values totalling RM2,425,000 (RM2,473,000 in 2006) 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 2007, certain plant and machinery and leasehold land of a foreign subsidiary company with net book values totalling RM61,730,000 (RM31,598,000 in 2006) 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.

As of 30 June 2007, the titles to certain parcels of leasehold land of a foreign subsidiary company with net book values totalling RM4,462,000 (RM6,053,000 in 2006) have yet to be registered in the name of the said subsidiary company.

12. INVESTMENT PROPERTIES

	The Group and the Company	
	2007	**2006**
	RM'000	**RM'000**
Net book value		
At beginning of year	**2,365**	2,412
Depreciation charge for the year	**(47)**	(47)
At end of the year	**2,318**	2,365
Cost	**2,793**	2,793
Accumulated depreciation	**(475)**	(428)
Net book value	**2,318**	2,365
Fair value	**2,552**	2,552

12. INVESTMENT PROPERTIES (continued)

The fair value of the investment properties have 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 2007, certain freehold land and buildings and long leasehold land and buildings of the Company included as part of investment properties with net book value totalling RM2,260,000 (RM2,304,000 in 2006) 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.

13. INTANGIBLE ASSETS

	The Group	
	2007 RM'000	**2006 RM'000**
At cost:		
At beginning of year	**500**	–
Acquired during the year	**–**	500
At end of year	**500**	500
Cumulative amortisation:		
At beginning of year	**46**	–
Amortisation for the year	**50**	46
At end of year	**(96)**	(46)
Net	**404**	454

14. FOREST CONCESSIONS

	The Group	
	2007 RM'000	**2006 RM'000**
At cost:		
At beginning of year	**388,200**	388,200
Disposal of subsidiary company	**(388,200)**	–
At end of year	**–**	388,200
Cumulative amortisation:		
At beginning of year	**98,064**	87,268
Amortisation for the year	**7,647**	10,796
Disposal of subsidiary company	**(105,711)**	–
At end of year	**–**	(98,064)
Net	**–**	290,136

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

15. PLANTATION DEVELOPMENT EXPENDITURE

	The Group	
	2007	**2006**
	RM'000	**RM'000**
At cost:		
At beginning of year	**157,634**	151,358
Additions for the year	**5,395**	6,276
Disposal of subsidiary company	**(163,029)**	–
At end of year	**–**	157,634
Cumulative amortisation:		
At beginning of year	**5,495**	4,499
Amortisation for the year	**3,662**	996
Disposal of subsidiary company	**(9,157)**	–
At end of year	**–**	(5,495)
Net	**–**	152,139

Additions to plantation development expenditure during the year include depreciation of property, plant and equipment amounting to RM322,000 (RM156,000 in 2006).

Current amortisation of RM3,662,000 (RM996,000 in 2006) has been charged to inventories.

16. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2007	**2006**
	RM'000	**RM'000**
Unquoted shares - at cost	**9,037**	1,232,820
Less: Impairment loss	**(800)**	(279,421)
	8,237	953,399

During the current financial year, the Directors reviewed the Company's investment in subsidiary companies for indications of impairment and concluded that the carrying value of a subsidiary company is in excess of its recoverable amount. Accordingly, the Directors have made an allowance for impairment loss amounting to RM800,000 (RM279,421,000 in 2006) in respect of the investment in the subsidiary company and goodwill on consolidation amounting to RM Nil (RM161,076,000 in 2006) in the Group's financial statements as shown in Note 19.

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

Amount owing by subsidiary companies (shown under current assets) arose mainly from trade transactions, expenses paid on behalf and unsecured advances with no fixed repayment terms. The advances bear interest at rates ranging from 1.00% to 6.30% (1.00% to 6.20% in 2006) per annum.

16. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Amount owing to subsidiary companies consists of:

	The Company	
	2007	**2006**
	RM'000	**RM'000**
Advances	**18,133**	17,329
Term loan	**74,212**	70,000
Long-term loan	**19,820**	18,200
	112,165	105,529
Less: Amount due within 12 months (shown under current liabilities)	**(68,965)**	(37,329)
Non-current portion	**43,200**	68,200

The non-current portion is repayable as follows:

Financial years ending 30 June:		
2008	**–**	25,000
2009	**25,000**	25,000
2010	**18,200**	18,200
	43,200	68,200

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

	The Company	
	2007	**2006**
	%	%
Term loan	**12.00**	12.00
Long-term loan	**9.00**	9.00

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 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 current financial year as disclosed in Note 39, 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 million is granted to the Company in 2006 to 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 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.

16. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The subsidiary companies are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest 2007 %	2006 %	Principal Activities
Direct				
Lion Petroleum Products Sdn. Bhd.	Malaysia	**100.00**	100.00	Manufacturing of petroleum products
Lion Rubber Industries Sdn. Bhd.	Malaysia	**100.00**	100.00	Investment holding
LFIB Plantations Sdn. Bhd.	Malaysia	**100.00**	100.00	Investment holding
Ototek Sdn. Bhd.	Malaysia	**70.00**	70.00	Trading and distribution of lubricants, spark plugs and automotive components
Posim Marketing Sdn. Bhd.	Malaysia	**100.00**	100.00	Trading and distribution of building materials and consumer products
Posim Petroleum Marketing Sdn. Bhd.	Malaysia	**100.00**	100.00	Trading and distribution of petroleum products
Posim EMS Sdn. Bhd.	Malaysia	**80.00**	80.00	Provision of energy management and conservation services
Sabah Forest Industries Industries Sdn. Bhd.	Malaysia	**–**	97.78	Integrated wood-based activities and pulp and paper mill operations - Disposed of during the current financial year
Silverstone (Hubei) Rubber and Tyre Co. Ltd. ^	People's Republic of China	**100.00**	100.00	Dormant
Stoller Chemical Company (M) Sdn. Bhd. (In liquidation - voluntary) ^	Malaysia	**100.00**	100.00	Dormant
Quay Class Ltd. ^	British Virgin Islands	**100.00**	100.00	Investment holding, inactive during the year
Intra Inspirasi Sdn. Bhd.	Malaysia	**100.00**	–	Investment holding
Gama Harta Sdn. Bhd. ^	Malaysia	**100.00**	–	Dormant
Jadeford International Limited ^	British Virgin Islands	**100.00**	–	Dormant

16. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name of Companies	Country of Incorporation	Effective Equity Interest 2007 %	2006 %	Principal Activities
Indirect				
Shandong Silverstone LuHe Rubber & Tyre Co. Ltd. #	People's Republic of China	**75.00**	75.00	Manufacturing and distribution of tyres
P.T. Lion Intimung Malinau ^	Republic of Indonesia	**95.00**	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 2006) 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.

The effects of the disposal of a subsidiary company in 2007 on the financial position of the Group are as follows:

	15.3.2007 RM'000
Property, plant and equipment	**652,239**
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)**
	896,354
Notional interest on deferred consideration	**13,738**
Direct costs attributable to the disposal	**1,500**
Loss on disposal	**(42,220)**
Total consideration	**869,372**

16. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

	15.3.2007 RM'000
Satisfied by:	
Cash	**428,515**
Deferred consideration (Note 23)	**422,568**
Notional interest on deferred consideration to be accreted	**11,072**
Unrealised loss on foreign exchange	**7,217**
	869,372
Represented by:	
Purchase consideration per share purchase agreement	**944,820**
Due diligence and other adjustments to purchase consideration	**(75,448)**
	869,372
Net cash inflows arising on the disposal:	
Cash consideration received	**428,515**
Cash and cash equivalents disposed of	**(5,441)**
	423,074

17. INVESTMENT IN ASSOCIATED COMPANY

	The Group 2007 RM'000	The Group 2006 RM'000	The Company 2007 RM'000	The Company 2006 RM'000
Unquoted shares - at cost	**4,684**	4,684	**4,684**	4,684
Share in post - acquisition loss	**(4,684)**	(4,081)	**–**	–
Less: Impairment loss	**–**	–	**(4,684)**	(4,081)
	–	603	**–**	603

During the current financial year, the Directors reviewed the Company's investment in associated company for indications of impairment and concluded that its carrying value is in excess of its recoverable amount. Accordingly, the Directors have made an allowance for impairment loss amounting to RM603,000 (RM4,081,000 in 2006) (Note 6) in the income statement of the Company.

The associated company is as follows:

Name of Company	Country of Incorporation	Effective Equity Interest 2007 %	Effective Equity Interest 2006 %	Principal Activity
Direct				
Kinabalu Motor Assembly Sendirian Berhad #	Malaysia	**20.00**	20.00	Assembly and sale of private and commercial vehicles

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

17. INVESTMENT IN ASSOCIATED COMPANY (continued)

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

	The Group	
	2007	**2006**
	RM'000	**RM'000**
Share of net tangible assets	**–**	79
Premium on acquisition	**–**	524
	–	603

The summarised financial information of the associated company are as follows:

	2007	**2006**
	RM'000	**RM'000**
Revenue	**20,353**	8,086
Expenses	**(36,725)**	(16,775)
Current assets	**19,518**	32,450
Non-current assets	**22,219**	23,564
Current liabilities	**(36,426)**	(52,002)
Non-current liabilities	**(21,958)**	(4,288)
Net liabilities	**(16,647)**	(276)

18. OTHER INVESTMENTS

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At cost:				
Quoted shares	**344**	250	**336**	242
Unquoted shares	**52**	52	**–**	–
	396	302	**336**	242
Less: Impairment loss	**(269)**	(203)	**(269)**	(203)
	127	99	**67**	39
Market value of quoted shares and securities	**72**	51	**53**	39

19. GOODWILL ON CONSOLIDATION

	The Group 2007 RM'000	The Group 2006 RM'000
Goodwill on consolidation		
At beginning of year	**253,553**	253,646
Elimination of cumulative amortisation on adoption of FRS 3	**(92,286)**	–
Struck off of a subsidiary company	**–**	(93)
Disposal of subsidiary company	**(161,076)**	–
At end of year	**191**	253,553
Cumulative amortisation		
At beginning of year	**92,286**	82,173
Elimination of cumulative amortisation on adoption of FRS 3	**(92,286)**	–
Amortisation for the year	**–**	10,146
Struck off of a subsidiary company	**–**	(33)
At end of year	**–**	92,286
Impairment loss		
At beginning of year	**161,076**	–
Recognised during the year (Note 16)	**–**	161,076
Disposal of a subsidiary company	**(161,076)**	–
At end of year	**–**	(161,076)
	191	191

20. DEFERRED TAX ASSETS/(LIABILITIES)

	The Group 2007 RM'000	The Group 2006 RM'000	The Company 2007 RM'000	The Company 2006 RM'000
Deferred Tax Assets				
At beginning of year	**319**	419	**–**	155
Net transfer from/(to) income statements (Note 8)	**152**	(100)	**–**	(155)
At end of year	**471**	319	**–**	–
Deferred Tax Liabilities				
At beginning of year	**418**	265	**153**	–
Net transfer from income statements (Note 8)	**–**	153	**–**	153
At end of year	**418**	418	**153**	153

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

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

	The Group	
	2007	**2006**
	RM'000	**RM'000**
Temporary differences arising from:		
Property, plant and equipment	**334**	(131,992)
Inventories	**244**	46
Other payables and accrued expenses	**93**	108
Plantation development expenditure	**–**	(40,326)
Unabsorbed tax losses	**1,013**	140,038
Unabsorbed capital allowances	**31**	370,089
	1,715	337,963
Less: Deferred tax asset not recognised	**(1,244)**	(337,644)
Net	**471**	319

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

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Temporary differences arising from:				
Property, plant and equipment	**442**	499	**300**	307
Others	**(24)**	(81)	**(147)**	(154)
	418	418	**153**	153

The unabsorbed tax losses and capital allowances are subject to agreement by the tax authority and are available to offset against future taxable income provided there are no substantial changes in the equity ownership of the Group.

21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS

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

Amount owing by holding company consists of:

	The Group and the Company	
	2007	**2006**
	RM'000	**RM'000**
Term loan receivable	**74,212**	70,000
Less: Amount due within 12 months (shown under current assets)	**(49,212)**	(20,000)
Non-current portion	**25,000**	50,000

21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

The term loan receivable, which arose as a result of the Offer of Financing as disclosed in Note 16, bears interest at an average effective rate of 12.00% (12.00% in 2006) per annum, and has the same payment schedule as the non-current portion of the amount owing to subsidiary companies as disclosed in Note 16.

Amount owing by other related companies bears interest at 6.30% (ranging from 5.20% to 6.20% in 2006) per annum and has no fixed repayment terms.

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

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

		The Group		The Company	
Name of Company	**Nature**	**2007 RM'000**	**2006 RM'000**	**2007 RM'000**	**2006 RM'000**
With holding company:					
Lion Industries Corporation Berhad	Interest income on advances	**8,400**	9,536	**8,400**	9,536
With other related companies:					
JOPP Builders Sdn. Bhd.	Interest income on advances	**54**	45	**54**	45
LLB Harta (M) Sdn. Bhd.	Interest income on advances	**7,028**	5,916	**7,028**	5,916
Antara Steel Mills Sdn. Bhd.	Trade sales	**68**	52	**–**	–
	Provision of services	**524**	–	**–**	–
Amsteel Mills Sdn. Bhd.	Trade sales	**2,632**	2,277	**–**	–
	Transport service charges payable	**524**	536	**–**	–
Amsteel Mills Marketing Sdn. Bhd.	Trade purchases	**22,029**	21,008	**19,235**	21,008
With related parties:					
Parkson Corporation Sdn. Bhd.	Trade sales	**992**	994	**–**	904
Silverstone Polymer Industries Sdn. Bhd.	Trade sales	**88**	52	**–**	–
Silverstone Berhad	Trade sales	**572**	388	**–**	–
Lion Motor Sdn. Bhd.	Trade sales	**96**	114	**–**	–

21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

		The Group		The Company	
Name of Company	**Nature**	**2007 RM'000**	**2006 RM'000**	**2007 RM'000**	**2006 RM'000**
With related parties: (continued)					
Singa Logistics Sdn. Bhd.	Trade sales	**35**	12	**–**	–
Lion Steelworks Sdn. Bhd.	Trade sales	**155**	121	**–**	–
Megasteel Sdn. Bhd.	Trade sales	**2,019**	2,045	**–**	–
	Purchase of spare parts	**169**	31	**–**	–
Bright Steel Sdn. Bhd.	Trade sales	**459**	449	**–**	–
	Purchase of spare parts	**852**	550	**–**	–
Lion Plate Mills Sdn. Bhd.	Trade sales	**123**	60	**–**	–
Secretarial Communications Sdn. Bhd.	Procurement of services	**21**	25	**20**	25
CEDR Corporate Consulting Sdn. Bhd. (formerly known as S.I.T Corporate Learning Centre Sdn. Bhd.)	Procurement of services	**63**	69	**–**	–
KMA Marketing Sdn. Bhd.	Purchase of vehicle parts	**4**	175	**–**	–
Zhucheng Xin An Thermo Electric Power Co. Ltd.	Purchase of steam energy	**2,819**	2,002	**–**	–
Intelligent Building Automation Systems Sdn. Bhd.	Trade purchase	**74**	–	**–**	–
Digital Engines Sdn. Bhd.	Procurement of services	**159**	–	**–**	–

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

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

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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Receivables:				
Included in trade receivables	**4,765**	3,131	**64**	463
Included in other receivables	**94**	483	**86**	–
Payables:				
Included in trade payables	**150**	–	**1**	–
Included in other payables	**283**	84	**–**	–

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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Fees				
Executive Director	**15**	20	**15**	18
Non-executive Directors*	**153**	164	**149**	158
	168	184	**164**	176
Salaries and other emoluments				
Executive Director	**246**	274	**246**	273
Non-executive Directors	**22**	23	**–**	–
	268	297	**246**	273
Contributions to defined contribution plan				
Executive Director	**25**	28	**25**	28
Non-executive Directors	**–**	1	**–**	–
	25	29	**25**	28
Total	**461**	510	**435**	477

* Included in the salaries and other emoluments of non-executive Directors is a Director who retired at the previous Annual General Meeting.

Included in the salaries and other emoluments of executive Director of the Group and the Company is an amount of RM25,000 (RM25,000 in 2006) representing amounts recognised for share-based payment transactions.

21. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

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

	Number of Unexercised Options	
	2007	**2006**
Ngan Yow Chong	**28,300**	94,500

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

In 2006, Sabah Forest Industries Sdn. Bhd. ("SFI"), a former subsidiary company, had in issue 146,000,000 deferred shares of RM1.00 each, held by Avenel Sdn. Bhd., the former immediate holding company. The said deferred shares, which did not carry any entitlement to dividend, voting rights and rights to receive notice of general meetings, were only entitled to a repayment of capital after the ordinary shares in the event of a winding-up. In addition, the said deferred shares were redeemable at any time at the option of SFI. In 2006, the said deferred shares of RM146,000,000 were included as part of the minority interests of the Group.

22. INVENTORIES

	The Group	
	2007	**2006**
	RM'000	**RM'000**
Finished goods		
- Tyres	**9,387**	3,082
- Paper	**–**	5,797
- Veneer	**–**	736
- Plywood	**–**	10
- Sawn timber	**–**	1,058
- Others	**49**	305
Work-in-progress		
- Tyres	**9,807**	3,510
- Paper	**–**	3,503
- Sawn timber	**–**	691
- Plywood	**–**	21
- Veneer	**–**	366
Raw materials	**8,374**	24,497
Pulp and fuel logs	**–**	5,247
Engineering spares	**–**	36,878
Trading merchandise	**2,007**	12,018
Fuel and lubricants	**5,331**	4,386
Goods-in-transit	**–**	880
Others	**2,200**	3,697
	37,155	106,682
Less: Allowance for obsolete and slow-moving inventories	**(1,178)**	(1,528)
	35,977	105,154

23. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables are as follows:

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Trade receivables	**68,685**	84,261	**7,403**	10,867
Allowance for doubtful debts	**(2,549)**	(3,502)	**(581)**	(1,049)
	66,136	80,759	**6,822**	9,818

Trade receivables comprise amounts outstanding for sale of goods. The credit period ranges from 30 to 60 days (30 to 60 days in 2006).

The currency exposure profile of trade receivables is as follows:

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Ringgit Malaysia	**63,884**	73,385	**7,403**	10,867
United States Dollar	**662**	9,778	**–**	–
Chinese Renminbi	**4,139**	1,098	**–**	–
	68,685	84,261	**7,403**	10,867

Other receivables and prepaid expenses consist of:

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deferred consideration	**422,568**	–	**422,568**	–
Other receivables	**1,278**	3,293	**686**	802
Allowance for doubtful debts	**(325)**	(456)	**(325)**	(325)
	423,521	2,837	**422,929**	477
Prepaid expenses	**11,344**	18,593	**1,247**	502
Deposits	**384**	431	**83**	109
	435,249	21,861	**424,259**	1,088
Less: Non-current portion of deferred consideration	**(124,272)**	–	**(124,272)**	–
	310,977	21,861	**299,987**	1,088

Deferred consideration of RM422,568,000 (RM Nil in 2006), represents fair value of the outstanding consideration receivable from the purchasers in relation to the disposal of Sabah Forest Industries Sdn. Bhd. as disclosed in Note 39. The deferred consideration is denominated in Ringgit Malaysia (RM146,340,000) and United States Dollar (RM276,228,000).

The non-current portion of the deferred consideration amounting to RM124,272,000 (RM Nil in 2006) is receivable by September 2008.

24. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits with licensed banks earn interest at rates ranging from 2.90% to 3.50% (3.19% in 2006) per annum and have maturity periods ranging from 1 to 30 days (3 to 365 days in 2006).

25. CASH AND BANK BALANCES

Included in cash and bank balances of the Group and the Company is an amount of RM1,106,000 (RM1,074,900 in 2006) representing cash held under an Escrow Account as mentioned in Note 31. The Escrow Account was created pursuant to the Master Restructuring Agreement entered into between the Company and certain local banks. In accordance with the said agreement, utilisation of cash held under the Escrow Account is restricted to repayment of bank borrowings and payment of interest, commission, fees and other charges to the banks.

26. SHARE CAPITAL

	The Group and The Company	
	2007 RM'000	**2006 RM'000**
Authorised:		
Ordinary shares of RM1.00 each		
500,000,000 at beginning and end of year	**500,000**	500,000
Issued and fully paid:		
Ordinary shares of RM1.00 each		
At beginning of year:		
210,153,371 as of 1 July 2006;		
209,940,571 as of 1 July 2005	**210,153**	209,941
Issued during the year:		
121,000 in 2007; 212,800 in 2006	**121**	212
At end of year:		
210,274,371 as of 30 June 2007; 210,153,371 as of 30 June 2006	**210,274**	210,153

During the current financial year, the issued and paid-up share capital of the Company was increased from RM210,153,371, comprising 210,153,371 ordinary shares of RM1.00 each to RM210,274,371, comprising 210,274,371 ordinary shares of RM1.00 each, by way of the issue of 121,000 new ordinary shares of RM1.00 each pursuant to the exercise of 121,000 options under the Company's Executive Share Option Scheme at an issue price of RM3.00 per share.

The resulting share premium of RM242,000 arising from the issue of shares has been credited to the share premium account.

The new ordinary shares issued ranked *pari passu* in all material 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.

26. SHARE CAPITAL (continued)

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 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:

		Number of Options			
Grant Date	**Subscription Price Per Share**	**Balance as of 1.7.2006**	**Exercised**	**Lapsed**	**Balance as of 30.6.2007**
10.5.2006	RM3.00*	3,579,700	(121,000)	(302,600)	3,156,100
26.6.2006	RM2.67	22,400	–	(22,400)	–
		3,602,100	(121,000)	(325,000)	3,156,100

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

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

	2007	**2006**
Options exercisable	**2,912,300**	2,745,400

26. SHARE CAPITAL (continued)

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

Exercise dates	Average fair value per share at issue date RM	Exercise price per share RM	Number of share options
2006			
May 2006	4.03	3.00	35,600
June 2006	3.45	3.00	177,200
2007			
June 2007	1.75	3.00	121,000

	The Group and The Company	
	2007 RM'000	**2006 RM'000**
Ordinary share capital - at par	**121,000**	212,800
Share premium	**242,000**	425,600
Proceeds received on exercise of share options	**363,000**	638,400
Fair value at exercise dates of shares issued	**211,750**	754,808

The options outstanding at the end of the financial year have a weighted average exercise price of RM1.16 (RM2.98 in 2006) per share option and a weighted average remaining contractual life of 2 years (3 years in 2006). All options not exercised would expire on 10 May 2009.

The fair value of share options granted in 2006 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:

	2006
Estimated average fair value of share options (RM)	1.75
Weighted average share price (RM)	3.35
Expected life (years)	3
Expected dividend yield (%)	1
Risk-free interest rate (%)	3
Expected volatility (%)	64

27. RESERVES

	The Group		The Company	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Non-distributable reserves:				
Share premium	**688,003**	1,108,252	**688,003**	1,108,252
Translation adjustment account	**(3,606)**	(279)	**–**	–
Capital reserve	**122**	49,189	**122**	–
Equity compensation reserve	**412**	672	**412**	672
Capital redemption reserve	**9**	9	**–**	–
	684,940	1,157,843	**688,537**	1,108,924
Accumulated loss	**(133,312)**	(72,860)	**(337,643)**	(243,295)
	551,628	1,084,983	**350,894**	865,629

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.

Translation adjustment account

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

Capital reserve

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

	The Group		The Company	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Share issued by subsidiary company and paid by minority shareholder	**–**	5,998	**–**	–
Increase in reserve sharing resulting from additional shares issued by subsidiary company	**–**	43,191	**–**	–
Share options lapsed reclassified from equity compensation reserve	**122**	–	**122**	–
	122	49,189	**122**	–

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.

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

	The Group 2007 RM'000	The Group 2006 RM'000
Total outstanding	**173**	443
Less: Interest-in-suspense	**(29)**	(63)
Principal portion	**144**	380
Payable as follows:		
Within the next 12 months (Note 30)	**105**	236
After the next 12 months	**39**	144
	144	380

The interest rates implicit in these hire-purchase obligations range from 2.80% to 5.00% (2.80% to 5.00% in 2006) per annum.

29. LONG-TERM BORROWINGS

	The Group 2007 RM'000	The Group 2006 RM'000
Term loan - secured	**41,434**	34,883
Less: Amount due within 12 months (Note 31)	**(16,529)**	(7,790)
Non-current portion	**24,905**	27,093

The non-current portion is repayable as follows:

	The Group 2007 RM'000	The Group 2006 RM'000
Financial years ending 30 June:		
2008	**–**	16,987
2009	**24,905**	10,106
	24,905	27,093

The term loan, which is obtained by a foreign subsidiary company and denominated in Chinese Renminbi, bears interest at rates ranging from 5.94% to 7.13% (5.85% to 7.02% in 2006) per annum. The said term loan is secured by:

(a) a fixed charge over the following property, plant and equipment of a subsidiary company:

(i) leasehold land and building with carrying value of RM35,730,000 (RM4,571,000 in 2006); and

(ii) plant and machinery with carrying value of RM26,000,000 (RM27,027,000 in 2006).

(b) corporate guarantee by a corporate shareholder of a subsidiary company to the extent of RM18,022,000 (RM18,522,000 in 2006).

30. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables comprise amounts outstanding for trade purchases. The credit period ranges from 30 to 90 days (30 to 90 days in 2006).

The currency exposure profile of trade payables is as follows:

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Ringgit Malaysia	**22,596**	35,175	**14,337**	14,232
Chinese Renminbi	**13,251**	9,658	**–**	–
United States Dollar	**829**	6,238	**–**	–
Singapore Dollar	**–**	4	**–**	–
	36,676	51,075	**14,337**	14,232

Other payables and accrued expenses consist of:

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Hire-purchase payables (Note 28)	**105**	236	**–**	–
Other payables	**56,427**	67,824	**5**	13
Accrued expenses	**15,599**	27,868	**6,006**	774
	72,131	95,928	**6,011**	787

Included in other payables of the Group is an amount of RM282,000 (RM3,789,000 in 2006) representing amount owing to Shandong LuHe Group Co. Ltd., a corporate shareholder of a subsidiary company. The said amount, which is denominated in Chinese Renminbi, arose from payments made on behalf of the subsidiary company and bears interest at rates ranging from 5.00% to 7.00% (5.58% to 7.25% in 2006) per annum and has no fixed repayment terms.

31. BANK BORROWINGS

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Bank overdrafts (Note 37)	**1,084**	1,938	**1,084**	1,312
Bankers acceptances, trust receipts and bills payable	**14,199**	19,114	**7,208**	8,047
Revolving credits	**1,063**	1,063	**1,063**	1,063
Term loan (Note 29)	**16,529**	7,790	**–**	–
Total	**32,875**	29,905	**9,355**	10,422

As of 30 June 2007, the Company has bank overdraft and other credit facilities totalling RM9,915,000 (RM10,815,000 in 2006) obtained from certain local banks, which bear interest at rates ranging from 4.84% to 6.34% (5.20% to 6.20% in 2006) 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 with carrying value of RM4,461,000 (RM4,455,000 in 2006); and

(ii) long leasehold land and building of the Company with carrying value of RM224,000 (RM322,000 in 2006).

(b) An assignment of the sale and purchase agreements over other buildings of the Company.

(c) A debenture containing a floating charge over the current assets, both present and future, of the following subsidiary companies of the Company:

(i) Lion Petroleum Products Sdn. Bhd.; and

(ii) Posim EMS Sdn. Bhd.

(d) An assignment over all insurance policies over certain assets of the Company and the abovementioned subsidiary companies.

(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 amounting to RM1,500,000 (RM1,000,000 in 2006) belonging to Posim Marketing Sdn. Bhd.

As of 30 June 2007, certain subsidiary companies have bank overdraft and other credit facilities totalling RM5,875,000 (RM24,875,000 in 2006) obtained from certain local banks. These facilities, which bear interest at rates ranging from 4.80% to 8.00% (4.20% to 8.00% in 2006) per annum, are secured by inter alia:

(a) Corporate guarantee by the Company to the extent of RM11,875,000 (RM3,875,000 in 2006).

(b) Negative pledge on one of the subsidiary companies' assets to the extent of RM Nil (RM19,000,000 in 2006).

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)

Financial Risk Management Objectives and Policies (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 amount owing by subsidiary companies.

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

Financial Liabilities and Equity Instruments

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

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

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

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

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

32. FINANCIAL INSTRUMENTS (continued)

Fair Value of Financial Assets and Liabilities

The carrying amounts and the estimated fair values of the Group's and the Company's financial instruments as of 30 June 2007 are as follows:

	The Group		The Company	
2007	**Carrying Amount RM'000**	**Fair Value RM'000**	**Carrying Amount RM'000**	**Fair Value RM'000**
Financial Assets				
Other investments - quoted shares	**75**	**72**	**67**	**53**
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**
Financial Liabilities				
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**	*
2006				
Financial Assets				
Other investments - quoted shares	47	51	39	39
Amount owing by holding company	50,000	52,709	50,000	52,709
Amount owing by subsidiary company	–	–	18,200	*
Financial Liabilities				
Borrowings - term loan	34,883	33,814	–	–
Hire-purchase payables	380	361	–	–
Amount owing to subsidiary company:				
- term loan	–	–	50,000	52,709
- long-term loan	–	–	18,200	*

* 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.

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 - UNSECURED

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Corporate guarantees given to financial institutions for the granting of credit facilities to certain subsidiary companies	**–**	–	**7,073**	2,172
Legal claims in respect of the termination of contracts for the extraction and sale of timber	**313,300**	313,300	**313,300**	–

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 2006) and any other claims brought by third parties against Sabah Forest Industries Sdn. Bhd. wherein the cause of action arises prior to the completion of the corporate exercise.

On disposal of Sabah Forest Industries Sdn. Bhd., the Company entered into similar indemnity contracts with the purchasers to indemnify the purchasers in full for all losses, damages, liabilities, claims, costs and expenses which the purchasers may incur or sustain as a result of or arising from the litigation suits amounting to RM313,300,000.

34. CAPITAL COMMITMENTS

As of 30 June 2007, the Group has the following capital commitments:

	The Group	
	2007 RM'000	2006 RM'000
Approved and contracted for:		
Purchase of property, plant and equipment	**–**	13,572
Additions of investment	**–**	–
	–	13,572
Approved but not contracted for:		
Purchase of property, plant and equipment	**–**	19,297
Plantation development expenditure	**–**	15,527
	–	34,824
	–	48,396

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
- tyres
- others

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

As disclosed in Note 39, the Company completed the disposal of a subsidiary which carries out the Group's timber extraction and pulp and paper operations during the current financial year.

The inter-segment transactions were conducted at market value.

35. SEGMENT INFORMATION (continued)

The Group 2007	Timber extraction and pulp and paper - Discontinued operations RM'000	Building materials and steel products RM'000	Tyres RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Revenue						
External customers	246,447	156,883	79,644	59,272	–	542,246
Inter-segment sales	–	–	–	24	(24)	–
Total revenue	246,447	156,883	79,644	59,296	(24)	542,246
Results						
Segment results	(20,578)	(46)	(8,922)	2,545	(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)
Net loss for the year						(63,880)
Assets						
Segment assets	–	68,024	223,099	59,359	–	350,482
Unallocated corporate assets						610,908
Consolidated total assets						961,390
Liabilities						
Segment liabilities	–	32,177	72,068	6,843	–	111,088
Unallocated corporate liabilities						58,721
Consolidated total liabilities						169,809
Other Information						
Capital expenditures	43,273	44	19,339	1,525	–	64,181
Depreciation	25,976	212	10,534	2,254	–	38,976
Amortisation	7,647	–	–	50	–	7,697

(Forward)

35. SEGMENT INFORMATION (continued)

The Group 2006	Timber extraction and pulp and paper - Discontinued operations RM'000	Building materials and steel products RM'000	Tyres RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Revenue						
External customers	326,217	136,442	41,559	55,537	–	559,755
Inter-segment sales	–	–	–	13	(13)	–
Total revenue	326,217	136,442	41,559	55,550	(13)	559,755
Results						
Segment results	(222,268)	13,285	(19,405)	4,946	(23,855)	(247,297)
Unallocated expenses						(2,395)
Unallocated income						15,497
Loss from operations						(234,195)
Finance costs						(3,706)
Share in results of associated company	–	–	–	(1,772)	–	(1,772)
Loss before tax						(239,673)
Income tax expense						(1,921)
Net loss for the year						(241,594)
Assets						
Segment assets	1,196,871	64,135	208,292	58,393	–	1,527,691
Investment in associated company	–	–	–	603	–	603
Unallocated corporate assets						180,819
Consolidated total assets						1,709,113
Liabilities						
Segment liabilities	58,468	20,033	59,728	10,709	–	148,938
Unallocated corporate liabilities						59,028
Consolidated total liabilities						207,966
Other Information						
Capital expenditures	29,006	172	47,976	1,630	–	78,784
Depreciation	47,517	193	9,533	2,356	–	59,599
Amortisation	20,916	–	–	72	–	20,988

35. SEGMENT INFORMATION (continued)

Geographical Segments

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

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

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

	Revenue	
	2007 RM'000	**2006 RM'000**
Malaysia	**378,877**	439,868
People's Republic of China	**79,644**	40,720
Other countries	**83,725**	79,167
	542,246	559,755

	Total assets		Capital expenditures	
	2007 RM'000	**2006 RM'000**	**2007 RM'000**	**2006 RM'000**
Malaysia	**720,975**	1,481,201	**44,710**	30,808
People's Republic of China	**223,099**	208,292	**19,339**	47,976
Other countries	**17,316**	19,620	**132**	–
	961,390	1,709,113	**64,181**	78,784

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

36. DISCONTINUED OPERATIONS

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 as disclosed in Note 39. 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 operations is analysed as follows:

	The Group	
	2007 RM'000	**2006 RM'000**
Loss from timber extraction, pulp and paper operations for the year	**(20,981)**	(224,266)
Loss on disposal of SFI	**(42,220)**	–
	(63,201)	(224,266)

36. DISCONTINUED OPERATIONS (continued)

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

		The Group	
	Note	**Period ended 15 March 2007 ($8^1/_2$ Months) RM'000**	**Year ended 30 June 2006 (12 Months) RM'000**
Revenue	5	**246,447**	326,217
Other operating income		**5,265**	2,743
Changes in inventories of finished goods, trading merchandise and work-in-progress		**1,583**	(13,323)
Raw materials and consumables used		**(145,736)**	(215,635)
Staff costs	6	**(29,439)**	(33,421)
Extraction fees		**(4,880)**	(7,209)
Timber royalties		**(2,771)**	(3,005)
Other production expenses		**(33,738)**	(53,541)
Depreciation of property, plant and equipment	11	**(25,623)**	(44,573)
Amortisation of:			
Forest concessions	14	**(7,647)**	(10,796)
Goodwill on consolidation	19	**–**	(10,146)
Impairment loss on goodwill on consolidation	19	**–**	(161,076)
Other operating expenses		**(24,039)**	(209)
Loss from operations		**(20,578)**	(223,974)
Finance costs	7	**(403)**	(361)
Loss before tax		**(20,981)**	(224,335)
Income tax credit	8	**–**	69
Loss after tax	6	**(20,981)**	(224,266)

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

	The Group	
	Period ended 15 March 2007 ($8^1/_2$ Months) RM'000	**Year ended 30 June 2006 (12 Months) RM'000**
Cash flows from/(used in):		
Operating activities	**46,971**	40,695
Investing activities	**(39,286)**	(27,819)
Financing activities	**(6,551)**	4,574
Net cash flows	**1,134**	17,450

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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Fixed deposits with licensed banks	**17,739**	23,476	**10,594**	–
Cash and bank balances	**23,227**	15,971	**4,400**	2,172
Bank overdrafts (Note 31)	**(1,084)**	(1,938)	**(1,084)**	(1,312)
	39,882	37,509	**13,910**	860
Less: Non cash equivalents:				
Cash at banks held under Escrow Account (Note 25)	**(1,106)**	(1,075)	**(1,106)**	(1,075)
Fixed deposits pledged to licensed bank (Note 31)	**(1,500)**	(1,000)	**–**	–
	37,276	35,434	**12,804**	(215)

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

	The Group		The Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Ringgit Malaysia	**25,988**	9,654	**12,804**	(215)
United States Dollar	**6,393**	19,776	**–**	–
Chinese Renminbi	**4,895**	6,004	**–**	–
	37,276	35,434	**12,804**	(215)

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 2006 as described in Note 2. Accordingly, certain comparative figures have been restated as follows:

Consolidated income statement for the year ended 30 June 2006

The Group	As previously reported RM'000	Adjustments FRS 2 RM'000	FRS 101 RM'000	FRS 140 RM'000	Total RM'000	As restated RM'000
Revenue	559,755	–	(326,217)	–	(326,217)	233,538
Other operating income	19,421	–	(2,743)	–	(2,743)	16,678
Changes in inventories of finished goods, trading merchandise and work-in-progress	(6,200)	–	13,323	–	13,323	7,123
Raw materials and consumables used	(269,196)	–	215,635	–	215,635	(53,561)
Staff costs	(45,450)	(672)	33,421	–	32,749	(12,701)
Other production expenses	(70,308)	–	53,541	–	53,541	(16,767)
Extraction fees	(7,209)	–	7,209	–	7,209	–
Timber royalties	(3,005)	–	3,005	–	3,005	–

(Forward)

38. PRIOR YEARS' ADJUSTMENTS (continued)

Consolidated income statement for the year ended 30 June 2006 (continued)

The Group	As previously reported RM'000	Adjustments FRS 2 RM'000	FRS 101 RM'000	FRS 140 RM'000	Total RM'000	As restated RM'000
Depreciation of:						
Property, plant and equipment	(56,655)	–	44,573	47	44,620	(12,035)
Investment properties	–	–	–	(47)	(47)	(47)
Amortisation of:						
Forest concessions	(10,796)	–	10,796	–	10,796	–
Goodwill on consolidation	(10,146)	–	10,146	–	10,146	–
Impairment loss on goodwill on consolidation	(161,076)	–	161,076	–	161,076	–
Other operating expenses	(24,916)	–	209	–	209	(24,707)
Finance costs	(3,706)	–	361	–	361	(3,345)
Share in results of associated company	(1,604)	–	(168)	–	(168)	(1,772)
Profit before tax	(238,833)	(672)	224,167	–	223,495	(15,338)
Income tax expense	(2,089)	–	99	–	99	(1,990)
Loss for the year from continuing operations	(240,922)	(672)	224,266	–	223,594	(17,328)
Loss for the year from discontinued operations	–	–	(224,266)	–	(224,266)	(224,266)
Minority interests	6,727	–	(6,727)	–	(6,727)	–
Loss for the year	(234,195)	(672)	(6,727)	–	(7,399)	(241,594)
Loss per share:						
Basic (sen)	(111.50)				(0.36)	(111.86)
Diluted (sen)	N/A				N/A	N/A

Consolidated balance sheet as of 30 June 2006

The Group	As previously reported RM'000	Adjustments FRS 2 RM'000	FRS 140 RM'000	Total RM'000	As restated RM'000
Property, plant and equipment	837,608	–	(2,365)	(2,365)	835,243
Investment properties	–	–	2,365	2,365	2,365

Consolidated statement of changes in equity for the year ended 30 June 2006

The Group	As previously reported RM'000	Adjustments FRS 2 RM'000	FRS 140 RM'000	Total RM'000	As restated RM'000
Equity compensation reserve	–	672	–	672	672
Accumulated loss	(72,188)	(672)	–	(672)	(72,860)

38. PRIOR YEARS' ADJUSTMENTS (continued)

The Company	As previously reported RM'000	FRS 2 RM'000	Adjustments FRS 140 RM'000	Total RM'000	As restated RM'000
Income statement					
For the year ended 30 June 2006					
Staff costs	(2,167)	(227)	–	(227)	(2,394)
Depreciation of:					
Property, plant and equipment	(128)	–	47	47	(81)
Investment properties	–	–	(47)	(47)	(47)
Loss before tax	(256,353)	(227)	–	(227)	(256,580)
Loss for the year	(257,993)	(227)	–	(227)	(258,220)
Balance sheet					
As of 30 June 2006					
Property, plant and equipment	7,309	–	(2,365)	(2,365)	4,944
Investment properties	–	–	2,365	2,365	2,365
Investment in subsidiary companies	952,954	445	–	445	953,399
Statement of changes in equity					
For the year ended 30 June 2006					
Equity compensation reserve	–	672	–	672	672
Accumulated loss	(243,068)	(227)	–	(227)	(243,295)

39. SIGNIFICANT CORPORATE EVENTS

(a) On 28 July 2006, the Company together with its wholly-owned subsidiary company, Quay Class Ltd ("Quay Class"), and Silverstone Corporation Berhad ("SCB") terminated the Conditional Sale and Purchase of Shares Agreement dated 31 January 2005 entered into between the parties for the acquisition by Quay Class of the entire issued and paid-up share capital of Silverstone Berhad ("SB") from SCB for a purchase consideration of RM225,000,000 to be satisfied by a combination of RM72,610,000 via the issue and allotment of 26,500,000 new ordinary shares of RM1.00 each in the Company at an issue price of RM2.74 each and the balance of RM152,390,000 in deferred cash payments as the Company had been advised by the Securities Commission ("SC") that the SC had not approved SCB's application in respect of its proposed disposal of SB to Quay Class.

(b) On 4 June 2006, the Company entered into a conditional share purchase agreement for the disposal by the Company of its entire 97.78% shareholding in Sabah Forest Industries Sdn Bhd ("SFI") comprising 752,532,412 class A ordinary shares of RM1.00 each and 7,525,324,120 class B ordinary shares of RM0.10 each for a total cash consideration of USD261 million (approximately RM944.82 million) ("Proposed Disposal").

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

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

On 16 March 2007, the Company announced that the Proposed Disposal has been completed.

On 29 June 2007, the Company distributed a total cash payment of RM420,548,742 to all entitled shareholders of the Company pursuant to the revised Proposed Capital Distribution which involved a reduction of the share premium reserve of the Company.

40. SUBSEQUENT EVENTS

The Company had on 21 September 2007 announced that Jadeford International Limited ("Jadeford"), a wholly-owned subsidiary company of the Company, has appointed a Manager to arrange and/or execute the acquisition of the following debts of AMB Harta (L) Limited, a company incorporated in Labuan, Malaysia, by way of a call option on the sellers:

(i) Zero-Coupon Redeemable Secured Class B USD-denominated debts ("Class B SPV Debts") with a nominal value of approximately USD9.07 million (equivalent to approximately RM31.36 million) for a cash consideration of approximately USD5.44 million (equivalent to approximately RM18.82 million) ("1st Acquisition"). The Manager had on 19 September 2007 exercised the call option in respect of the 1st Acquisition and nominated Jadeford to accept the transfer of the 1st Acquisition from the seller. The 1st Acquisition was completed on 19 September 2007.

(ii) Class B SPV Debts and Zero-Coupon Redeemable Secured Class C USD-denominated debts with an aggregate nominal value of approximately USD32.62 million (equivalent to approximately RM112.54 million) for a cash consideration of approximately USD16.58 million (equivalent to approximately RM57.20 million) ("2nd Acquisition"). The Manager has the right to exercise a call option on the 2nd Acquisition within a period of four months from the date of the option agreement with a further extension of two months.

STATEMENT BY DIRECTORS

The directors of **LION FOREST INDUSTRIES BERHAD** state that, in their opinion, the accompanying balance sheets and statements of income, cash flows and changes in equity are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 30 June 2007 and of the results of their businesses and the cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with
a resolution of the Directors,

TAN SRI WILLIAM H.J. CHENG

NGAN YOW CHONG

Kuala Lumpur
1 October 2007

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

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

Subscribed and solemnly declared by
the abovenamed **NGAN YOW CHONG**
at **KUALA LUMPUR** in the **FEDERAL**
TERRITORY this 1st day of October, 2007.

Before me,

W259
AHMAD B. LAYA
COMMISSIONER FOR OATHS
Kuala Lumpur

LIST OF GROUP PROPERTIES

AS OF 30 JUNE 2007

Address	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/ Age of Building (Year)	Net Book Value (RM million)	Date of Acquisition
3, Jalan SS 13/3B 47500 Petaling Jaya Selangor Darul Ehsan	Freehold	10,005 sq feet	Industrial land and building	Factory (18)	0.9	6.8.1992
Lot 72 Persiaran Jubli Perak 40000 Shah Alam Selangor Darul Ehsan	Freehold	5 acres	Industrial land and building	Factory (13)	9.4	30.12.1991
12 & 12/1 Jalan Nangka Tiga Taman Rumpun Bahagia 75300 Bacang Melaka	Leasehold 21.7.2084	1,650 sq feet	Land and building	2-storey shop office (22)	0.1	13.4.1998
Centre Point Business Park Unit No. B-8-1 & B-8-2 5, Jalan Tanjung Karamat 26/35, Seksyen 26 40400 Shah Alam Selangor Darul Ehsan	Freehold	2,716 sq feet	Building	Office (9)	0.4	18.3.1999
50-2 & 50-3 Jalan Wangsa 2/5 Taman Wangsa Permai 52200 Kuala Lumpur	Leasehold 21.10.2087	1,400 sq feet	Land and building	2-storey shop office (9)	0.2	17.3.1999
15, Jalan Permatang Rawa 1 Kawasan Perniagaan Permatang Rawa 14000 Bukit Mertajam Pulau Pinang	Freehold	2,240 sq feet	Land and building	3-storey shop office (8)	0.6	9.2.1999
B2-2-39B Jalan Pinggiran 1/3 Taman Pinggiran Putra Seksyen 1 43300 Seri Kembangan Selangor Darul Ehsan	Leasehold 13.12.2097	678 sq feet	Building	Office (5)	0.1	16.7.2004
LuHe Industrial Zone Zhucheng City Shandong Province People's Republic of China	Leasehold 20.12.2054	157,049 sq metres	Land and building	Office and plant (3)	91.8	21.12.2004

ANALYSIS OF SHAREHOLDINGS

Share Capital as at 30 September 2007

Authorised Share Capital	:	RM500,000,000
Issued and Paid-up Capital	:	RM210,428,871
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One (1) vote per ordinary share

Distribution of Shareholdings as at 30 September 2007

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Less than 100	16	0.45	444	0.01
100 - 1,000	1,212	33.96	1,154,615	0.55
1,001 - 10,000	1,887	52.87	7,177,737	3.40
10,001 - 100,000	386	10.82	11,768,200	5.59
100,001 - less than 5% of issued shares	66	1.85	22,730,604	10.80
5% and above of issued shares	2	0.05	167,597,271	79.65
	3,569	100.00	210,428,871	100.00

Substantial Shareholders as at 30 September 2007

Substantial Shareholders	Direct Interest No. of Shares	Direct Interest % of Shares	Indirect Interest No. of Shares	Indirect Interest % 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	–	–	167,597,271	79.65
5. Horizon Towers Sdn Bhd	–	–	167,597,271	79.65
6. Lion Corporation Berhad	–	–	167,597,271	79.65
7. Lion Industries Corporation Berhad	45,127,236	21.45	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	79.65
12. LDH (S) Pte Ltd	–	–	167,597,271	79.65
13. Narajaya Sdn Bhd	–	–	167,597,271	79.65
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 2007

Registered Shareholders		No. of Shares	% of Shares
1.	AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for Amsteel Mills Sdn Bhd (7/974-1)	122,470,035	58.20
2.	RHB Merchant Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lion Industries Corporation Berhad	45,127,236	21.45
3.	Amsteel Equity Capital Sdn Bhd	1,680,800	0.80
4.	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Oh Kim Sun	1,521,700	0.72
5.	Pacific & Orient Insurance Co Berhad	1,300,000	0.62
6.	Mayban Securities Nominees (Asing) Sdn Bhd Exempt AN for UOB Kay Hian Pte Ltd (A/C Clients)	1,243,900	0.59
7.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for The Hongkong And Shanghai Banking Corporation Limited (HBFS-B CLT 500)	1,060,000	0.50
8.	Pacific & Orient Insurance Co Berhad	1,000,000	0.48
9.	Wu Teng Siong	996,000	0.47
10.	Lee Kek Ming	901,000	0.43
11.	CIMSEC Nominees (Asing) Sdn Bhd Exempt AN for CIMB-GK Securities Pte Ltd (Retail Clients)	848,000	0.40
12.	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Oh Kim Sun (CEB)	716,900	0.34
13.	Low Bee Eng	705,000	0.34
14.	Ng Teng Song	509,700	0.24
15.	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Low Mei Loon (Dealer 072)	427,700	0.20
16.	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chin Kiam Hsung	374,100	0.18
17.	A.A. Anthony Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Chong Choon	355,800	0.17
18.	Sivash Holdings Berhad	338,700	0.16
19.	CIMSEC Nominees (Tempatan) Sdn Bhd Exempt AN for CIMB-GK Securities Pte Ltd (Retail Clients)	316,000	0.15
20.	Ong Sai Hoon	308,000	0.15
21.	HSBC Nominees (Asing) Sdn Bhd Morgan Stanley & Co. International Plc (Firm A/C)	300,000	0.14
22.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lau Lai Peng (KLC/AFF)	285,000	0.14
23.	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Mohamed Tamrin bin Munir (MY0347)	253,000	0.12
24.	Chin Kiam Hsung	237,900	0.11
25.	Affin Nominees (Tempatan) Sdn Bhd Lion Group Medical Assistance Fund	237,000	0.11
26.	Tan Tung Lai	234,300	0.11
27.	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Panoron Sdn Bhd (41403980012B)	228,204	0.11
28.	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Loh Tai Cheong @ Chin Tai Cheong	220,000	0.10
29.	Su Ming Keat	213,000	0.10
30.	Chang Cheng Huat	208,500	0.10

Directors' Interests in Shares in the Company and its Related Companies as at 30 September 2007

The Directors' interests in shares in the Company and its related companies as at 30 September 2007 are as follows:

	Nominal Value Per Ordinary Share	Direct Interest No. of Shares	Direct Interest % of Shares	Indirect Interest No. of Shares	Indirect Interest % of Shares
The Company					
Tan Sri William H.J. Cheng	RM1.00	–	–	167,988,512	79.83
Ngan Yow Chong	RM1.00	26,200	0.01	28,300 (1)	N/A
Dato' Mohamad bin Haji Ahmad	RM1.00	12,000	0.01	–	–
Related Companies					
Dato' Mohamad bin Haji Ahmad					
Lion Industries Corporation Berhad	RM1.00	3,276	*	–	–
Tan Sri William H.J. Cheng					
Lion Industries Corporation Berhad	RM1.00	–	–	336,938,625	47.70
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

Investments in the People's Republic of China	**Indirect Interest USD**	**Indirect Interest % Holding**
Beijing Trostel Property Development Co Ltd	6,650,000	95.00
Shandong Silverstone LuHe Rubber & Tyre Co Ltd	30,000,000	75.00
Tianjin Baden Real Estate Development Co Ltd	5,000,000	95.00
Tianjin Hua Shi Auto Meter Co Ltd (In liquidation - voluntary)	10,878,944	56.00

Notes:

(1) *Represents options granted pursuant to the Company's Executive Share Option Scheme ("ESOS") to subscribe for 28,300 ordinary shares in the Company. On 3 October 2007, Mr Ngan accepted an additional 105,000 options to subscribe for 105,000 ordinary shares in the Company granted pursuant to the ESOS.*

N/A *Not applicable.*

* *Negligible.*

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

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

MATERIAL CONTRACTS
INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

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 an interest, 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.

OTHER INFORMATION

NON-AUDIT FEES

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

OPTIONS EXERCISED DURING THE FINANCIAL YEAR

During the financial year ended 30 June 2007, a total of 121,000 options were exercised by eligible executive employees (including the Executive Director) of the Group at an exercise price of RM3.00 per share pursuant to the Executive Share Option Scheme of the Company. Details of the options exercised are disclosed in Note 26 to the Financial Statements.

RECURRENT RELATED PARTY TRANSACTIONS

The aggregate value of transactions conducted during the financial year ended 30 June 2007 were as follows:

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(a) Paper and integrated wood-based products		
(i) The sale of paper and integrated wood-based products	LDHB Group [(a)]	46
	LICB Group [(a)]	3
		49
(ii) The purchase of machinery, spare parts, tools, dies and other related products and services for use in the operations and maintenance	Parkson Group [(a)]	852
	LCB Group [(a)]	169
	Amsteel Group [(a)]	5
		1,026
(iii) The provision of storage, leasing and rental of properties to SFI	Amsteel Group [(a)]	6
(iv) The provision of transportation services to SFI	LICB Group [(a)]	524
(b) Trading and distribution		
(i) The purchase of steel bars, wire rods, scrap iron, hot rolled coils and other related steel and building materials	LICB Group [(a)]	22,029
(ii) The sale of steel bars, wire rods, scrap iron, hot rolled coils, billets and other related steel and building materials	LDHB Group [(a)]	946
	LCB Group [(a)]	129
		1,075
(iii) The sale of lubricants, spark plugs and other automotive and petroleum products	LICB Group [(a)]	2,697
	LCB Group [(a)]	2,168
	SCB Group [(a)]	758
	Parkson Group [(a)]	459
	Amsteel Group [(a)]	44
	LDHB Group [(a)]	11
	Ributasi Group [(b)]	1
		6,138

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(b) Trading and distribution (continued)		
(iv) The purchase of spare parts, tyres and other related products	SCB Group [a]	471
	LCB Group [a]	4
		475
(c) Others		
(i) The provision of staff training and development and secretarial services to LFIB and its subsidiaries	SCB Group [a]	63
	LCB Group [a]	21
		84
(ii) The provision of security services and security communication equipment to LFIB and its subsidiaries	Amsteel Group [a]	8
(iii) The purchase of steam for use in the tyre manufacturing operations	LuHe Group [c]	2,819
(iv) The procurement of installation services on equipment	IBAS Group [d]	74
(v) The procurement of technical services on equipment	Digital Engines Group [d]	159

Notes:

Amalgamated Containers Berhad (now known as Parkson Holdings Berhad) Group ("Parkson Group")
Amsteel Corporation Berhad Group ("Amsteel Group")
Digital Engines Sdn Bhd Group ("Digital Engines Group")
Intelligent Building Automation Systems Sdn Bhd Group ("IBAS Group")
Lion Corporation Berhad Group ("LCB Group")
Lion Diversified Holdings Berhad Group ("LDHB Group")
Lion Forest Industries Berhad ("LFIB")
Lion Industries Corporation Berhad Group ("LICB Group")
Ributasi Holdings Sdn Bhd Group ("Ributasi Group")
Sabah Forest Industries Sdn Bhd ("SFI")
Shandong LuHe Group Co Ltd Group ("LuHe Group")
Silverstone Corporation Berhad Group ("SCB Group")

"Group" includes subsidiaries and associates

(a) Companies in which a Director and certain major shareholders of the Company have an interest.
(b) A company in which a Director and a major shareholder of the Company have an interest.
(c) Major shareholder of a subsidiary of the Company.
(d) 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 2007

		Utilisation Status	
	Proposed Utilisation RM million	Actual RM million	Unutilised/ Outstanding RM million
Disposal of 97.78% equity interest in Sabah Forest Industries Sdn Bhd for a cash consideration of USD261.0 million (equivalent to 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) Funding and investment relating to the business and/or working capital of the Group	297.03	–	297.03
(vii) Provisional and final adjustment	8.79	8.79	–
(viii) Adjustment on foreign exchange	38.75	38.75	–
	944.82	480.10	464.72

* Based on number of shares in issue on the entitlement date.

LION FOREST INDUSTRIES BERHAD
(Incorporated in Malaysia) (82056-X)

CDS ACCOUNT NUMBER

			–				–									

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-Fifth Annual General Meeting of the Company to be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 29 November 2007 at 9.15 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' Kalsom binti Abd. Rahman		
4. To re-elect as Director, Cik Zainab binti Dato' Hj. Mohamed		
5. To re-appoint Auditors		
6. Authority to Directors to issue shares		
7. Proposed Shareholders' Mandate for Recurrent Related Party Transactions		

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

As witness my/our hand this .... day of 2007

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.