LION CORPORATION BERHAD

A Member of The Lion Group

(12890-A)

Laporan Tahunan 2006 Annual Report

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Sabah Forest Industries Sdn Bhd, a member of The Lion Group.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Thirty-Third Annual General Meeting of Lion Corporation Berhad will be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 30 November 2006 at 2.00 pm for the following purposes:

AGENDA

1. To receive and adopt the Directors' Report and Audited Financial Statements for the financial year ended 30 June 2006. **Resolution 1**

2. To approve the payment of Directors' fees amounting to RM195,000 (2005: RM195,000). **Resolution 2**

3. To re-elect Director:

   In accordance with Article 98 of the Company's Articles of Association, Y.Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain retires by rotation and, being eligible, offers himself for re-election. **Resolution 3**

4. To consider and if thought fit, pass the following resolution pursuant to Section 129(6) of the Companies Act, 1965 as an ordinary resolution:

   "THAT Mr Folk Fong Shing @ Kok Fong Hing who retires pursuant to Section 129(2) of the Companies Act, 1965 be and is hereby re-appointed Director of the Company to hold office until the next annual general meeting." **Resolution 4**

5. 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**

6. Special Business

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

6.1 Authority to Directors to issue shares

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

6.2 Proposed Shareholders' Mandate for Recurrent Related Party Transactions

"THAT approval be given for the Company and its subsidiaries to enter into the recurrent related party transactions of a revenue or trading nature which are necessary for its day-to-day operations as detailed in paragraph 3.3 ("Recurrent Transactions") and with those related parties as detailed in paragraph 3.2 of the Circular to Shareholders of the Company dated 8 November 2006 subject to the following: **Resolution 7**

(i) the transactions are in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and

(ii) disclosure is made in the annual report of the breakdown of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year where:

(a) the consideration, value of the assets, capital outlay or costs of the aggregated transactions is equal to or exceeds RM1 million; or

(b) any one of the percentage ratios of such aggregated transactions is equal to or exceeds 1%,

whichever is the lower;

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

(a) the nature of the Recurrent Transactions entered into; and

(b) the class of related parties involved in the Recurrent Transactions and their relationship with the Company;

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

(i) the conclusion of the next annual general meeting of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;

(ii) the expiration of the period within which the next annual general meeting after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(iii) revoked or varied by resolution passed by the shareholders in general meeting;

whichever is the earlier,

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

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

By Order of the Board

CHAN POH LAN
YASMIN WEILI TAN BINTI ABDULLAH
Secretaries

Kuala Lumpur
8 November 2006

Notes:

1. *Proxy*

   - *A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or the hand of an officer or attorney duly authorised.*

   - *An instrument appointing a proxy executed in Malaysia need not be witnessed. The signature to an instrument appointing a proxy executed outside Malaysia shall be attested by a solicitor, notary public, consul or magistrate.*

   - *The instrument of proxy shall be deposited at the Registered Office of the Company, Level 46, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting.*

   - *Form of Proxy sent through facsimile transmission shall not be accepted.*

2. *Resolution 6*

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

3. *Resolution 7*

   This approval will allow the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with those related parties as set out in paragraph 3.2 of the Circular to Shareholders dated 8 November 2006, which are necessary for the Group's day-to-day operations and are in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

   Details on the proposal are set out in the Circular to Shareholders dated 8 November 2006 enclosed together with the 2006 Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

I. Directors standing for re-election/re-appointment at the Thirty-Third Annual General Meeting of the Company

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

  Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain

- Pursuant to Section 129(6) of the Companies Act, 1965
  (Re-appointment after attainment of 70 years of age)

  Mr Folk Fong Shing @ Kok Fong Hing

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

II. Details of attendance of Directors at Board Meetings

There were five (5) Board Meetings held during the financial year ended 30 June 2006. Details of attendance of the Directors are set out in the Directors' Profile appearing on pages 6 to 8 of the 2006 Annual Report.

III. Place, date and time of the Thirty-Third Annual General Meeting

The Thirty-Third Annual General Meeting of the Company will be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 30 November 2006 at 2.00 pm.

CORPORATE INFORMATION

Directors	:	Y. Bhg. Tan Sri William H.J. Cheng *(Chairman and Managing Director)* Y. M. Raja Dato' Zainal Abidin bin Raja Haji Tachik Y. Bhg. Datuk Cheng Yong Kim Y. Bhg. Dato' Haji Yahya bin Haji Talib Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain Mr M Chareon Sae Tang @ Tan Whye Aun Mr Folk Fong Shing @ Kok Fong Hing
Secretaries	:	Ms Chan Poh Lan Puan Yasmin Weili Tan Binti Abdullah
Company No.	:	12890-A
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	:	Ong Boon Bah & Co B-10-1, Megan Avenue 1 189 Jalan Tun Razak 50400 Kuala Lumpur
Principal Bankers	:	AmMerchant Bank Berhad Malayan Banking Berhad RHB Bank Berhad RHB Sakura Merchant Bankers Berhad
Stock Exchange Listing	:	Bursa Malaysia Securities Berhad ("Bursa Securities")

		Ordinary Shares	**Warrants**
Stock Name	:	LIONCOR	LIONCOR-WA
Bursa Securities Stock No.	:	3581	3581w
ISIN Code	:	MYL3581OO005	MYL3581WACC7
Reuters Code	:	LION.KL	LION_t.KL

DIRECTORS' PROFILE

Tan Sri William H.J. Cheng
Non-Independent Chairman and Managing Director

Y. Bhg. Tan Sri William H.J. Cheng, a Malaysian, aged 63, was appointed to the Board on 27 September 1972 and has been the Chairman since 1977 and Managing Director of the Company since 1973.

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

Tan Sri William Cheng oversees the operation of the Company and is responsible for formulating and monitoring the overall corporate strategic plans and business development of the Company.

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, Lion Forest Industries Berhad and Silverstone Corporation Berhad, all of which are public listed companies
- Managing Director of Amalgamated Containers Berhad, a public listed company
- Director of Amsteel Corporation Berhad, a public listed company
- Chairman and Managing Director of Silverstone Berhad, a public company

Tan Sri William Cheng has a direct shareholding of 458,685 ordinary shares of RM1.00 each and an indirect shareholding of 731,471,605 ordinary shares of RM1.00 each, and 42,160,189 warrants in the Company. In addition, he also has an indirect interest in 245,000 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 245,000 shares in the Company. His shareholdings in the subsidiaries of the Company are disclosed in pages 87 and 88 of this Annual Report.

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

Tan Sri William Cheng attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2006.

Raja Dato' Zainal Abidin bin Raja Haji Tachik
Independent Non-Executive Director

Y. M. Raja Dato' Zainal Abidin bin Raja Haji Tachik, a Malaysian, aged 89, was appointed to the Board on 26 October 1973. He is also the Chairman of the Company's Audit Committee.

Y. M. Raja Dato' Zainal had completed a public administration course at the Oxford University, United Kingdom and a management and law course at the Columbia University, New York, the United States of America. Y. M. Raja Dato' Zainal had served the Malaysian civil service for over 30 years and was the Secretary General to the Ministry of Health, Malaysia prior to his retirement in 1972.

Y. M. Raja Dato' Zainal is also the Deputy Chairman of O.Y.L. Industries Berhad, a public listed company.

Y. M. Raja Dato' Zainal has a direct shareholding of 263,280 ordinary shares of RM1.00 each and an indirect shareholding of 442,940 ordinary shares of RM1.00 each in the Company.

Y. M. Raja Dato' Zainal attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2006.

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

Datuk Cheng Yong Kim
Non-Independent Non-Executive Director

Y. Bhg. Datuk Cheng Yong Kim, a Singaporean, aged 56, was appointed to the Board on 19 July 1982. He is also a member of the Company's Remuneration Committee.

Datuk Cheng obtained a Bachelor of Business Administration (Honours) degree from University of Singapore in 1971. He has more than 25 years of experience in the business operations of the Lion Group encompassing steel, motor, tyre, computer, retail, trading, pulp and paper, plantation, and property and community development. For a period of seven years from 1988 to 1995, he was the Managing Director of Lion Fasteners Sdn Bhd, a company engaged in the business of manufacturing bolts and nuts. In 1990, he took up the role of President in P T Lion Metal Works Tbk, a manufacturer of steel furniture, building material and stamping products in Indonesia. He resigned from Lion Fasteners Sdn Bhd in 1995 to take on the position of Managing Director of Lion Industries Corporation Berhad. In 1996, he was appointed the Executive Director of the Ceemax and the Likom group of companies which are involved in the manufacturing and marketing of computers, monitors and peripherals.

Datuk Cheng's other directorships in public companies are as follows:

- Managing Director of Lion Industries Corporation Berhad, a public listed company
- Director of Silvertone Corporation Berhad, a public listed company
- Director of Hy-Line Berhad, a public company

Datuk Cheng has a direct shareholding of 10,209,517 ordinary shares of RM1.00 each and an indirect shareholding of 441,289,247 ordinary shares of RM1.00 each in the Company. His shareholdings in the subsidiaries of the Company are disclosed in pages 87 and 88 of this Annual Report.

Datuk Cheng is the nephew of Y. Bhg. Tan Sri William H. J. Cheng, the Chairman and Managing Director, and a major shareholder of the Company.

Datuk Cheng attended four (4) of the five (5) Board Meetings of the Company held during the financial year ended 30 June 2006.

Dato' Haji Yahya bin Haji Talib
Non-Independent Non-Executive Director

Y. Bhg. Dato' Haji Yahya bin Haji Talib, a Malaysian, aged 70, was appointed to the Board on 4 May 1984. He is also a member of the Company's Audit Committee.

Dato' Haji Yahya obtained a Bachelor of Arts (Honours) degree in Economics from University of Malaya and completed the Advanced Management Programme from Harvard Business School, the United States of America. He was the Deputy Secretary General in the Ministry of Trade and Industry, the Deputy Director General in the Economic Planning Unit of the Prime Minister's Department and also the Secretary General of the Ministry of Welfare Services (now known as the Ministry of National Unity & Community Development).

Dato' Haji Yahya is also a Director of Kilang Sawit Muar Berhad, a public company.

Dato' Haji Yahya has an indirect shareholding of 94,060 ordinary shares of RM1.00 each in the Company.

Dato' Haji Yahya attended four (4) of the five (5) Board Meetings of the Company held during the financial year ended 30 June 2006.

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

Datuk Emam Mohd Haniff bin Emam Mohd Hussain
Independent Non-Executive Director

Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain, a Malaysian, aged 64, was appointed to the Board on 10 January 2003. He is also a member of the Company's Audit Committee and Nomination Committee.

Datuk Emam Mohd Haniff obtained a Bachelor of Arts (Honours) degree from University Malaya. He had served the Government of Malaysia (Foreign Service) since 1966 up to his retirement in 1997 in various capacities both at home and in Malaysian diplomatic missions overseas. His last position was as the High Commissioner of Malaysia to Singapore.

Datuk Emam Mohd Haniff is also a Director of Edaran Digital Systems Berhad, LCL Corporation Berhad and Kamdar Group (M) Berhad, all of which are public listed companies.

Datuk Emam Mohd Haniff attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2006.

M Chareon Sae Tang @ Tan Whye Aun
Non-Independent Non-Executive Director

Mr M Chareon Sae Tang @ Tan Whye Aun, a Malaysian, aged 67, was appointed to the Board on 4 May 1984. He is also the Chairman of the Company's Nomination Committee, and a member of the Remuneration Committee and Executive Share Option Scheme Committee.

Mr Tang obtained his Bachelor of Law degree from King's College, University of London and is a Barrister-at-Law of the Inner Temple London. He has been in the legal practice since 1968, first as a legal assistant in Messrs Shearn & Delamore, and later a Partner at Messrs Chye, Chow Chung & Tang until 1976. Presently, he is a partner of the legal practice, Messrs C.S. Tang & Co.

Mr Tang is also a Director of Amsteel Corporation Berhad and Tomei Consolidated Berhad, both public listed companies.

Mr Tang attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2006.

Folk Fong Shing @ Kok Fong Hing
Independent Non-Executive Director

Mr Folk Fong Shing @ Kok Fong Hing, a Malaysian, aged 74, was appointed to the Board on 6 June 2001. He is also the Chairman of the Company’s Remuneration Committee and Executive Share Option Scheme Committee and a member of the Audit Committee and Nomination Committee of the Company.

Mr Folk obtained a Masters Degree in Business Administration from University of East Asia, Macau. He is a member of the Malaysian Institute of Accountants and a member of the Association of Australian Certified Practising Accountants. He has a total of 38 years of working experience in accounting, auditing, business advisory, company secretarial and tax compliance/tax investigation work; first as a senior officer with the Department of Inland Revenue and later as Senior Partner of a public accounting firm. He is also the author of “A Practical Handbook on Company Secretarial Practice” and "Directors of Public Listed Company-Legal Obligations & Responsibilities" both published by Leeds Publications in 1996 and 2002 respectively.

Mr Folk attended all five (5) Board Meetings of the Company held during the financial year ended 30 June 2006.

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

CORPORATE GOVERNANCE STATEMENT

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

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

1. DIRECTORS

The Board

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

The Board meets on a quarterly basis, with additional meetings convened as and when necessary. During the financial year ended 30 June 2006, five (5) Board Meetings were held and each Director has 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 seven (7) Directors, six (6) of whom are non-executive. The current Board composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). The broad range of experience, skills and knowledge of the Directors facilitate the discharge of the Board's stewardship effectively.

Represented on the Board are three (3) 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.

The Group Chairman also assumes the position of the Group's Managing Director. He brings with him a wealth of over 30 years of experience in the business operations of the Group and possesses the calibre to ensure the policies and strategies approved by the Board are effectively implemented. In view of the vast experience of the Group Chairman/Managing Director, the Board considers the departure from the recommended practice of separating the functions as appropriate in the present circumstances.

Board Committees

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

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

Supply of Information

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

Supply of Information (continued)

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

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

Appointments to the Board

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

Re-election of Directors

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

Directors' Training

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

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

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

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

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

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

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

2. DIRECTORS' REMUNERATION

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

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

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

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

	Fees RM	Salaries & Other Emoluments RM	Total RM
Executive Director	25,000	1,740,000	1,765,000
Non-Executive Directors	171,000	-	171,000
	196,000	1,740,000	1,936,000

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

	Number of Directors	
Range of Remuneration (RM)	**Executive**	**Non-Executive**
25,000 & below	-	2
25,001 – 50,000	-	4
1,750,001 – 1,800,000	1	-

3. SHAREHOLDERS

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

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

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

4. ACCOUNTABILITY AND AUDIT

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

Financial Reporting

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

Directors' Responsibility in Financial Reporting

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

Internal Control

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

Relationship with the Auditors

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

STATEMENT ON INTERNAL CONTROL

Introduction

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

Board Responsibility

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

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

Risk Management

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

Control and Monitoring Process

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

- An operational structure with defined lines of responsibility and delegation of authority together with a hierarchical structure of reporting and accountability

- Internal policies and procedures that are regularly updated to reflect changing risks or resolve operational deficiencies including to clearly define limits of authority

- A detailed budgeting process which requires all business units to prepare budget and business plan on an annual basis

- Review of key business variables and the monitoring of the achievements of the Group's performance on a quarterly basis by the Board and the Audit Committee

- Confirmation of the effectiveness of internal control and risk assessment process by the chief executive officer or general manager of key operating companies by way of completion of the Internal Control – Self-Assessment Questionnaire on an annual basis

- Periodic examination of business processes and systems of internal control by the internal audit function which regularly submits its reports to the Audit Committee

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

AUDIT COMMITTEE REPORT

COMPOSITION

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

- **Members**

  Y.M. Raja Dato' Zainal Abidin bin Raja Haji Tachik
  (Chairman, Independent Non-Executive Director)

  Y. Bhg. Dato' Haji Yahya bin Haji Talib
  (Non-Independent Non-Executive Director)

  Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain
  (Independent Non-Executive Director)

  Mr Folk Fong Shing @ Kok Fong Hing
  (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 Corporation Berhad, Ms Chan Poh Lan and Puan Yasmin Weili Tan binti Abdullah, are also Secretaries of the Audit Committee.

TERMS OF REFERENCE

- **Membership**

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

- **Meetings and Minutes**

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

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

- **Authority**

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

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

- **Duties**

  The duties of the Audit Committee are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year under review, six (6) Audit Committee Meetings were held. Except for Y.Bhg. Dato' Haji Yahya bin Haji Talib who was absent for one (1) meeting, all other members attended all the six (6) 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.

- **Risk Management**

  Reviewed the Corporate Risk Scorecard of key operations and the mitigating controls to address identified risks.

- **Related Party Transactions**

  Reviewed related party transactions entered into by the Group. Reviewed recurrent related party transactions of a revenue or trading nature on a quarterly basis for compliance with the Shareholders' Mandate.

- **Allocation of Share Options**

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

NOMINATION COMMITTEE

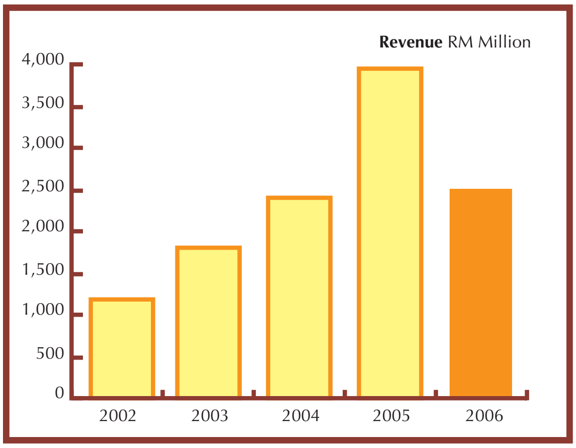
Chairman	:	Mr M Chareon Sae Tang @ Tan Whye Aun *(Non-Independent Non-Executive Director)*
Members	:	Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain *(Independent Non-Executive Director)* Mr Folk Fong Shing @ Kok Fong Hing *(Independent Non-Executive Director)*
Terms of Reference	:	• To recommend to the Board, candidates for directorships in Lion Corporation 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

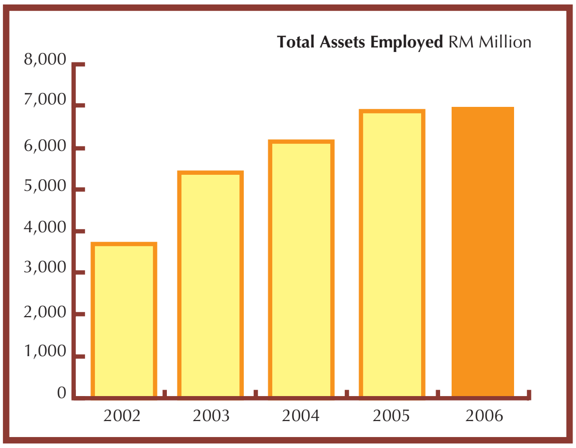
REMUNERATION COMMITTEE

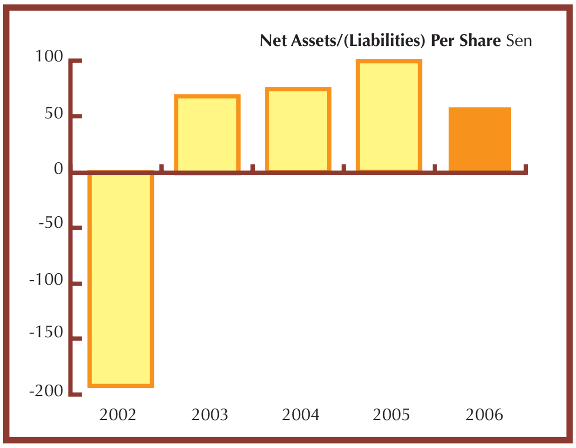
Chairman	:	Mr Folk Fong Shing @ Kok Fong Hing *(Independent Non-Executive Director)*
Members	:	Y. Bhg. Datuk Cheng Yong Kim *(Non-Independent Non-Executive Director)* Mr M Chareon Sae Tang @ Tan Whye Aun *(Non-Independent Non-Executive Director)*
Terms of Reference	:	• To recommend to the Board the remuneration 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

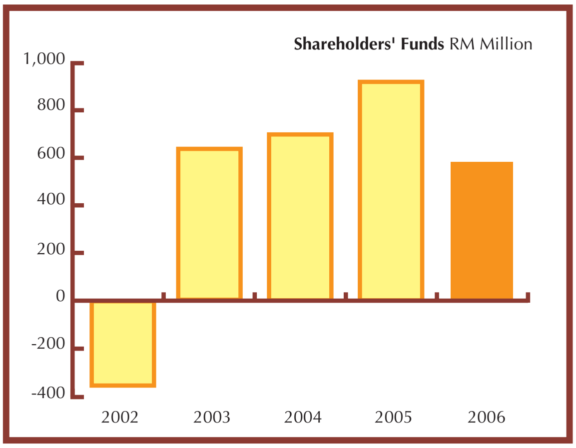
5 YEARS' GROUP FINANCIAL HIGHLIGHTS

Financial years ended 30 June	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000
Revenue	1,209,103	1,837,840	2,445,442	3,977,086	**2,507,212**
Profit/(loss) from operations	29,033	302,100	209,256	387,787	**(174,551)**
Profit/(loss) before taxation	(138,260)	111,951	100,427	211,241	**(582,149)**
Profit/(loss) after taxation	(138,353)	100,246	55,118	264,960	**(430,058)**
Total assets employed	3,701,824	5,417,327	6,135,433	6,865,084	**6,973,284**
Shareholders' funds	(353,843)	651,318	705,475	919,463	**585,871**
	Sen	**Sen**	**Sen**	**Sen**	**Sen**
Net assets/(liabilities) per share attributable to ordinary equity holders of the parent	(193.5)	70.9	76.8	99.3	**58.3**
Earnings/(loss) per share	(80.2)	14.2	4.7	25.1	**(42.7)**









THE GROUP'S BUSINESSES

- Aerial view of Megasteel Sdn Bhd, the country's only integrated flat steel mill producing hot rolled and cold rolled coils (inset) in Banting, Selangor.
- *Pemandangan dari udara kilang Megasteel Sdn Bhd, satu-satunya kilang besi keluli rata bersepadu di negara ini yang mengeluarkan gegelung besi gelekkan panas dan sejuk (gambar kecil) di Banting, Selangor.*

- The Prime Minister, YAB Dato' Seri Abdullah Ahmad Badawi (second from left) viewing Megasteel's Cold Rolling Mill during his visit in December 2005.
- *Perdana Menteri, YAB Dato' Seri Abdullah Ahmad Badawi (kedua dari kiri) melihat kilang Gelekkan Sejuk Megasteel semasa lawatan beliau pada Disember 2005.*

- Steel fabricated products ranging from compact mobile filing systems to industrial rackings, office furniture and mobile safes from Lion Steelworks Sdn Bhd.
- *Produk berasaskan besi keluli, dari sistem failing mudah alih kompak ke rak industri, perabot pejabat dan peti keselamatan mudah alih dari Lion Steelworks Sdn Bhd.*

- The TUAH 3-tonne light truck assembled and distributed by Kinabalu Motor Assembly Sdn Bhd.
- *Trak ringan 3 tan TUAH yang dipasang dan diedar oleh Kinabalu Motor Assembly Sdn Bhd.*

PENYATA PENGERUSI

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

PRESTASI KEWANGAN

Tahun ini merupakan tempoh yang sangat mencabar bagi Kumpulan. Megasteel Sdn Bhd ("Megasteel"), pengeluar tunggal gegelung besi gelekkan panas ("HRC") dan penyumbang utama hasil Kumpulan pada tahun lalu, telah mengalami penurunan ketara dalam perolehan memandangkan para pengguna akhir tempatan mengurangkan pesanan ekoran kemerosotan berpanjangan dalam harga besi keluli di pasaran antarabangsa. Sentimen pasaran tempatan juga terjejas akibat kelembapan dalam pelaksanaan beberapa projek prasarana termasuk projek penggantian paip air negara.

Sebahagian besar dalam tahun ini, harga besi keluli sejagat terus jatuh dengan ketara disebabkan oleh langkah-langkah yang diambil oleh negara China untuk merasionalisasi dan memodenkan industri besi kelulinya. Daripada dahulunya sebuah negara pengimport besi keluli, China telah berkembang dan meningkatkan keupayaannya secara progresif dalam usaha untuk menghapuskan logi-logi mini yang kurang cekap. Pada tahun lalu China telah memasuki pasaran eksport antarabangsa dan mewujudkan tekanan ke atas harga besi keluli. Dengan peningkatan harga bijih besi, para pengilang besi keluli di seluruh dunia menyaksikan kejatuhan yang ketara dalam perolehan dan margin keuntungan masing-masing.

Megasteel juga tidak terkecuali daripada kesan rasionalisasi dan penyatuan kilang besi keluli China yang agresif ini. Daya tahan Megasteel dalam menghadapi persekitaran pasaran yang mencabar diuji pada tahap sepenuhnya dalam tahun tinjauan. Segala usaha bersepadu dan inisiatif yang dilaksanakan pada tahun-tahun sebelumnya, membolehkan Megasteel bertahan daripada pelbagai cabaran dan mengenal pasti pasaran-pasaran baru bagi produknya. Bagaimanapun, pada suku terakhir dalam tahun kewangan dalam kajian, harga HRC mulai melonjak semula dan meningkat dengan stabil.

Selari dengan persekitaran operasi yang mencabar, Kumpulan mencatatkan perolehan yang ketara rendah berjumlah RM2.5 bilion dan rugi bersih berjumlah RM403 juta. Syarikat bersekutu kita, Lion Industries Corporation Berhad, yang terlibat terutamanya dalam pembuatan produk besi keluli panjang dan bilet juga berdepan dengan permintaan yang lemah dan kemerosotan margin.

PEKEMBANGAN KORPORAT

1) Syarikat telah melaksanakan segala cadangan yang dipertimbangkan di bawah Skim Penstrukturan Semula Seluruh Kumpulan berikutan selesainya tawaran jualan terhad boleh tolak saham Amsteel Corporation Berhad.

2) Suruhanjaya Sekuriti ("SS") tidak dapat meluluskan cadangan Syarikat untuk membeli sejumlah 36.68% saham modal terbitan dan berbayar Lion Asiapac Limited kerana SC telah menolak cadangan penjual untuk menjual saham tersebut.

3) Syarikat telah menyelesaikan pembelian keseluruhan saham modal terbitan dan berbayar Lion Plate Mills Sdn Bhd pada harga RM70,000,000 yang akan dipenuhi melalui terbitan dan peruntukan 53,435,115 saham baru biasa bernilai RM1.00 setiap satu dalam Syarikat ("Saham LCB") dengan harga terbitan RM1.31 setiap Saham LCB pada 17 Mac 2006.

4) Pada 19 Mei 2006, Syarikat telah menyelesaikan tawaran pengambil alihan bersyarat untuk membeli baki 71,522,971 saham biasa bernilai RM1.00 setiap satu dalam Amalgamated Containers Berhad ("ACB") melalui terbitan dan peruntukan 47,681,981 saham baru LCB pada asas dua saham baru LCB bagi setiap tiga saham ACB sedia ada yang dipegang, pada harga terbitan RM1.31 setiap saham LCB.

   Ketika tawaran ditutup, 39,130,743 saham ACB mewakili 52.37% ekuiti kepentingan dalam ACB telah dibeli oleh Syarikat dan 26,087,094 saham LCB telah diterbitkan dan diperuntukan pada harga RM1.31 setiap saham LCB.

5) Dalam dan selepas tahun kewangan, Kumpulan membuat cadangan-cadangan berikut:

   a) menunda cadangan terbitan Nota Dolar Amerika Syarikat di Singapore Exchange Securities Trading Limited dan Labuan International Financial Exchange Inc.

   b) menamatkan perjanjian penyediaan kemudahan dengan Lion Diversified Holdings Berhad bagi pembinaan logi pembuatan 'Direct Reduced Iron' ("DRI").

   c) membeli keseluruhan saham modal terbitan dan berbayar Bright Steel Sdn Bhd daripada ACB dengan pertimbangan tunai berjumlah RM53.47 juta, dan melupuskan 56.64% kepentingan ekuiti dalam ACB kepada Excel Step Investments Limited, anak syarikat milik penuh Lion Diversified Holdings Berhad, untuk pertimbangan tunai berjumlah RM35.12 juta.

TINJAUAN OPERASI

Bahagian Keluli

Dalam tahun kewangan, penggunaan produk keluli rata menurun dengan ketara selari dengan kejatuhan harga besi keluli antarabangsa dan pertumbuhan perlahan projek prasarana tempatan. Para pengeluar besi keluli di peringkat hiliran dan pengguna akhir secara amnya berhati-hati dalam membuat pesanan kerana menjangkakan penurunan harga akan terus berlaku.

Peningkatan kos pengeluaran terus menjadi kebimbangan utama dan cabaran kepada kita. Besi lusuh dan `pig iron', yang merupakan komponen kos terbesar, tidak menunjukkan aliran pergerakan yang menurun seperti mana HRC. Untuk mengurangkan kesan ke atas margin, kita bekerjasama rapat dengan para pembekal utama untuk meningkatkan penggunaan besi lusuh tempatan bagi menggantikan besi lusuh import yang lebih mahal. Kita juga menghadapi kenaikan harga diesel dan elektrik, kedua-duanya merupakan komponen utama dalam pengeluaran. Sehubungan itu, inisiatif kita untuk meningkatkan hasil pengeluaran dan kecekapan kos menjadi aspek yang kritikal. Kita secara berterusan mengkaji penambahbaikan dalam prosedur dan penggunaan aset secara efektif. Di antaranya, kita berusaha mengoptimumkan penggunaan barangan boleh guna yang utama untuk mencapai kos pengeluaran terendah bagi setiap tan. Kita menjangkakan pengurangan kos akan terhasil melalui penjimatan secara besar-besaran dalam penggunaan elektrik dan barang boleh guna apabila kita menggantikan penggunaan besi lusuh dengan DRI. Projek ini akan bermula dalam tahun 2007.

Kita komited dalam menyokong pembangunan industri hiliran yang mempunyai nilai tambah tinggi. Logi `hot strip' kita berjaya menghasilkan pelbagai produk besi keluli rata berkualiti tinggi, termasuk besi tahan karat untuk kontena kargo marin, keluli gred ambilan dalam (deep drawing) bagi silinder gas dan keluli gred API tertentu untuk industri minyak dan gas. Melalui logi berangkai '5-stand 4-high' besi keluli gelekkan sejuk, kita telah menguji dan menghasilkan gegelung yang lebih nipis sehingga 0.35mm, yang biasanya digunakan dalam peralatan elektrik seperti kelengakapan lampu. Sehubungan itu, program sokongan teknikal kita dan majlis dialog berterusan yang diadakan dengan pengguna-pengguna akhir telah membolehkan kita memenuhi keperluan pelanggan dengan lebih baik.

Bahagian Motor

Selepas melancarkan trak komersial TUAH yang mempunyai keupayaan muatan sehingga tiga tan, Bahagian Motor sedang berusaha memperkenalkan trak 5-tan untuk meluaskan segmen pasaran kita. Usahasama dengan Anhui Jianghuai Automobile Co Ltd ("JAC") bertambah kukuh, dengan adanya pemindahan teknologi dan kepakaran dalam operasi pengeluaran kenderaan komersial. Rangkaian model kita juga akan diperluaskan dalam jangka masa terdekat untuk meliputi trak bermuatan lebih tinggi.

Logi pemasangan kenderaan kita terus mengekalkan kontrak dengan Lion Motor Sdn Bhd bagi pemasangan trak ringan 3-tan Dong Feng dan memegang hak pengedaran di Malaysia Timur. Hak pengedaran lain ialah trak pikap D-Max keluaran Isuzu Malaysia Sdn Bhd dan trak Hicom Perkasa oleh Automotive Corporation (Malaysia) Sdn Bhd.

Bahagian Pembuatan - Perabot Besi

Pasaran Timur Tengah kekal sebagai penyumbang utama perolehan eksport. Dengan pelaksanaan pelbagai pembangunan ekonomi di negara-negara berkenaan, permintaan bagi perabot pejabat telah meningkat. Melalui usahasama dengan para pengedar kita di rantau tersebut, Bahagian itu telah berjaya meningkatkan penguasaan pasaran terutamanya di Kuwait, Bahrain dan Dubai.

Pasaran tempatan menyaksikan pertumbuhannya yang mendatar akibat persaingan yang sengit di kalangan para pengeluar. Bahagian ini terus meningkatkan keupayaannya melalui produk-produk baru yang dirintis pada tahun lalu untuk menyokong rangkaian yang sedia ada seperti `in-system furniture', sistem meja dan penyimpanan modular. Dalam tahun kewangan, pasukan pengeluaran kita telah memperkenalkan kunci pengesanan audit digital yang baru bagi peti-peti keselamatan. Ini mampu memenuhi keperluan pelbagai pengguna dan paling sesuai digunakan oleh perniagaan rangkaian peruncitan dan makanan. Sejak kejayaan pembangunannya, kita berjaya memperolehi kontrak pembekalan kepada dua buah syarikat rangkaian makanan utama dan akan meluaskan produk ini kepada pelanggan-pelanggan lain yang berpotensi.

PROSPEK

Lonjakan semula harga keluli di pasaran sejagat dan pelaksanaan pelbagai projek prasarana dan projek berkaitan pembentungan yang akan dilaksanakan di bawah Rancangan Malaysia Ke-9 membuka ruang yang amat baik untuk Kumpulan memulihkan prestasinya.

Bagi menghadapi cabaran yang mendatang, Kumpulan akan terus menumpukan usaha ke arah mengurangkan kos pengeluaran, meningkatkan kualiti produk dan meluaskan pasarannya. Inisiatif-inisiatif kita termasuklah menggantikan penggunaan diesel dengan gas asli, pengurangan tempoh peleburan besi lusuh melalui penggunaan elektrik secara cekap, pengangkutan laluan air pendalaman untuk mengurangkan kos pengendalian dan pengangkutan serta memajukan industri hiliran yang memiliki nilai tambah tinggi.

PENGHARGAAN

Bagi pihak Lembaga Pengarah, saya ingin menyatakan penghargaan kami kepada para pelanggan yang dihargai, rakan perniagaan, pihak berkuasa Kerajaan, para pembiaya dan pemegang saham yang setia atas sokongan padu mereka, serta kakitangan kami yang berdedikasi serta mempunyai komitmen yang tinggi terhadap Kumpulan.

Saya juga ingin merakamkan rasa penghargaan kami kepada pengarah-pengarah syarikat yang akan bersara, Y.M. Raja Dato' Zainal Abidin bin Raja Haji Tachik dan Y. Bhg. Dato' Haji Yahya bin Haji Talib yang tidak bercadang untuk dilantik semula sebagai pengarah, atas khidmat dan komitmen mereka sepanjang tempoh mereka dengan Kumpulan.

TAN SRI WILLIAM H. J. CHENG
Pengerusi

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Lion Corporation Berhad for the financial year ended 30 June 2006.

FINANCIAL PERFORMANCE

It was an immensely challenging year for the Group. Megasteel Sdn Bhd ("Megasteel"), the country's sole producer of hot-rolled coils ("HRCs") and the Group's major contributor in the previous year, experienced a significant drop in revenue as local end-users continued to withhold orders in the face of the sharp and prolonged drop in international steel prices. Local market sentiment was also affected by the slowdown in the implementation of various infrastructural projects including the national water pipe replacement project.

During the larger part of the year, global steel prices continued to fall sharply as China implemented steps to rationalise and modernise its own steel industry. From being a net importer of steel products in the past, China has progressively expanded and upgraded its capacity and in its attempt to weed out its numerous inefficient mini mills, had last year entered the international export market and created immense pressure on steel prices. Coupled with the sharp increase in iron ore prices, steel millers throughout the world saw a steep decline in their revenue and profit margins.

Megasteel was not spared the effects of China's aggressive rationalisation and consolidation of its steel industry. Megasteel's resilience in the face of such adverse market conditions was tested to the fullest during the year under review. With its concerted efforts and initiatives implemented over the last few years, Megasteel was able to withstand the numerous challenges and identify new markets for its products. However, towards the last quarter of the year under review, prices of HRCs rebounded and began to steadily move upwards.

Due to the adverse operating conditions, the Group registered a significantly lower revenue of RM2.5 billion and a net loss of RM403 million. Our associated company, Lion Industries Corporation Berhad, which is primarily involved in the manufacturing of long steel products and billets also encountered weak demand and margin erosion.

CORPORATE DEVELOPMENTS

1) The Company duly implemented all proposals contemplated under the Group Wide Restructuring Scheme following the completion of the renounceable restricted offer for sale of Amsteel Corporation Berhad shares.

2) The Securities Commission ("SC") was not able to consider the proposed acquisition by the Company of approximately 36.68% of the issued and paid-up share capital of Lion Asiapac Limited ("LAP") as the SC had rejected Silverstone Corporation Berhad's application to sell LAP to the Company.

3) The Company completed the acquisition of the entire issued and paid-up share capital of Lion Plate Mills Sdn Bhd for a consideration of RM70 million satisfied by the issuance and allotment of 53,435,115 new ordinary shares of RM1.00 each in the Company ("LCB Shares") at an issue price of RM1.31 per LCB Share on 17 March 2006.

4) The Company completed the conditional take-over offer to acquire the remaining 71,522,971 ordinary shares of RM1.00 each in Amalgamated Containers Berhad ("ACB") satisfied by the issuance and allotment of up to 47,681,981 new LCB Shares on the basis of two new LCB Shares for every three existing ACB shares held at an issue price RM1.31 per LCB Share, on 19 May 2006.

   At the close of the offer, 39,130,743 ACB shares representing 52.37% equity interest in ACB were acquired by the Company and 26,087,094 LCB Shares were issued and allotted at RM1.31 per LCB Share.

5) During and subsequent to the financial year, the Group proposed the following:

   a) Deferment of its proposed issuance of United States Dollar Notes on the Singapore Exchange Securities Trading Limited and the Labuan International Financial Exchange Inc.

   b) Termination of the facilitation agreements entered into with Lion Diversified Holdings Berhad in respect of the setting up of a Direct Reduced Iron ("DRI") manufacturing plant.

   c) Acquisition of the entire issued and paid-up share capital of Bright Steel Sdn Bhd from ACB for a cash consideration of RM53.47 million, and disposal of its 56.64% equity interest in ACB to Excel Step Investments Limited, a wholly-owned subsidiary of Lion Diversified Holdings Berhad, for a cash consideration of RM35.12 million.

REVIEW OF OPERATIONS

Steel Division

Consumption of flat products slowed down significantly during the year in line with the plunge in international steel prices and the lower pace of development of local infrastructural projects. Downstream steel producers and end-users were generally cautious in their procurement of orders in expectation of further price reductions.

Rising production costs continued to present a major concern and challenge for us. Scrap and pig iron, being the largest cost component, did not exhibit identical downtrend movements with that of HRC. To mitigate margin impact, we had worked closely with our key suppliers to increase the off-take of local scrap to replace the more expensive imported scrap. We also had to deal with diesel and energy price hikes, both of which are major conversion components in our production. In this regard, our initiatives to increase production yields and cost efficiencies became crucial. We continuously reviewed procedural enhancement and effective assets utilisation. Amongst others, we strived for optimisation in key consumables usage to achieve the lowest production cost per ton. We expect further cost-down to materialise through substantial savings in electricity and consumables when we replace our scrap consumption with DRI which will come on-stream in 2007.

We are committed to supporting the development of higher value-added downstream industries. Our hot strip mill has successfully produced various high quality flat steel products, including corrosion resistant steel for marine cargo containers, deep drawing grade steel for gas cylinders and certain API grade steel for the oil and gas industry. Through our 5-stand 4-high cold rolling tandem mill, we have tested and produced coils of thin gauges down to 0.35mm, commonly used in the manufacture of electrical appliances such as light fittings. In this respect, our technical support programmes and constant dialogue with end-users have enabled us to serve our customers better.

Motor Division

Following the launch of the 3-tonne TUAH commercial truck, our motor division has now progressed to introducing the 5-tonne truck in our plans to widen our market segment. Our collaboration with Anhui Jianghuai Automobile Co Ltd is growing as we see further technology and know-how transfer to our commercial vehicles manufacturing operations. Our model line-up will also be expanded in the near future to include the heavier tonnage trucks.

Our motor assembly plant continued to maintain its assembling contracts with Lion Motor Sdn Bhd for the assembly of the 3-tonne Dong Feng light duty truck, and holds the distributor rights for the East Malaysian region. Other distribution rights that we were granted are the D-Max pick-up trucks by Isuzu Malaysia Sdn Bhd and Hicom Perkasa trucks by Automotive Corporation (Malaysia) Sdn Bhd.

Manufacturing Division – Steel Furniture

The Middle Eastern market remained as the main export revenue contributor. As these countries embarked on their various economic development programmes, the demand for office furniture has grown. Through the collaboration with our distributors in this region, the Division has successfully increased its market share especially in Kuwait, Bahrain and Dubai.

The local market was flat with intense competition among manufacturers. The Division continued to improve on new products initiated last year, such as in-system furniture, modular desking and shelving, to complement the existing range. During the year, our production team introduced the new audit trail digital lock for security safes. It can reliably accommodate multiple users and is most suitable for use in the retail and food chain businesses. Since its successful development, we have secured supply to two major food chains and will promote this product to other potential customers.

PROSPECTS

The rebound in global steel prices and the impending implementation of the various infrastructural and utilities projects under the 9th Malaysia Plan augur well for the Group to turnaround its performance.

To meet the challenges ahead, the Group will continue to focus its efforts on lowering production costs, improving product quality and increasing market presence. In the pipeline are initiatives to substitute diesel usage with natural gas, reduction in scrap meltdown time through efficient electrical usage, inland waterway transportation options to reduce handling and transportation costs and the development of higher value-added downstream industries.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to record our appreciation to our valued customers, business associates, Government authorities, financiers, and loyal shareholders for their strong support, and to our employees for their dedication and commitment to the Group.

I would also like to express our appreciation to our retiring directors, Y.M. Raja Dato' Zainal Abidin bin Raja Haji Tachik and Y. Bhg. Dato' Haji Yahya bin Haji Talib who are not seeking re-appointment as directors, for their invaluable services rendered during their long tenure with the Group.

TAN SRI WILLIAM H. J. CHENG
Chairman

主席报告

我谨代表董事部，欣然向您提呈金狮机构有限公司（“金狮机构”），截至2006年6月30日止财政年度内的常年报告及已审核财务报表。

财务表现

这是本集团面对极大挑战的一年。国内唯一的热轧钢生产商及本集团之前一年的主要收入贡献来源的美佳钢铁私人有限公司（“美佳钢铁”），因本地客户受到国际钢铁价格持续下跌的冲击而展延购买的决定，收入明显下跌。本地市场的情绪也因多项基建计划的展延实行包括全国性更换水管计划，而受到一定的影响。

检讨年度内的大部分时候，国际钢铁价格持续大跌，主要是因为中国采取步骤以合理化和现代化其钢铁业。从过往作为钢铁产品的净入口国，中国积极扩大和提升其钢铁生产的能力，及关闭多家不具效率的小型钢铁厂的计划，已致使中国在去年进军国际出口市场，继而对钢铁价格造成极大的压力。再加上铁矿价格大起，全球钢铁制造的收入和利润都出现大跌的情况。

美佳钢铁也无法避免的受到中国积极合理化和整合其钢铁业的不利影响。不过，检讨年度内，面对这种不利的市场情况时，美佳钢铁终于发挥其韧力，经得起全面的考验。由于过去几年来进行和落实了一些努力和措施，使美佳钢铁成功经得起各种具挑战性的考验，并为产品鉴定新的市场。无论如何，热轧钢的价格在检讨年度最后一季开始回弹，并稳定走高。

受到不利运作环境的影响，本集团的收入显著下跌至25亿令吉，并蒙受4亿300万令吉的净亏。我们的联号公司金狮工业机构有限公司主要生产长形钢铁产品和钢坯，同样面对疲弱的需求和下跌的利润。

企业发展

1) 随著完成合钢实业有限公司的可放弃限制献售计划，本公司已正式落实集团全面重组计划（Group Wide Restructuring Scheme）下的所有建议。

2) 由于证券监督会不批准出售金狮亚太有限公司的建议，因此也不接纳本公司所提呈的收购36.68%其已发行及缴足资本的建议。

3) 本公司已于2006年3月17日完成以7千万令吉代价收购Lion Plate Mills Sdn Bhd全部已发行及缴足资本的计划，并以发行和分配5千343万5千115股每股面值1令吉，售价1令吉31仙的本公司普通股支付。

4) 本公司已于2006年5月19日完成有条件的接管献议，以收购合营货柜有限公司（“合营货柜“）余下的7千152万2千971股每股面值1令吉普通股，并以每持有三股合营货柜股票分配两股金狮机构新股的比例，发行和分配4千768万1千981股每股售价1令吉31仙的金狮机构新股支付。

   献议截止时，本公司共收购3千913万743股合营货柜股票，相等于52.37%股权，并发行和分配2千608万7千零94股每股售价1令吉31仙的金狮机构股票。

5) 在检讨年度期间和过后，本集团提出以下建议：

   a) 展延在新加坡证券交易所和纳闽国际金融交易所发行美元债卷的建议。

   b) 终止和金狮多元控股有限公司（“金狮多元控股”）签署设立直接还原铁制造厂的合约。

   c) 以5千347万令吉现金的代价，向合营货柜收购 Bright Steel Sdn Bhd 的所有已发行及缴足资本，并以3千512万令吉现金的代价，脱售合营货柜的56.64%股权给金狮多元控股的独资子公司 Excel Step Investments Limited.

业务检讨

钢铁组

检讨年度内，由于国际钢铁价格大跌及本地基建计划的发展放缓脚步，所以钢板产品的消费显著放缓。一般下游钢铁厂商和用户在获取订单时都会持谨慎态度，主要是因为他们预料钢铁价格会继续滑跌。

生产成本走高继续成为我们关注的要点和挑战。废铁与生铁作为最大的成本成份，并没有和热轧钢一样，展现价格下跌的走势。为了减轻利润冲击，我们和主要的供应商保持密切合作，增加使用本地废铁量，以取代较昂贵的进口废铁。我们也面对柴油和能源价格涨升的情况，这些都是生产过程中主要的转换成份。这方面，我们致力于提高生产回酬和成本效益的努力，变得异常重要。我们也将继续检讨加强程序及有效率的使用资产。此外，我们也争取主要的耗材使用量，以达到最低的每公吨生产成本。我们也预料在以直接还原铁取代废铁后，通过大量节省电力和耗材后，成本会进一步下跌。这项计划将在2007年投入生产。

我们也承诺并支持更高增值下游工业的发展。我们的热轧板钢（hot strip）工厂已成功生产各种高素质的板钢产品，包括海运货柜使用的corrosion resistant steel，天然气桶使用的deep drawing grade steel及石油和天然气领域使用的API级别钢铁。通过5-stand 4-high冷轧钢工厂，我们测试和生产较薄达0.35mm的钢铁，普遍用在电器如电灯装置。这方面，我们通过技术支援计划及经常和用户沟通，让我们能够为顾客提供更佳的服务。

汽车组

随著3公吨重的TUAH商业卡车推介后，我们的汽车业务如今已进入推介5公吨卡车的阶段，以扩大本组市场占有率。我们和安徽江淮汽车股份有限公司已加强合作，并已取得更进一步的技术和专门知识应用在我们的商业车辆制造运作。我们也将在近期推介更重吨位的卡车。

我们的汽车装配厂，继续保持其和 Lion Motor Sdn Bhd的装配合约, 以装配3公吨东风车型轻卡车，并持有东马区域的分销权。其他分销权包括获得Isuzu Malaysia Sdn Bhd 授权销售D-Max pick-up卡车，及Automotive Corporation (Malaysia) Sdn Bhd授权销售Hicom Perkasa卡车。

制造组－钢铁家具组

中东市场继续成为制造组的主要出口销售来源。随着这些国家正在推行各种经济发展，因此对办公室家具的需求不断增长。通过我们与该区域分销商的合作，本组成功扩大市场占有率，尤其是在科威特、巴林和杜拜。

由于厂商之间面对激烈竞争，本地市场保持疲弱。本组不断提升在去年推介的新产品，比如装置家具、组装桌子和棚架，以便能够和现有产品种类相辅相成。检讨年度内，我们的生产组也为保险箱推介了全新的审核跟踪数码锁。这个数码锁适用于不同的用户，而且最适合在零售和餐饮连锁店使用。自从产品开发后，我们已成功获取两家首要餐饮连锁店的供应合约，并将全力拓展这项产品至其他潜在客户。

展望

国际钢铁价格的回弹及第九大马计划下的各项基建计划和排污相关计划正在落实当中，为本集团转亏为盈铺下良好基础。

为了应付未来挑战，本集团将继续专注于减低生产成本、改善产品素质和扩大市场占有率。正在进行中的措施包括以天然气取代柴油、通过有效率的电力使用来减少废铁熔化时间、内河航道运输计划以减少装卸和运输成本，及发展更高增值的下游工业。

鸣谢

我谨代表董事部，衷心感谢我们珍贵的客户、商业伙伴、政府当局、银行机构及股东对本集团的强力支持，同时也要感谢全体职员对集团尽忠职守和为工作献身的精神。

我也要对不再寻求重新受委为董事的退休董事Y.M. Raja Dato' Zainal Abidin bin Raja Haji Tachik和Y. Bhg. Dato' Haji Yahya bin Haji Talib，在他们为本集团的长期服务期间所做出的贡献和服务，致以万二分的谢意。

丹斯里钟廷森
主席

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are shown in Note 11 to the financial statements.

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

FINANCIAL RESULTS

	GROUP RM'000	COMPANY RM'000
Loss before taxation	(582,149)	(64,865)
Taxation	152,091	-
Loss after taxation	(430,058)	(64,865)

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up share capital from RM925,593,622 to RM1,005,115,831 by the issuance of 79,522,209 new ordinary shares of RM1.00 each as consideration for the acquisition of the entire equity interest in Lion Plate Mills Sdn Bhd and 52.37% equity interest in Amalgamated Containers Berhad.

DIVIDEND

The Directors do not recommend any dividend for the financial year ended 30 June 2006.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in the financial statements.

DIRECTORS

The Directors who served since the date of the last report are:

Tan Sri William H.J. Cheng
Raja Dato' Zainal Abidin bin Raja Haji Tachik
Datuk Cheng Yong Kim
Dato' Haji Yahya bin Haji Talib
Datuk Emam Mohd Haniff bin Emam Mohd Hussain
M Chareon Sae Tang @ Tan Whye Aun
Folk Fong Shing @ Kok Fong Hing

DIRECTORS (continued)

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

Mr Folk Fong Shing @ Kok Fong Hing being over the age of 70 years retires pursuant to Section 129(2) of the Companies Act, 1965 at the forthcoming Annual General Meeting and seek re-appointment as Director under the provisions of Section 129(6) of the said Act to hold office until the next Annual General Meeting.

Y. M. Raja Dato' Zainal Abidin bin Raja Haji Tachik and Y. Bhg. Dato' Haji Yahya bin Haji Talib, both being over the age of 70 years, retire pursuant to Section 129(2) of the Companies Act, 1965 at the forthcoming Annual General Meeting and will not seek re-appointment as Directors.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than those disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which a Director is a member, or with a company in which a Director has a substantial financial interest save and except for fees for professional services paid to a firm of which Mr M Chareon Sae Tang @ Tan Whye Aun is a partner in his capacity as an advocate and solicitor and except for any benefit which may be deemed to have arisen by virtue of transactions between the Company and its related companies and certain companies in which certain Directors of the Company and/or its subsidiary companies are substantial shareholders as disclosed in Note 30 to the financial statements.

Except for the share options granted pursuant to the Executive Share Option Scheme of the Company and the conversion of warrants, neither during nor at the end of the financial year, was the Company a party to any arrangement whose object is to enable Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS

The interests of Directors in shares in the Company at the end of the financial year are as follows:

	Number of Ordinary Shares			
	As at 1.7.2005	**Additions**	**Disposals**	**As at 30.6.2006**
Direct interest in shares				
Tan Sri William H.J. Cheng	452,019	6,666	-	458,685
Datuk Cheng Yong Kim	194,250	10,015,267	-	10,209,517
Raja Dato' Zainal Abidin bin Raja Haji Tachik	175,280	88,000	-	263,280
Indirect interest in shares				
Tan Sri William H.J. Cheng	674,724,219	57,247,386	-	731,971,605
Datuk Cheng Yong Kim	430,448,879	10,840,368	-	441,289,247
Raja Dato' Zainal Abidin bin Raja Haji Tachik	142,940	300,000	-	442,940
Dato' Haji Yahya bin Haji Talib	80,060	14,000	-	94,060

In addition to the above, the following Directors are also deemed to have an interest in shares in the Company by virtue of:

a) Options granted pursuant to the Company's Executive Share Option Scheme which was implemented on 1 September 2005

	Number of options			
	As at 1.9.2005	**Granted**	**Exercised**	**As at 30.6.2006**
Tan Sri William H.J. Cheng	-	245,000	-	245,000

DIRECTORS' INTERESTS (continued)

b) Warrants with a right to subscribe for ordinary shares in the Company on the basis of one new ordinary share for every one warrant held

	Warrants			
	As at 1.7.2005	**Additions**	**Disposals**	**As at 30.6.2006**
Tan Sri William H.J. Cheng	42,160,189	-	-	42,160,189

The Directors' interests in related companies are as follows:

	Nominal value per ordinary share	**Number of ordinary shares**			
		As at 1.7.2005	**Additions**	**Disposals**	**As at 30.6.2006**
Indirect interest in shares					
Tan Sri William H.J. Cheng and Datuk Cheng Yong Kim					
Bersatu Investments Company Limited	HK$10.00	42,644	-	-	42,644
Kinabalu Motor Assembly Sendirian Berhad	RM1.00	26,985,030	-	-	26,985,030
Logic Concepts (M) Sdn Bhd	RM1.00	71,072	-	-	71,072
Logic Furniture (M) Sdn Bhd	RM1.00	91,000	-	-	91,000
Lyn (Pte) Ltd	*	1,225,555	-	-	1,225,555
Megasteel Sdn Bhd	RM1.00	540,000,001	-	-	540,000,001

	Number of Preference "D" Shares of RM0.01 each			
	As at 1.7.2005	**Additions**	**Disposals**	**As at 30.6.2006**
Megasteel Sdn Bhd	49,000,000	-	-	49,000,000

	Number of Preference "F" Shares of RM0.01 each			
	As at 1.7.2005	**Additions**	**Disposals**	**As at 30.6.2006**
Megasteel Sdn Bhd	26,670,000	-	-	26,670,000

	Nominal value per ordinary share	**Number of ordinary shares**			
		As at 19.5.2006**	**Additions**	**Disposals**	**As at 30.6.2006**
Amalgamated Containers Berhad	RM1.00	42,318,772	-	-	42,318,772
Bright Steel Service Centre Sdn Bhd	RM1.00	11,420,000	-	-	11,420,000
Bright Enterprise (Sdn) Berhad	RM1.00	816,000	-	-	816,000
B.A.P. Industries Sdn Bhd	RM1.00	4,650,000	-	-	4,650,000

* Shares in companies incorporated in Singapore do not have a par value
** Became related companies on 19 May 2006

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 during and at the end of the financial year.

EXECUTIVE SHARE OPTION SCHEME ("ESOS")

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

The salient features and other terms of the ESOS are disclosed in Note 24 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:

Granted on	Subscription price per share RM	Balance as at 1.9.2005	Granted	Exercised	Lapsed	Balance as at 30.6.2006
26.5.2006	1.00	-	6,397,200	-	826,300	5,570,900

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

During the financial year, the Company has offered a grant of options to eligible executives and executive directors of the Group at a subscription price of RM1.00. The Company had been granted exemption by the Companies Commission of Malaysia from having to disclose the names of eligible employees who have been granted less than 100,000 options. The eligible employees (excluding the executive directors) who were granted 100,000 options or more during the financial year are as follows:

Name of employee	Number of options granted on 26 May 2006
Chan Yu Chin	122,500
Khor Toong Yee	122,500
Vijaya Kumar A/L P.V. Ramayah	122,500

OTHER STATUTORY 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 receivables and the making of allowance for doubtful receivables and satisfied themselves that all known bad receivables had been written off and that adequate allowance had been made for doubtful receivables; and

(b) to ensure that any current assets which were unlikely to realise in the ordinary course of business their values as shown in the accounting records had been written down to an amount which they might be expected so to realise.

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

(a) which would render the amounts written off for bad receivables or the amount of the allowance for doubtful receivables 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 the 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 the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

OTHER STATUTORY INFORMATION (continued)

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 liabilities of any other person; or

(b) any contingent liability in respect 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 or of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors:

(a) except as disclosed in the financial statements, the results of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(b) except as disclosed in the financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

AUDITORS

The auditors, Ong Boon Bah & Co, have indicated their willingness to continue in office.

Signed in accordance with a resolution of the Directors dated 27 September 2006.

TAN SRI WILLIAM H.J. CHENG
Chairman and Managing Director

DATUK CHENG YONG KIM
Director
Kuala Lumpur

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Revenue	4	**2,507,212**	3,977,086	**115,431**	108,243
Other operating income		**71,925**	13,631	**20,951**	6,175
Changes in inventories of finished goods and work-in-progress		**176,247**	85,606	**-**	-
Purchase of finished goods		**(75,940)**	(80,146)	**-**	-
Raw materials and consumables used		**(2,077,867)**	(2,736,557)	**-**	-
Staff costs	5	**(68,908)**	(61,520)	**(910)**	(959)
Depreciation and amortisation expenses		**(271,890)**	(277,227)	**-**	-
Other operating expenses		**(435,330)**	(533,086)	**(14,003)**	(11,290)
(Loss)/profit from operations	6	**(174,551)**	387,787	**121,469**	102,169
Finance costs	7	**(380,289)**	(320,347)	**(186,334)**	(176,585)
Share in results of associated companies		**(27,309)**	143,801	**-**	-
(Loss)/profit before taxation		**(582,149)**	211,241	**(64,865)**	(74,416)
Taxation	8				
- Company and subsidiary companies		**126,178**	82,505	**-**	-
- associated companies		**25,913**	(28,786)	**-**	-
(Loss)/profit after taxation		**(430,058)**	264,960	**(64,865)**	(74,416)
Minority interests		**27,322**	(33,195)	**-**	-
Net (loss)/profit for the financial year		**(402,736)**	231,765	**(64,865)**	(74,416)
(Loss)/earnings per share	9				
- Basic (sen)		**(42.7)**	25.1		
- Diluted (sen)		**(42.7)**	25.1		

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

BALANCE SHEETS

AS AT 30 JUNE 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Non-Current Assets					
Property, plant and equipment	10	**3,224,805**	3,210,902	**-**	-
Subsidiary companies	11	**-**	-	**2,176,071**	2,132,558
Associated companies	12	**1,002,940**	967,212	**584,955**	584,955
Investments	13	**5,633**	14,540	**5,392**	14,061
Intangible assets	14	**566,718**	551,838	**-**	-
Long term receivable	17	**237,098**	234,751	**-**	-
Deferred tax assets	26	**104,678**	-	**-**	-
		5,141,872	4,979,243	**2,766,418**	2,731,574
Current Assets					
Assets held for sale	15	**13,812**	-	**-**	-
Inventories	16	**1,483,310**	1,426,272	**-**	-
Trade and other receivables	17	**286,000**	269,595	**241**	702
Amount due from subsidiary companies	18	**-**	-	**1,885,853**	1,722,774
Tax recoverable		**5,400**	2,333	**1,790**	1,077
Deposit with financial institutions	19	**28,853**	165,622	**673**	1,507
Cash and bank balances		**14,037**	22,019	**705**	453
		1,831,412	1,885,841	**1,889,262**	1,726,513
Current Liabilities					
Trade and other payables	20	**2,021,161**	1,838,485	**28,599**	28,339
Amount due to subsidiary companies	18	**-**	-	**17,594**	24,788
Bank overdrafts	21	**11,446**	7,830	**-**	-
Borrowings	22	**1,837,296**	933,941	**-**	-
Bonds and debts	23	**189,291**	54,412	**189,291**	54,412
Tax liabilities		**4**	89	**-**	-
		4,059,198	2,834,757	**235,484**	107,539
Net Current (Liabilities)/Assets		**(2,227,786)**	(948,916)	**1,653,778**	1,618,974
		2,914,086	4,030,327	**4,420,196**	4,350,548
FINANCED BY:					
Share capital	24	**1,005,116**	925,594	**1,005,116**	925,594
Reserves	25	**(419,245)**	(6,131)	**(537,829)**	(495,559)
Shareholders' funds		**585,871**	919,463	**467,287**	430,035
Minority interests		**176,495**	161,429	**-**	-
Bonds and debts	23	**2,056,123**	2,042,508	**1,819,025**	1,807,757
Borrowings	22	**9,624**	869,846	**-**	-
Amount due to a subsidiary company	18	**-**	-	**2,133,884**	2,112,756
Deferred tax liabilities	26	**15,030**	35,587	**-**	-
Deferred liabilities	27	**70,943**	1,494	**-**	-
		2,914,086	4,030,327	**4,420,196**	4,350,548

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

		Non-distributable			
	Share capital RM'000	Share premium RM'000	Negative goodwill and other reserves RM'000	Accumulated losses RM'000	Total RM'000
Group					
Balance at 1 July 2004	919,041	75,032	338,193	(626,791)	705,475
Exchange differences	-	-	(293)	-	(293)
Equity accounting for share of:					
- net assets of an associated company	-	-	(137)	-	(137)
- effect of dilution on equity interest in an associated company	-	-	-	(19,032)	(19,032)
Net loss not recognised in consolidated income statement	-	-	(430)	(19,032)	(19,462)
Amortisation of negative goodwill	-	-	(32)	-	(32)
Shares issued pursuant to the Executive Share Option Scheme	6,553	-	-	-	6,553
Impairment losses	-	-	(4,836)	-	(4,836)
Net profit for the financial year	-	-	-	231,765	231,765
Balance at 30 June 2005	**925,594**	**75,032**	**332,895**	**(414,058)**	**919,463**
Exchange difference	**-**	**-**	**(702)**	**430**	**(272)**
Equity accounting for share of:					
- net assets of an associated company	**-**	**-**	**(3,075)**	**-**	**(3,075)**
- effect on dilution in equity interest as recorded by an associated company	**-**	**-**	**-**	**(29,594)**	**(29,594)**
Share issue expenses	**-**	**(2,057)**	**-**	**-**	**(2,057)**
Net loss not recognised in consolidated income statement	**-**	**(2,057)**	**(3,777)**	**(29,164)**	**(34,998)**
Amortisation of negative goodwill	**-**	**-**	**(32)**	**-**	**(32)**
Acquisition of subsidiary companies	**79,522**	**24,652**	**-**	**-**	**104,174**
Net loss for the financial year	**-**	**-**	**-**	**(402,736)**	**(402,736)**
Balance at 30 June 2006	**1,005,116**	**97,627**	**329,086**	**(845,958)**	**585,871**

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

STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

Company	Share capital RM'000	Share premium RM'000	Accumulated losses RM'000	Total RM'000
Balance at 1 July 2004	919,041	75,032	(496,175)	497,898
Shares issued pursuant to the Executive Share Option Scheme	6,553	-	-	6,553
Net loss for the financial year	-	-	(74,416)	(74,416)
Balance at 30 June 2005	**925,594**	**75,032**	**(570,591)**	**430,035**
Acquisition of subsidiary companies	**79,522**	**24,652**	**-**	**104,174**
Share issue expenses	**-**	**(2,057)**	**-**	**(2,057)**
Net loss for the financial year	**-**	**-**	**(64,865)**	**(64,865)**
Balance at 30 June 2006	**1,005,116**	**97,627**	**(635,456)**	**467,287**

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

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/profit before taxation		**(582,149)**	211,241	**(64,865)**	(74,416)
Adjustments for non-cash items, interests and dividends	32(a)	**662,135**	534,384	**62,612**	72,268
Operating profit/(loss) before working capital changes		**79,986**	745,625	**(2,253)**	(2,148)
Decrease/(increase) in trade and other receivables		**56,682**	(9,431)	**483**	(654)
Increase/(decrease) in trade and other payables		**42,599**	444,538	**(2,027)**	(914)
Decrease/(increase) in inventories		**26,461**	(579,814)	**-**	-
Cash generated from/(used in) operations		**205,728**	600,918	**(3,797)**	(3,716)
Tax (paid)/refunded		**(25)**	204	**-**	349
Retirement benefit paid		**(2)**	-	**-**	-
Net cash inflow/(outflow) from operating activities		**205,701**	601,122	**(3,797)**	(3,367)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	32(b)	**(201,132)**	(193,329)	**-**	-
Proceeds from disposal of property, plant and equipment		**57**	115	**-**	-
Dividend received		**2,638**	2,576	**1,833**	1,778
Repayment from/(advance to) subsidiary companies		**-**	-	**5,869**	(1,500)
Proceeds from disposal of quoted investment		**20,967**	7,709	**20,967**	7,709
Purchase of investment in an associated company		**-**	(113)	**-**	-
Net cash inflow from acquisition of subsidiary companies	32(c)	**3,841**	524	**-**	-
Interest received		**674**	781	**27**	106
Net cash (outflow)/inflow from investing activities		**(172,955)**	(181,737)	**28,696**	8,093
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		**-**	6,553	**-**	6,553
Redemption/repayment of Bonds and USD Debts		**(18,286)**	(13,891)	**(18,286)**	(13,891)
Repayment of term loans		**(13,615)**	(247,423)	**-**	-
Drawdown of term loan		**-**	35,100	**-**	-
Repayment of hire purchase liabilities		**(757)**	(640)	**-**	-
(Repayment)/drawdown of short term borrowings		**(6,449)**	62,799	**-**	-
Repayment to subsidiary companies		**-**	-	**(7,195)**	(895)
Interest paid		**(142,006)**	(89,789)	**-**	(140)
Net cash outflow from financing activities		**(181,113)**	(247,291)	**(25,481)**	(8,373)
Net (decrease)/increase in cash and cash equivalents		**(148,367)**	172,094	**(582)**	(3,647)
Cash and cash equivalents at beginning of the financial year		**179,811**	7,717	**1,960**	5,607
Cash and cash equivalents at end of the financial year	32(d)	**31,444**	179,811	**1,378**	1,960

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

1. CORPORATE INFORMATION

The Company is a public limited liability company incorporated and domiciled in Malaysia and is listed on the Main Board of Bursa Malaysia Securities Berhad. The registered office and principal place of business of the Company are both located at Level 46, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 11 to the financial statements. There have been no significant changes in the nature of the principal activities during the financial year except for the acquisition of subsidiaries as disclosed in Note 11 to the financial statements.

The number of employees of the Group and of the Company as at 30 June 2006 were 2,616 (2005: 2,204) and 1 (2005: 1) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 27 September 2006.

2. BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention, modified by the revaluation of certain property, plant and equipment, unless otherwise indicated in the significant accounting policies.

The financial statements comply with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The Group incurred a net loss of RM402.7 million during the financial year ended 30 June 2006. As of that date, the Group's current liabilities exceeded current assets by RM2,227.8 million. In addition, as disclosed in Note 22 to the financial statements, a subsidiary has not met certain of its scheduled repayment obligations with certain local and foreign financial institutions. These conditions indicate that there may be uncertainty which cast doubt on the Group's ability to continue as a going concern, and to realise its assets and discharge its liabilities in the normal course of business.

The Group intends to seek long term financing and is in discussion with the local and foreign financial institutions to reschedule its borrowings. The Directors are of the view that the rescheduling of its existing borrowings will be successful and moving forward, the Group is able to meet these debts obligations. Therefore, the financial statements are prepared on a going concern basis and accordingly do not include any adjustments that may be necessary if the Group and the Company are unable to continue as going concerns.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies made up to the end of the financial year. Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the financial year are included from the effective date of acquisition or up to the effective date of disposal, as appropriate. The difference between the acquisition cost and the Group's share of the fair values of the identifiable net assets of the subsidiary company acquired at the acquisition date is reflected as goodwill or negative goodwill.

Intra-group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiary companies to ensure consistency of accounting policies with those of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interests.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

(b) Goodwill and negative goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Negative goodwill represents the excess of the fair value of the identifiable net assets acquired at the date of acquisition over the cost of acquisition. Goodwill and negative goodwill are amortised over a period of twenty-five years. The policy for the recognition and measurement of impairment losses for goodwill is in accordance with Note 3(p) to the financial statements.

(c) Associated companies

Associated companies are companies in which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not control over those policies. Investments in associated companies are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associated companies.

Equity accounting involves recognising the Group's share of the post acquisition results of associated companies in the consolidated income statement. In the consolidated balance sheet, the Group's interest in associated companies is carried at cost, which includes unamortised goodwill on acquisition less unamortised negative goodwill on acquisition, where applicable, plus the Group's share of post acquisition change in the net assets of the associated companies. Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associated companies to ensure consistency of accounting policies within the Group.

When an associate holds an ownership interest in the Group, any profit or loss and any increment or decrement of net assets of the Group which the associate has accounted for in its financial statements, would be disregarded when the Group applies the equity method to account for its investment in the associate.

(d) Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less accumulated depreciation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(p) to the financial statements. Property, plant and equipment cost comprises purchase price, including import duties and directly attributable costs of bringing the asset to working condition for its intended use.

Freehold land was revalued in 1998 by the Directors based on independent valuation reports carried out by firms of professional surveyors and valuers on an open market basis. In accordance with the transitional provisions issued by MASB on adoption of FRS116$_{2004}$ Property, Plant and Equipment, the valuation has not been updated and is stated at its existing carrying amount less accumulated depreciation.

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in the carrying amount is charged to the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

Property, plant and equipment is classified as capital work-in-progress until the asset is brought to working condition for its intended use.

Gains or losses arising from the disposals are determined by comparing the net proceeds with the carrying amount of the assets and are recognised in the income statement. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

Freehold land and capital work-in-progress are not depreciated. Leasehold land is depreciated over the period of the lease. Depreciation of the other property, plant and equipment is provided on the straight-line basis to write off the cost or valuation of each asset to its residual value over its estimated useful life.

The principal annual depreciation rates used are:

Leasehold land	50 - 99 years
Buildings	2 - 7.32%
Plant and machinery	6 - 10%
Furniture and equipment	5 - 20%
Motor vehicles	20%

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost consists of direct materials, direct labour, direct charges and appropriate production overheads where applicable and is determined on a weighted average basis or by specific identification. 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.

(f) Assets held for sale

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. Assets held for sale are carried at the lower of carrying amount and fair value less costs to sell and are not depreciated.

(g) Income tax

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

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

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

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 the deferred taxes relate to the same tax authority.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Foreign currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling at the transaction dates or at contracted rates where applicable. Monetary assets and liabilities in foreign currencies at the financial year end are translated into Ringgit Malaysia at the rates of exchange ruling at that date or contracted rates, where applicable. All exchange differences are included in the income statement except for exchange differences on long term loans obtained for acquiring property, plant and equipment which are capitalised until the assets are ready for their intended use.

Assets and liabilities of overseas subsidiaries, denominated in foreign currencies, are translated into Ringgit Malaysia at the exchange rates ruling at the financial year end. Results of operations of those foreign entities are translated at an average rate for the financial year which best approximates the exchange rates at the dates of the transaction. Exchange differences arising from the restatement at financial year end rates of the opening net investments in overseas subsidiaries are dealt with through reserves.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiary companies are treated as assets and liabilities of the Group and are translated at the exchange rate ruling at the date of the transaction.

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

	2006 RM	**2005 RM**
Foreign currency		
1 US Dollar	3.7070	3.8000
1 Euro	4.7010	4.6410
1 Singapore Dollar	2.3315	2.2765
1 Sterling Pound	6.7840	6.9320
1 Swiss Franc	3.0020	2.9950

(i) Investments

Investments in subsidiary and associated companies in the Company's financial statements are stated at cost less accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3 (p) to the financial statements.

Other non-current investments are stated at cost less allowance for diminution in value of investment to recognise any decline, other than a temporary decline in the value of the investments.

The Company's investment in Megasteel Sub-Bond (A) is stated at net present value plus accreted interest and less any allowance that may be required for diminution in value. The accretion of interest on the bond investment is recognised as interest income on the basis of their underlying yield to maturity.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged/credited to the income statement.

(j) Borrowings

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

Borrowing costs incurred to finance the construction of property, plant and equipment are capitalised as part of the cost of the asset until the asset is ready for its intended use.

Bonds and debts are stated at net present value plus accreted interest and net of amortised issuance expenses. The accretion of interest on the bonds or debts is recognised as interest expenses on the basis of their underlying cash yield to maturity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts, demand deposits and other short-term and highly liquid investments which are readily convertible to cash with insignificant risk of changes in value.

For the purposes of the cash flow statements, cash and cash equivalents consist of cash in hand and at bank, deposits with financial institutions and bank overdrafts.

(l) Receivables

Receivables are carried at anticipated realisable value. Specific allowances are made for receivables, which have been identified as bad or doubtful. In addition, general allowances are made to cover possible losses, which are not specifically identified.

(m) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(n) Finance lease/hire purchase

A lease is recognised as finance lease if it transfers substantially to the Group the entire risks and rewards incidental to ownership. Finance leases are capitalised at the inception of the lease at lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the balance outstanding. The corresponding lease obligations, net of finance charges, are included in liabilities. The interest element of the finance charge is charged to the income statement over the lease period.

Property, plant and equipment acquired under finance leases/hire purchase are capitalised and depreciated in accordance with the depreciation policy set out in Note 3(d) to the financial statements.

(o) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight-line basis over the lease period.

(p) Impairment of assets

The carrying amounts of the assets, other than inventories, assets arising from construction contracts and financial assets (other than investment in subsidiary and associated companies) are reviewed to determine whether there is any indication of impairment. Impairment is measured by comparing the carrying amounts of the assets with their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and its value in use, which is measured by reference to the present value of estimated future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

Impairment loss is recognised as an expense in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is used to reduce the revaluation surplus to the extent of previously recognised revaluation surplus for the same asset.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the respective accounting policy statements associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group is also a party to financial instruments with the objective to reduce risk exposure to fluctuations in foreign currency exchange rates. These instruments are not recognised in the financial statements on inception.

Foreign currency forward contracts are used to protect the Group from movements in exchange rates by establishing the rate at which a foreign currency asset and liability will be settled. Any increase or decrease in the amount required to settle the asset or liability is offset by a corresponding movement in the value of the forward exchange contract. The gains or losses are therefore offset for financial reporting purposes and are not recognised in the financial statements. While the fees incurred on each agreement are amortised over the contract period.

(r) Employee benefits

Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plans

The Group's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

Defined benefit plan - unfunded

A subsidiary of the Group operates an unfunded retirement benefit scheme for all eligible employees. The eligible employees are stipulated in the Collective Agreement with its union employees. The provision for defined benefit plan as at balance sheet date represents contributions payable by the subsidiary to the fund.

The liability in respect of an unfunded defined benefit plan is the present value of the defined benefit obligation at balance sheet date, adjusted for any actuarial gains/losses and past service costs. The defined benefit obligation, calculated using the projected unit credit method, is determined by an independent qualified actuary, considering the estimated future cash outflows using market yields at balance sheet date of high quality corporate bonds.

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. The amount of net actuarial gains or losses recognised in the income statement is determined by the projected unit credit method in accordance with FRS 119_{2004} and is charged or credited to income statement over the average remaining service lives of the related employees participating in the defined benefit plan.

The cost of providing retirement benefit is charged to the income statement so as to spread the cost over the service lives of employees in accordance with the advice of an independent qualified actuary who carries out a full valuation of the plan every three years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits (continued)

Equity compensation benefits

The Group has in place an Executive Share Option Scheme for granting of share options to eligible executives and executive directors of the Group to subscribe for ordinary shares in the Company. The Group does not make a charge to the income statement in connection with share options granted. When such options are exercised, the nominal value of the shares subscribed for is credited to the share capital account and balance of the proceeds net of any transaction costs, is credited to the share premium account.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Revenue represent the invoiced value of goods sold and services rendered net of returns and allowances.

Revenue from dividend income and interest income is recognised when the shareholders' right to receive payment is established and on the accruals basis respectively.

4. REVENUE

Revenue of the Group and of the Company consists of the following:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Sales of goods	**2,506,010**	3,975,117	**-**	-
Assembly fees	**868**	1,668	**-**	-
Registration and other professional fees	**334**	301	**-**	-
Dividend income	**-**	-	**2,546**	2,470
Interest income	**-**	-	**112,885**	105,773
	2,507,212	3,977,086	**115,431**	108,243

5. STAFF COSTS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Salaries, wages and bonuses	**46,820**	42,727	**720**	742
Defined contribution plans	**6,369**	5,512	**101**	104
Defined benefit plan (Note 27)	**28**	-	**-**	-
Other staff related expenses	**15,691**	13,281	**89**	113
	68,908	61,520	**910**	959

Included in the staff costs of the Group and of the Company is an executive Director's remuneration as disclosed in Note 6 to the financial statements.

6. (LOSS)/PROFIT FROM OPERATIONS

The (loss)/profit from operations is arrived at:

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
After charging:				
Property, plant and equipment:				
- depreciation	**246,691**	237,749	**-**	-
- impairment losses	**-**	3,920	**-**	-
- written off	**26**	24,255	**-**	-
Deferred expenditure:				
- amortisation	**-**	14,810	**-**	-
- written off	**-**	71,585	**-**	-
Amortisation of goodwill	**25,231**	24,700	**-**	-
Directors' remuneration*	**1,936**	1,920	**1,100**	1,099
Auditors' remuneration:				
- current year	**302**	310	**18**	18
- under accrued in prior year	**(5)**	(3)	**-**	-
- non statutory audit fee	**2,511**	15	**11**	-
Rental of land and buildings	**919**	472	**-**	-
Allowance for doubtful receivables	**4,616**	300	**-**	-
Lease rental	**231**	186	**-**	-
Bad receivables written off	**31**	-	**-**	-
Allowance for obsolete inventories	**37**	116	**-**	-
Inventories written down	**4,819**	-	**-**	-
Impairment losses in:				
- subsidiary companies	**-**	-	**12,660**	10,100
- an associated company	**20,000**	-	**-**	-
Realised loss on foreign exchange	**-**	12,627	**-**	-
Professional fees paid to a firm in which a Director, M Chareon Sae Tang @ Tan Whye Aun, has interest	**-**	33	**-**	-
And crediting:				
Gross dividend income from quoted investment in Malaysia:				
- associated companies	**-**	-	**1,806**	1,806
- others	**751**	665	**740**	664
Rental income	**127**	101	**-**	-
Interest income from:				
- subsidiary companies	**-**	-	**91,710**	84,730
- Megasteel Sub-Bond (A)	**-**	-	**21,128**	20,918
- others	**7,057**	7,754	**47**	125
Allowance for doubtful receivables written back	**-**	35	**7,485**	-
Gain on disposal of property, plant and equipment	**49**	69	**-**	-
Bad receivables recovered	**33**	10	**-**	-
Amortisation of negative goodwill	**32**	32	**-**	-
Gain on disposal of:				
- quoted investment	**13,169**	2,284	**13,169**	2,284
- investment in an associated company	**-**	-	**-**	3,890
Reversal of impairment losses in:				
- an associated company	**33**	-	**-**	-
- an investment	**220**	-	**-**	-
Unrealised gain on foreign exchange	**25,603**	8,758	**297**	-
Realised gain on foreign exchange	**22,787**	-	**-**	-

6. (LOSS)/PROFIT FROM OPERATIONS (continued)

* The Directors' remuneration is categorised as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Executive Director:				
- Salary and other emoluments	**1,450**	1,440	**720**	720
- Fees	**25**	24	**24**	24
- Defined contribution plans	**203**	202	**101**	101
- Benefit-in-kind	**87**	83	**84**	83
	1,765	1,749	**929**	928
Non-executive Directors:				
- Fees	**171**	171	**171**	171
	1,936	1,920	**1,100**	1,099

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

	Group		Company	
	2006	**2005**	**2006**	**2005**
Range of remuneration per annum				
Executive Director				
- RM900,001 - RM950,000	**-**	-	**1**	1
- RM1,700,001 - RM1,750,000	**-**	1	**-**	-
- RM1,750,001 - RM1,800,000	**1**	-	**-**	-
Non-executive Directors				
- RM25,000 and below	**2**	2	**2**	2
- RM25,001 - RM50,000	**4**	4	**4**	4

7. FINANCE COSTS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest expenses on:				
- advances from subsidiary companies	**-**	-	**21,375**	21,362
- bank overdrafts	**575**	597	**-**	-
- bonds and debts	**151,689**	141,705	**151,689**	141,705
- term loans	**115,949**	101,348	**-**	-
- Megasteel Sub-Bond (B)	**2,348**	2,325	**-**	-
- others	**111,801**	77,431	**13,270**	13,518
	382,362	323,406	**186,334**	176,585
Interest expenses capitalised under property, plant and equipment	**(2,073)**	(3,059)	**-**	-
	380,289	320,347	**186,334**	176,585

Finance costs capitalised in the property, plant and equipment during the financial year have been calculated by applying a capitalisation rate of 7.7% (2005: 7.7%) per annum.

8. TAXATION

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Malaysian income tax:				
- current year	**16**	22	**-**	-
- prior years	**(183)**	(353)	**-**	-
Deferred tax relating to origination and reversal of temporary differences (Note 26)	**(64,518)**	(81,345)	**-**	-
Recognition of deferred tax assets following pioneer status extension (Note 26)	**(60,665)**	-	**-**	-
Recovery of tax deducted at source on dividend income from subsidiary and associated companies	**(828)**	(829)	**-**	-
	(126,178)	(82,505)	**-**	-
Associated companies	**(25,913)**	28,786	**-**	-
	(152,091)	(53,719)	**-**	-

The reconciliation of the average effective tax rate of the Group and of the Company with the statutory income tax rate of Malaysia is as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	%	%	%	%
Income tax using Malaysian statutory income tax rate	**(28)**	28	**(28)**	(28)
Income not subject to tax	**(11)**	(61)	**(11)**	(1)
Expenses not deductible for tax purposes	**23**	66	**39**	29
Deferred tax assets relating to prior years' timing differences	**-**	(57)	**-**	-
Deferred tax assets not recognised during the year	**5**	-	**-**	-
Recognition of deferred tax assets following pioneer status extension	**(10)**	-	**-**	-
Realisation of deferred tax assets not previously recognised	**(6)**	-	**-**	-
Double taxation relief and others	**1**	(1)	**-**	-
	(26)	(25)	**-**	-

The Company has estimated tax exempt account amounting to RM17.4 million (2005: RM17.4 million) available for the distribution of tax exempt dividend. The Company has estimated tax credit under Section 108 of the Income Tax Act, 1967 amounting to RM22.1 million (2005: RM22.1 million) to frank the payment of dividend. These amounts are subject to agreement with the tax authority.

9. (LOSS)/EARNINGS PER SHARE

Basic
(Loss)/earnings per share is calculated by dividing the Group's net loss for the financial year of RM402.7 million (2005: net profit of RM231.8 million) by the weighted average number of ordinary shares in issue of 944.2 million shares (2005: 922.0 million shares).

Diluted
The diluted (loss)/earnings per share of 2006 remains the same as the basic (loss)/earnings per share as the Company's ESOS implemented on 1 September 2005 and the unexercised warrants have no dilutive effect as the exercise price is above the average market value of the Company's shares.

The diluted (loss)/earnings per share of 2005 remains the same as the basic (loss)/earnings per share as the exercise period for the Company's ESOS had expired on 15 May 2005 and the unexercised warrants have no dilutive effect as the exercise price is above the average market value of the Company's shares.

10. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings RM'000	Plant and machinery RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/Valuation						
At 1 July 2005	631,135	2,832,570	20,621	5,592	394,229	3,884,147
Additions	10,707	17,794	3,785	2,044	169,770	204,100
Disposals	-	-	-	(406)	-	(406)
Written off	-	(50)	(237)	-	(14)	(301)
Acquisition of subsidiary companies (Note 32(c))	73,140	42,519	10,160	554	-	126,373
Reclassified to assets held for sale (Note 15)	(30,425)	-	-	-	-	(30,425)
At 30 June 2006	684,557	2,892,833	34,329	7,784	563,985	4,183,488
Representing items at:						
Cost	384,557	593,109	34,329	7,784	563,985	1,583,764
Valuation	300,000	2,299,724	-	-	-	2,599,724
	684,557	2,892,833	34,329	7,784	563,985	4,183,488
Accumulated Depreciation						
At 1 July 2005	67,140	547,201	11,016	3,835	-	629,192
Depreciation charge for the year	15,906	227,263	2,675	847	-	246,691
Disposals	-	-	-	(398)	-	(398)
Written off	-	(41)	(233)	(1)	-	(275)
Acquisition of subsidiary companies (Note 32(c))	20,412	27,430	7,599	472	-	55,913
Reclassified to assets held for sale (Note 15)	(16,493)	-	-	-	-	(16,493)
At 30 June 2006	86,965	801,853	21,057	4,755	-	914,630
Representing items at:						
Cost	86,965	35,457	21,057	4,755	-	148,234
Valuation	-	766,396	-	-	-	766,396
	86,965	801,853	21,057	4,755	-	914,630
Accumulated Impairment Losses						
At 1 July 2005	9,673	25,875	-	-	8,505	44,053
Acquisition of subsidiary companies (Note 32(c))	120	-	-	-	-	120
Reclassified to assets held for sale (Note 15)	(120)	-	-	-	-	(120)
At 30 June 2006	9,673	25,875	-	-	8,505	44,053
Representing items at:						
Cost	9,673	25,875	-	-	8,505	44,053

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RM'000	Plant and machinery RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Group						
Net Book Value						
At 30 June 2006						
At cost	**287,919**	**531,777**	**13,272**	**3,029**	**555,480**	**1,391,477**
At valuation	**300,000**	**1,533,328**	**-**	**-**	**-**	**1,833,328**
	587,919	**2,065,105**	**13,272**	**3,029**	**555,480**	**3,224,805**
At 30 June 2005						
At cost	254,322	517,873	9,605	1,757	385,724	1,169,281
At valuation	300,000	1,741,621	-	-	-	2,041,621
	554,322	2,259,494	9,605	1,757	385,724	3,210,902
Depreciation charge for the financial year ended 30 June 2005	14,957	220,148	1,988	656	-	237,749

In 2003, the Group adjusted the plant and machinery of a subsidiary company, Megasteel Sdn Bhd, to its fair value upon the acquisition of an additional 40% equity interest in that company. The fair value is based on a valuation carried out by Mr Lim Lian Hong, a registered valuer of Raine & Horne International Zaki + Partners Sdn Bhd, an independent firm of professional valuers, on 11 January 2002 and adjusted for depreciation to the date of acquisition. The surplus arising from the fair value that relates to existing equity holding of RM138.6 million (net of deferred tax liabilities) has been credited to revaluation reserve account. It is not the policy of the Group to revalue such assets regularly.

Land and buildings of the Group are as follows:

	Freehold land and land improvement RM'000	Long leasehold land RM'000	Short leasehold land RM'000	Buildings RM'000	Total RM'000
Group					
Cost/Valuation					
At 1 July 2005	**320,978**	**11,412**	**7,362**	**291,383**	**631,135**
Additions	**1,488**	**-**	**-**	**9,219**	**10,707**
Acquisition of subsidiary companies	**-**	**17,181**	**-**	**55,959**	**73,140**
Reclassified to assets held for sale (Note 15)	**-**	**(4,627)**	**-**	**(25,798)**	**(30,425)**
At 30 June 2006	**322,466**	**23,966**	**7,362**	**330,763**	**684,557**
Representing items at:					
Cost	**22,466**	**23,966**	**7,362**	**330,763**	**384,557**
Valuation	**300,000**	**-**	**-**	**-**	**300,000**
	322,466	**23,966**	**7,362**	**330,763**	**684,557**

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land and land improvement RM'000	Long leasehold land RM'000	Short leasehold land RM'000	Buildings RM'000	Total RM'000
Group					
Accumulated Depreciation					
At 1 July 2005	**-**	**2,306**	**3,339**	**61,495**	**67,140**
Depreciation charge for the year	**-**	**230**	**147**	**15,529**	**15,906**
Acquisition of subsidiary companies	**-**	**1,965**	**-**	**18,447**	**20,412**
Reclassified to assets held for sale (Note 15)	**-**	**(740)**	**-**	**(15,753)**	**(16,493)**
At 30 June 2006	**-**	**3,761**	**3,486**	**79,718**	**86,965**
Representing items at:					
Cost	**-**	**3,761**	**3,486**	**79,718**	**86,965**
Accumulated Impairment Losses					
At 1 July 2005	**9,673**	**-**	**-**	**-**	**9,673**
Acquisition of subsidiary companies	**-**	**120**	**-**	**-**	**120**
Reclassified to assets held for sale (Note 15)	**-**	**(120)**	**-**	**-**	**(120)**
At 30 June 2006	**9,673**	**-**	**-**	**-**	**9,673**
Representing items at:					
Cost	**9,673**	**-**	**-**	**-**	**9,673**
Net Book Value					
At 30 June 2006					
At cost	**12,793**	**20,205**	**3,876**	**251,045**	**287,919**
At valuation	**300,000**	**-**	**-**	**-**	**300,000**
	312,793	**20,205**	**3,876**	**251,045**	**587,919**
At 30 June 2005					
At cost	11,305	9,106	4,023	229,888	254,322
At valuation	300,000	-	-	-	300,000
	311,305	9,106	4,023	229,888	554,322
Depreciation charge for the financial year ended 30 June 2005	-	680	174	14,103	14,957

10. PROPERTY, PLANT AND EQUIPMENT (continued)

The freehold land has been charged to financial institutions for credit facilities granted to a subsidiary company. The revalued freehold land and plant and machinery if stated at cost less depreciation would amount to RM35.0 million (2005: RM35.0 million) and RM1.57 billion (2005: RM1.74 billion) respectively as at the end of the financial year.

Property, plant and equipment with carrying values totalling of RM2.41 billion (2005: RM2.45 billion) have also been charged to financial institutions as securities for credit facilities.

The finance cost capitalised under capital work-in-progress of the Group during the financial year amounted to RM2.1 million (2005: RM3.1 million), as disclosed in Note 7 to the financial statements.

Certain land title and strata titles for leasehold land and buildings of a subsidiary company with net book value of RM9.1 million (2005: RM9.3 million) have not been issued by the relevant authorities.

The net book value of property, plant and equipment held under hire purchase and finance lease arrangements are as follows:

	Group	
	2006 RM'000	**2005 RM'000**
Motor vehicles	**1,942**	1,154
Plant and machinery	**1,803**	1,630
Furniture and equipment	**412**	-
	4,157	2,784

11. SUBSIDIARY COMPANIES

	Company	
	2006 RM'000	**2005 RM'000**
Quoted shares, at cost	**37,423**	-
Accumulated impairment losses	**(5,378)**	-
	32,045	-
Unquoted shares, at cost	**41,758**	41,758
Accumulated impairment losses	**(31,616)**	(21,956)
	10,142	19,802
Megasteel Sub-Bond (A)	**2,133,884**	2,112,756
	2,176,071	2,132,558
Market value of quoted shares	**31,023**	-

Certain investments in subsidiary companies with carrying values totalling RM11.0 million (2005: RM19.8 million) have been charged as security for the LCB Bonds and the LCB Debts issued by the Company.

11. SUBSIDIARY COMPANIES (continued)

The subsidiary companies are:

Name of Company	Country of Incorporation	Holding in Equity 2006 %	2005 %	Principal Activities
Amalgamated Containers Berhad *	Malaysia	**56.64**	4.27	Investment holding
Kinabalu Motor Assembly Sendirian Berhad *	Malaysia	**50.01**	50.01	Assembly and sale of private and commercial vehicles
LCB Harta (M) Sdn Bhd	Malaysia	**100.00**	100.00	Managing of debts novated from LCB and certain of its subsidiary companies pursuant to a debt restructuring exercise undertaken by LCB and certain of its subsidiary companies
LCB Venture Pte Ltd *	Republic of Singapore	**100.00**	100.00	Investment holding
Limpahjaya Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
Lion Construction & Engineering Sdn Bhd	Malaysia	**100.00**	100.00	Construction and civil engineering work
Lion Excellent Sdn Bhd	Malaysia	**100.00**	100.00	Ceased operations
Lion General Trading & Marketing (S) Pte Ltd *	Republic of Singapore	**100.00**	100.00	General merchant
Lion Rubber Works Sdn Bhd	Malaysia	**100.00**	100.00	Ceased operations
Lion Steelworks Sdn Bhd	Malaysia	**100.00**	100.00	Manufacture and distribution of office equipment, security equipment and steel related products
Lion Trading & Marketing Sdn Bhd	Malaysia	**100.00**	100.00	Trading and marketing of security equipment, office equipment and steel related products
Subsidiary of Amalgamated Containers Berhad				
Bright Steel Sdn Bhd *	Malaysia	**100.00**	# 100.00	Manufacturing, sale and distribution of steel and iron products
Subsidiaries of Bright Steel Sdn Bhd				
B.A.P. Industries Sdn Bhd *	Malaysia	**77.50**	# 77.50	Manufacturing, marketing and distribution of pre-painted steel sheets and related products
Bright Steel Service Centre Sdn Bhd *	Malaysia	**57.10**	# 57.10	Processing and selling of steel coils and sheets
Bright Enterprise (Sdn) Bhd *	Malaysia	**51.00**	# 51.00	Trading in steel and iron products
Century Container Industries Sdn Bhd *	Malaysia	**100.00**	# 100.00	Property investment, letting of building space and plant and machinery facilities
Omali Corporation Sdn Bhd *	Malaysia	**100.00**	# 100.00	Investment holding

11. SUBSIDIARY COMPANIES (continued)

Name of Company	Country of Incorporation	Holding in Equity 2006 %	2005 %	Principal Activities
Subsidiaries of Kinabalu Motor Assembly Sendirian Berhad				
KMA Marketing Sdn Bhd *	Malaysia	**100.00**	100.00	Trading and distribution of private and commercial vehicles, vehicles parts and provision of related services
Kinabalu Car Distributors Sdn Bhd *	Malaysia	**100.00**	100.00	Dormant
Subsidiaries of Limpahjaya Sdn Bhd				
Bersatu Investments Company Limited *	Hong Kong	**71.00**	71.00	Ceased operations
Lion Com Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
Lyn (Pte) Ltd *	Republic of Singapore	**79.00**	79.00	Investment holding
Megasteel Sdn Bhd *	Malaysia	**90.00**	90.00	Manufacturing of hot rolled coils, cold rolled coil, bands, plates and sheets
Umevest Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
Subsidiary of Bersatu Investments Company Limited				
Glit Investments Company Limited *	Hong Kong	**100.00**	100.00	Dormant
Subsidiary of Lion Com Sdn Bhd				
Secretarial Communications Sdn Bhd	Malaysia	**100.00**	100.00	Share registration and secretarial services
Subsidiary of Lyn (Pte) Ltd				
Logic Furniture (S) Pte Ltd *	Republic of Singapore	**100.00**	100.00	Ceased operations
Subsidiaries of Megasteel Sdn Bhd				
Megasteel Harta (L) Limited *	Malaysia	**100.00**	-	Dormant
Secomex Manufacturing (M) Sdn Bhd *	Malaysia	**100.00**	100.00	Manufacturing and marketing of industrial gases
Subsidiaries of Umevest Sdn Bhd				
Logic Concepts (M) Sdn Bhd	Malaysia	**71.00**	71.00	Ceased operations
Logic Furniture (M) Sdn Bhd	Malaysia	**91.00**	91.00	Ceased operations
Subsidiary of Lion Construction & Engineering Sdn Bhd				
PMB Building System Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
Subsidiary of PMB Building System Sdn Bhd				
PMB Jaya Sdn Bhd	Malaysia	**100.00**	100.00	Ceased operations

11. SUBSIDIARY COMPANIES (continued)

Name of Company	Country of Incorporation	Holding in Equity 2006 %	2005 %	Principal Activities
Subsidiary of Lion General Trading & Marketing (S) Pte Ltd				
Lion Plate Mills Sdn Bhd	Malaysia	**100.00**	-	Manufacturing and marketing of hot rolled steel plate
Subsidiary of Lion Steelworks Sdn Bhd				
Lion Fichet Sdn Bhd	Malaysia	**100.00**	100.00	Ceased operations
Subsidiary of Lion Fichet Sdn Bhd				
Lion Fichet (HK) Limited *	Hong Kong	**100.00**	100.00	Ceased operations

Note:
* Financial statements of subsidiary companies not audited by Ong Boon Bah & Co.
\# Subsidiaries of Amalgamated Containers Berhad ("ACB") at the time of acquisition of ACB.

A subsidiary company's entire issued and paid-up share capital of RM32.1 million is pledged as security for its immediate holding company's term loans as disclosed in Note 22 to the financial statements.

(a) During the financial year, the Group has completed the following:

(i) Megasteel Harta (L) Limited, a wholly-owned subsidiary company, was incorporated on 17 August 2005 in Labuan with 1 ordinary share issued at par of USD1.

(ii) the acquisition of the entire issued and paid-up capital of Lion Plate Mills Sdn Bhd on 17 March 2006 for a total consideration of RM70.0 million satisfied entirely by the issue and allotment of 53.4 million new ordinary shares.

The above acquisition had the following effects on the Group's financial results for the year ended 30 June 2006:

	Group 2006 RM'000
Revenue	**33,135**
Profit before taxation	**2,734**
Net profit	**2,536**

11. SUBSIDIARY COMPANIES (continued)

(ii) acquisition of Lion Plate Mills Sdn Bhd (continued)

The acquisition had the following effects on the financial position of the Group as at 30 June 2006:

	Group 2006 RM'000
Property, plant and equipment	15,715
Inventories	18,056
Trade and other receivables	14,574
Tax recoverable	180
Cash and bank balances	2,969
Trade and other payables	(17,217)
Deferred tax liabilities	(1,427)
Group's share of net assets	32,850

(iii) the acquisition of an additional 52.37% equity interest in Amalgamated Containers Berhad on 19 May 2006 for a total consideration of RM35.6 million satisfied by the issue and allotment of 26.1 million new ordinary shares.

The above acquisition had the following effects on the Group's financial results for the year ended 30 June 2006:

	Group 2006 RM'000
Revenue	26,982
Loss before taxation	(2,092)
Net loss	(1,115)

The acquisition had the following effects on the financial position of the Group as at 30 June 2006:

	Group 2006 RM'000
Property, plant and equipment	40,052
Associated company	91,855
Investments	135
Deferred tax assets	1,192
Goodwill on acquisition	3
Assets held for sale	13,812
Inventories	105,024
Trade and other receivables	58,610
Tax recoverable	1,823
Cash and bank balances	2,405
Trade and other payables	(129,182)
Taxation	(3)
Borrowings	(110,215)
Minority interests	(41,410)
Amount previously accounted for as investment	(1,464)
Group's share of net assets	32,637

11. SUBSIDIARY COMPANIES (continued)

(b) During the financial year ended 30 June 2005, the Group acquired 100% equity interest in Secomex Manufacturing (M) Sdn Bhd on 1 October 2004 for a consideration of RM1.00.

The above acquisition had the following effects on the financial position of the Group for the year ended 30 June 2005:

	Group 2005 RM'000
Revenue	3,383
Loss before taxation	(3,678)
Net loss	(3,310)

The acquisition had the following effects on the financial position of the Group as at 30 June 2005:

	Group 2005 RM'000
Property, plant and equipment	102,355
Inventories	378
Trade and other receivables	8,568
Cash and bank balances	959
Trade and other payables	(115,938)
Minority interest	368
Group's share of net liabilities	(3,310)

12. ASSOCIATED COMPANIES

	Group		Company	
	2006 RM'000	**2005 RM'000**	**2006 RM'000**	**2005 RM'000**
Quoted shares in Malaysia				
- at cost	**1,165,033**	1,164,138	**926,045**	926,045
- accumulated impairment losses	**(46,880)**	(26,873)	**(342,630)**	(342,630)
	1,118,153	1,137,265	**583,415**	583,415
Quoted shares outside Malaysia				
- at cost	**95,994**	-	**-**	-
- accumulated impairment losses	**(5,000)**	-	**-**	-
	90,994	-	**-**	-
Unquoted shares, at cost	**1,659**	1,653	**1,540**	1,540
	1,210,806	1,138,918	**584,955**	584,955
Share of post-acquisition results and reserves	**(207,866)**	(171,706)	**-**	-
	1,002,940	967,212	**584,955**	584,955
Market value of quoted shares	**394,739**	435,568	**235,970**	295,791

12. ASSOCIATED COMPANIES (continued)

	Group 2006 RM'000	Group 2005 RM'000
Represented by:		
Share of net assets other than goodwill	**1,020,556**	968,970
Share of goodwill in associated companies	**71,063**	144,692
	1,091,619	1,113,662
Unamortised goodwill on acquisition	**240,866**	266,623
Unamortised negative goodwill on acquisition	**(329,545)**	(413,073)
	1,002,940	967,212

Certain investments in associated companies of the Group with carrying values totalling RM552.1 million (2005: RM616.8 million) have been charged to financial institutions for credit facilities granted to the Group and as security for the LCB Bonds and the LCB Debts issued by the Company.

The associated companies are:

Name of Company	Country of Incorporation	Holding in Equity 2006 %	Holding in Equity 2005 %	Principal Activities
Amsteel Corporation Berhad	Malaysia	**38.17** **# 1.89**	38.17 # 1.89	Investment holding
Lion Industries Corporation Berhad	Malaysia	**25.90** **# 16.00**	25.90 # 15.88	Investment holding and property development
Lion Plantations Sdn Bhd	Malaysia	**30.00**	30.00	Investment holding
Lion Insurance Company Limited	Malaysia	**# 38.82**	# 37.00	Captive insurance business
Lion Asiapac Limited	Republic of Singapore	**# 29.98**	-	Investment holding

\# Held by subsidiary companies.

Lion Asiapac Limited ("LAP") became an associated company following the Group's acquisition of 52.37% equity interest in ACB as disclosed in Note 11 to the financial statements. The entire stake in LAP is pledged as security for ACB's term loans as disclosed in Note 22 to the financial statements.

13. INVESTMENTS

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Unquoted shares				
- at cost	**607**	183	**-**	-
- allowance for diminution in value	**(415)**	(123)	**-**	-
	192	60	**-**	-
Quoted shares in Malaysia				
- at cost	**5,424**	19,463	**5,392**	16,439
- allowance for diminution in value	**(8)**	(5,008)	**-**	(2,378)
	5,416	14,455	**5,392**	14,061
Other investment, at cost	**25**	25	**-**	-
	5,633	14,540	**5,392**	14,061
Market value of quoted shares	**15,524**	18,367	**15,510**	17,757

14. INTANGIBLE ASSETS

	Group 2006 RM'000	Group 2005 RM'000
Goodwill		
At 1 July	**617,713**	617,713
Acquisition of subsidiary companies (Note 32(c))	**40,111**	-
At 30 June	**657,824**	617,713
Cumulative amortisation at 1 July	**(65,875)**	(41,175)
Amortisation for the year	**(25,231)**	(24,700)
Cumulative amortisation at 30 June	**(91,106)**	(65,875)
	566,718	551,838
Deferred expenditure - Pre-commercial production expenses		
At 1 July	**-**	148,104
Cumulative amortisation at 1 July	**-**	(61,709)
Amortisation for the year	**-**	(14,810)
Cumulative amortisation at 30 June	**-**	(76,519)
	-	71,585
Written off during the year	**-**	(71,585)
	-	-
	566,718	551,838

15. ASSETS HELD FOR SALE

	Group 2006 RM'000	Group 2005 RM'000
Leasehold land and building		
- As reclassified from property, plant and equipment (Note 10)	**13,812**	-

On 10 August 2006, a subsidiary company, Century Container Industries Sdn Bhd, entered into a Sale and Purchase Agreement to dispose of its land and building for a cash consideration of RM23.0 million. The land is presently assigned to financial institutions for term loan granted to another subsidiary company.

16. INVENTORIES

	Group 2006 RM'000	Group 2005 RM'000
At cost:		
Raw materials	**730,730**	854,286
Work-in-progress	**11,182**	6,305
Finished goods	**461,894**	398,576
Spare, supplies and consumables	**153,733**	157,473
Goods-in-transit	**7,432**	78
	1,364,971	1,416,718
At net realisable value:		
Raw materials	**5,381**	5,342
Finished goods	**112,958**	4,212
Total	**1,483,310**	1,426,272

Certain raw materials and finished goods of the Group which have been secured against financing facilities are as follows:

	Group 2006 RM'000	Group 2005 RM'000
Raw materials:		
- with a related party	**-**	37,045
- with external parties	**565,264**	696,418
	565,264	733,463
Finished goods:		
- with a related party	**28,845**	94,820
- with external parties	**67,304**	-
	96,149	94,820
Spare, supplies and consumables:		
- with external parties	**3,626**	-

Included in raw materials under product financing facilities is an amount of RM416.7 million (2005: RM115.0 million) which relates to raw materials-in-transit.

The financing facilities with a related party have been entered into in the normal course of business and have been established on terms that are no more favourable to the related party than those arranged with independent third parties. The corresponding liabilities of these inventories are disclosed in Note 20 to the financial statements.

17. TRADE AND OTHER RECEIVABLES

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Current				
Trade receivables	**185,998**	234,778	**-**	-
Allowance for doubtful receivables	**(21,263)**	(14,433)	**-**	-
	164,735	220,345	**-**	-
Retention monies	**320**	320	**-**	-
Other receivables, deposits and prepayments	**124,712**	51,935	**241**	702
Allowance for doubtful receivables	**(3,767)**	(3,005)	**-**	-
	120,945	48,930	**241**	702
Total current portion	**286,000**	269,595	**241**	702
Non-Current				
Long term receivable	**237,098**	234,751	**-**	-

Included in receivables of the Group and of the Company are related parties balances of which RM60.4 million (2005: RM146.5 million) and RM Nil (2005: RM Nil) respectively are in trade receivables and, RM0.3 million (2005: RM0.3 million) and RM0.3 million (2005: RM0.3 million) respectively are in other receivables. Other receivables from a related party of RM0.2 million (2005: RM0.3 million) has been charged to financial institutions for credit facilities granted to the Group and as security for the LCB Bonds and the LCB Debts issued by the Company.

The long term receivable is an amount due from Khazanah Nasional Berhad ("Khazanah") which arose from the issue of the Megasteel Sub-Bond (B) to Khazanah (refer to Note 23). The amount is unsecured and bears interest rate of 1.0% (2005: 1.0%) per annum. The amount is repayable over 10 years from the day after the full redemption of the Megasteel Sub-Bond (B) issued to Khazanah.

The Group's normal trade credit terms range from 5 days to 60 days (2005: 5 days to 60 days). Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

18. AMOUNT DUE FROM/(TO) SUBSIDIARY COMPANIES

	Company 2006 RM'000	Company 2005 RM'000
(a) Current		
Amount due from subsidiary companies	**1,888,112**	1,732,518
Allowance for doubtful receivables	**(2,259)**	(9,744)
	1,885,853	1,722,774
Amount due to subsidiary companies	**17,594**	24,788

The amounts due from/(to) subsidiary companies which arose mainly from inter-company advances and payments made on behalf are unsecured and have no fixed repayment terms. The amounts due from subsidiary companies bear a weighted average effective interest rate of 7.7% (2005: 7.7%) per annum and the amounts due to subsidiary companies bear a weighted average effective interest rate of 1.0% (2005: 1.0%) per annum.

18. AMOUNT DUE FROM/(TO) SUBSIDIARY COMPANIES (continued)

	Company	
	2006	**2005**
	RM'000	**RM'000**
(b) Non-Current		
Amount due to a subsidiary company	**2,133,884**	2,112,756

The amount due to a subsidiary company arose mainly from the Company's investment in Megasteel Sub-Bond (A) (refer to Note 23), an instrument which confers the Company a contractual right to receive the proposed pre-determined yearly amount of cash flow from Megasteel Sdn Bhd, under the GWRS. The amount is unsecured and bears an effective interest rate of 1.0% (2005: 1.0%) per annum.

19. DEPOSITS WITH FINANCIAL INSTITUTIONS

The deposits of the Group and the Company carry a weighted average effective interest rate as at the balance sheet date of 3.0% (2005: 2.6%) and 2.7% (2005: 2.6%) per annum respectively and have an average maturity of 5 days (2005: 6 days) and 14 days (2005: 15 days) respectively.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Trade payables	**1,499,183**	1,478,101	**-**	-
Other payables and accruals	**431,606**	270,502	**28,599**	28,339
Project payables	**88,933**	88,970	**-**	-
Hire purchase liabilities (Note 27)	**1,439**	912	**-**	-
	2,021,161	1,838,485	**28,599**	28,339

Included in payables of the Group and of the Company are related parties balances of which RM218.9 million (2005: RM213.1 million) and RM Nil (2005: RM Nil) respectively are in trade payables and RM51.4 million (2005: RM10.0 million) and RM3.4 million (2005: RM3.0 million) respectively are in other payables.

Also included in trade payables of the Group is an amount of RM704.4 million (2005: RM827.9 million) which relates to product financing arrangements with parties where the titles of the inventories pertaining to these arrangements are legally passed to these parties and of which the Group has an obligation to repurchase. The obligation to repurchase ranges from 60 days to 120 days (2005: 90 days to 120 days) with interest rates from 5% to 7% (2005: 3% to 6%) per annum. The inventories under such arrangements are disclosed in Note 16 to the financial statements. All other normal credit terms granted to the Group in trade payables range from 30 days to 60 days.

Project payables represent construction costs for plant and machinery payable. The amount is unsecured and interest free.

21. BANK OVERDRAFTS

	Group 2006 RM'000	Group 2005 RM'000
Secured	**11,446**	7,830

Bank overdrafts pertaining to certain subsidiary companies are secured by charges on the property, plant and equipment as disclosed in Note 10 to the financial statements, and other assets of the subsidiary companies.

The weighted average effective interest rate for bank overdrafts at the balance sheet date is 7.8% (2005: 7.6%) per annum.

22. BORROWINGS

	Group 2006 RM'000	Group 2005 RM'000
Current		
Secured:		
Bills payable	**146,817**	98,206
Revolving credits	**45,252**	35,500
Term loans	**1,639,018**	797,267
	1,831,087	930,973
Unsecured:		
Bills payable	**3,849**	2,968
Term loans	**2,360**	-
	6,209	2,968
Total current borrowings	**1,837,296**	933,941

Bills payable and revolving credits pertaining to certain subsidiary companies are secured by charges on the property, plant and equipment as disclosed in Note 10 to the financial statements, and other assets of the subsidiary companies.

The weighted average effective interest rates at the balance sheet date for the respective credit facilities are as follows:

	Group 2006 %	Group 2005 %
Bills payable	**4.7**	4.5
Revolving credits	**6.8**	6.4
Term loans	**7.5**	6.5

	Group 2006 RM'000	Group 2005 RM'000
Non-Current		
Term loans:		
Secured	**3,493**	869,846
Unsecured	**6,131**	-
Total non-current borrowings	**9,624**	869,846

22. BORROWINGS (continued)

The term loans are repayable over the following periods:

	Group	
	2006	**2005**
	RM'000	**RM'000**
Within 1 year	**1,641,378**	797,267
From 1 to 5 years	**9,624**	869,846
	1,651,002	1,667,113

A major subsidiary company has requested for the indulgence of its lenders to consent to the deferment of its term loans of which a portion is due and unpaid as at the end of the financial year. In accordance with FRS101 2004, the entire term loans, inclusive of the amount maturing beyond one year, have been reclassified as current borrowings. These term loans are secured against the freehold land and plant and machinery of the subsidiary company. Other remaining term loan is also secured against the Company's corporate guarantee.

Other secured term loan of the Group are charged against certain subsidiary company's freehold land, fixed and floating assets and investments, or secured by way of a pledge of the entire issued and paid-up share capital in another subsidiary company, a third party charge on the entire stake in a public listed associate, a charge on the long term leasehold land held for sale and a charge over amounts due from certain subsidiary companies.

During the year, a subsidiary company restructured its existing Trade Finance Facility into a Bai Bithaman Ajil facility of RM8.0 million, secured by first legal charges on the leasehold lands and buildings of the subsidiary company and corporate guarantee from the Company.

The weighted average effective interest rate at balance sheet date for term loans is 7.5% (2005: 6.5%) per annum.

23. BONDS AND DEBTS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current				
Secured:				
- LCB Bonds	**188,303**	54,356	**188,303**	54,356
- LCB Debts	**988**	56	**988**	56
	189,291	54,412	**189,291**	54,412
Non-Current				
Secured:				
- LCB Bonds	**1,808,205**	1,796,365	**1,808,205**	1,796,365
- LCB Debts	**10,820**	11,392	**10,820**	11,392
Unsecured bond:				
- Megasteel Sub-Bond (B)	**237,098**	234,751	**-**	-
	2,056,123	2,042,508	**1,819,025**	1,807,757
Total				
Secured:				
- LCB Bonds	**1,996,508**	1,850,721	**1,996,508**	1,850,721
- LCB Debts	**11,808**	11,448	**11,808**	11,448
Unsecured bond:				
- Megasteel Sub-Bond (B)	**237,098**	234,751	**-**	-
	2,245,414	2,096,920	**2,008,316**	1,862,169

23. BONDS AND DEBTS (continued)

The bonds and debts are redeemable/repayable over the following periods:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Within 1 year	**189,291**	54,412	**189,291**	54,412
From 1 to 5 years	**1,414,909**	1,191,781	**1,414,909**	1,089,370
After 5 years	**641,214**	850,727	**404,116**	718,387
	2,245,414	2,096,920	**2,008,316**	1,862,169

Pursuant to the implementation of the GWRS in 2003, the Company has on 14 March 2003 issued the following zero coupon redeemable secured bonds ("LCB Bonds") and debts ("LCB Debts"):

(i) RM45.445 million (present value as at the date of issue) Class A LCB Bonds, having a maturity date of 31 December 2004 as part of the settlement of debts;

(ii) RM474.836 million (present value as at the date of issue) Class B (a) LCB Bonds, having a maturity date of 31 December 2009 as part of the settlement of debts;

(iii) RM1,071.826 million (present value as at the date of issue) Class B (b) LCB Bonds, having a maturity date of 31 December 2011 as part of the consideration for the acquisition of an additional 40% equity interest in Megasteel Sdn Bhd ("Megasteel") and of 224.540 million shares in Lion Industries Corporation Berhad; and

(iv) USD2.628 million (present value as at the date of issue) LCB Debts, having a maturity date of 31 December 2009 as part of the settlement of debts.

Megasteel, a subsidiary company, has also issued RM226.71 million (present value as at the date of issue) Megasteel Sub-Bond (B), having a maturity date of 31 December 2011 to Khazanah. The Megasteel Sub-Bond (B) is an instrument which confers Khazanah a contractual right to receive the proposed pre-determined yearly amount of cash flow from Megasteel, is unsecured and is repayable after five years.

The Company has obtained the bondholders and lender's approval on 21 December 2005 to defer the redemption/repayment of the following LCB Bonds and LCB Debts:

	Due on 31 December 2005 defer to 31 March 2006 Nominal amount	**Due on 31 December 2005 defer to 31 December 2006 Nominal amount**
Class A LCB Bonds (RM'000)	**13,450**	**29,922**
Class B (a) LCB Bonds (RM'000)	**778**	**1,730**
Class B (b) LCB Bonds (RM'000)	**1,756**	**3,907**
LCB Debts (USD'000)	**4**	**10**

On 17 March 2006, the Company had fully redeemed/repaid the LCB Bonds and LCB Debts due on 31 March 2006.

23. BONDS AND DEBTS (continued)

The cash yields to maturity from 14 March 2003 to the date of actual redemption/repayment of the above bonds and debts are as follows:

Class A LCB Bonds	6.00%
Class B (a) LCB Bonds	5.75%
Class B (b) LCB Bonds	7.75%
LCB Debts	5.00%
Megasteel Sub-Bond (B)	1.00%

An additional 1.00% interest above the cash yields to maturity shall be charged on the portion delayed in redemption/repayment for LCB Bonds and LCB Debts.

Securities for the LCB Bonds and the LCB Debts

The Security Trustee holds the following securities for the benefit of the holders of the LCB Bonds and the LCB Debts:

(i) The assets included in the Proposed Divestment Programme ("PDP") for the LCB Group. If there is an existing security on any such assets as at 14 March 2003 ("Existing Charge"), the Security Trustee will take a lower priority security interest.

(ii) The CPB Inter-Co Repayment (amounts owing by Lion Diversified Holdings Berhad to LCB) receivable by the Company.

(iii) The Redemption Account held by the Company. The Redemption Account will capture the "Dedicated Cash Flows" held by the Company.

Dedicated Cash Flows mean cash flows from the following sources:

- net surplus proceeds from the disposal of any assets in the PDP for the Group over which there is presently a Charge, if applicable;

- net proceeds from the disposal of any assets in the PDP for the Group over which there is presently no Charge;

- proceeds from the redemption of the CPB Inter-Co Repayment received by the Company including any loyalty payment received following the full repayment of the CPB Inter-Co Repayment;

- subject to the proportions allocated to holders of the LCB Bonds and the LCB Debts, net proceeds from the disposal of any assets of the Group (other than assets in the PDP for the Group);

- Megasteel's dividends for years 2006 and 2007 and redemption of the Megasteel Sub-Bond (A) from year 2008 to year 2011; and

- Cash injection to be undertaken in year 2011.

(iv) Investments in associated companies, Amsteel Corporation Berhad and Lion Industries Corporation Berhad.

In relation to the LCB Bonds and the LCB Debts, the Company covenants, amongst others, that it will not without the prior written consent of the Trustee;

23. BONDS AND DEBTS (continued)

(i) Indebtedness

create, incur, assume, guarantee or permit to exist any indebtedness with respect to the Company, its subsidiary companies, scheme companies and security party except such permitted indebtedness.

Permitted indebtedness shall mean, at any time, any indebtedness for borrowed money incurred or assumed by the Company, any of its subsidiary companies incorporated as at the date of the Trust Deed, any scheme company and any security party in respect of which the aggregate principal amount committed or provided by the lenders together with the aggregate amount of all indebtedness of the Company, any of its subsidiary companies, any scheme company and any security party at the time of its incurrence does not exceed the following limits:

(a) where the total redemption amounts of the LCB Bonds redeemed, or cancelled pursuant to an early redemption or purchase, and the total repayment amounts repaid and, in the case of an early repayment or purchase; the total repayment amounts in respect of the Class B LCB Debts repaid or purchased up to the relevant time when the indebtedness is incurred or proposed to be incurred (which amount shall exclude amounts paid in respect of the Class B (b) LCB Bonds) and the up-front cash payment made on 31 January 2003 ("Repaid Amounts") is less than 50% of the aggregate outstanding nominal values of all LCB Bonds (other than Class B (b) LCB Bonds) and all Class B LCB Debts, at the issue date of the LCB Bonds, the limit shall be 20% of that Repaid Amounts;

(b) where the Repaid Amounts is equal to or exceeding 50% but less than 75% of the aggregate outstanding nominal values of all LCB Bonds (other than Class B (b) LCB Bonds) and outstanding repayment amount of all Class B LCB Debts at the issue date of the LCB Bonds, the limit shall be 35% of that Repaid Amounts; and

(c) where the total Repaid Amounts is equal to or more than 75% of the aggregate outstanding nominal values of all LCB Bonds (other than Class B (b) LCB Bonds) and outstanding repayment amount of all Class B LCB Debts at the issue date of the LCB Bonds, the limit shall be 50% of that Repaid Amounts.

(ii) Disposal of assets in PDP

Dispose of assets/shares in the PDP if:

(a) the realisable value of the asset is above RM5 million; and
(b) the disposal price is at a discount of 20% or more of the market value of the assets; or
(c) the sale of asset is to a related party.

(iii) Disposal of residual assets

Dispose of assets not in the PDP if:

(a) the disposal price is in excess of RM25 million or 20% of the audited consolidated net tangible assets ("NTA") of the Company, whichever is lower; and

(b) the disposal is at a discount of 20% or more of the market value of the asset.

(iv) Capital expenditure

Incur and/or cause its subsidiary companies (other than the excluded companies) to incur any capital expenditure:

(a) for any new investment which is not within the core business of the Company or such subsidiary company as at the date of the Trust Deed; and

(b) exceeding 25% of the consolidated NTA of the Company in the event the consolidated NTA of the Company is positive or exceeding the sum of RM5 million in the event the consolidated NTA of the Company is negative.

23. BONDS AND DEBTS (continued)

The main financial covenants that need to be met prior to the redemption of the Megasteel Sub-Bonds by Megasteel are as follows:

(a) The ratio of the debts to tangible net worth of Megasteel shall be less than or equal to one point five (1.5) times.

(b) The debt service cover ratio of Megasteel shall be equal to or more than one point four (1.4) times.

(c) The ratio of current assets to current liabilities of Megasteel shall equal to or more than one point zero (1.0) times.

(d) The finished goods inventories turnover period of Megasteel shall be less than or equal to thirty (30) days.

(e) The trade receivables collection period of Megasteel shall be less than or equal to twenty five (25) days.

24. SHARE CAPITAL

	Group and Company 2006 RM'000	2005 RM'000
Ordinary shares of RM1.00 each		
(a) Authorised:		
At 1 July and 30 June	**2,000,000**	2,000,000
(b) Issued and fully paid:		
At 1 July	**925,594**	919,041
Shares issued pursuant to		
- Executive Share Option Scheme	**-**	6,553
- acquisition of subsidiary companies	**79,522**	-
At 30 June	**1,005,116**	925,594

During the financial year, the Company increased its issued and paid-up share capital from RM925,593,622 to RM1,005,115,831 by the issuance of 79,522,209 new ordinary shares of RM1.00 each as consideration for the acquisition of subsidiary companies.

As at 30 June 2006, there were 91,380,750 unexercised warrants with a right to subscribe for ordinary shares in the Company on the basis of one new ordinary share for every one warrant held at the subscription price of RM2.60 per ordinary share. The warrants which were constituted by a Deed Poll dated 18 December 1997 ("Deed Poll"), were offered on a renounceable basis of three (3) warrants for every four (4) existing shares held.

The new shares allotted and issued upon the exercise of the subscription rights shall be fully paid and shall rank pari passu in all respects with the then existing shares including any entitlement to any dividends, rights, allotments or other distributions except that such new shares shall not rank for any dividends, rights, allotments or other distributions on or before the entitlement date of which is before the allotment of the new shares.

The Company had on 8 September 2006 announced that the exercise period of the warrants has been extended for a final period from 10 December 2006 to 10 June 2008.

24. SHARE CAPITAL (continued)

An Executive Share Option Scheme ("ESOS") for the benefit of eligible executives and executive Directors of the Group was approved by the shareholders of the Company on 24 August 2005 and implemented on 1 September 2005.

The salient features and other terms of the ESOS are as follows:

(a) Executive directors and confirmed executive employees of the Group who have been employed on a continuous full time basis for a period of not less than six months on the date of offer shall be eligible to participate in the ESOS.

(b) The aggregate number of options exercised and options offered and to be offered under the ESOS shall not exceed 15% of the issued and paid-up share capital of the Company at any one time during the duration of the ESOS subject to the following being complied with:

(i) not more than 50% of the shares available under the scheme shall be allocated, in aggregate, to executive directors and senior management; and

(ii) not more than 10% of the shares available under the scheme shall be allocated to any eligible executive who, either singly or collectively through persons connected with him or her (as defined in paragraph 1.01 of the Listing Requirements of Bursa Malaysia Securities Berhad), holds 20% or more of the issued and paid-up capital of the Company.

(c) No options shall be granted for less than 100 ordinary shares nor more than the maximum allowable allotment and each grant of options shall be in multiples of 100 ordinary shares.

(d) The subscription price of each ordinary share under the ESOS shall be the weighted average market price of the shares for the 5 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 5 years and the Company may, if the Board deems fit upon the recommendation of the Option Committee, renew the ESOS for a further 5 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 in the number of options granted, exercised and lapsed pursuant to the ESOS during the financial year are as follows:

Granted on	Subscription price per share RM	Balance as at 1.9.2005	Granted	Exercised	Lapsed	Balance as at 30.6.2006
26.5.2006	1.00	-	6,397,200	-	826,300	5,570,900

The exercise period of the options shall expire on 31 August 2010.

25. RESERVES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-Distributable:				
Share premium	**97,627**	75,032	**97,627**	75,032
Negative goodwill	**511**	543	**-**	-
Revaluation reserves	**242,531**	242,531	**-**	-
Capital reserves	**84,915**	87,990	**-**	-
Translation reserves	**1,129**	1,831	**-**	-
	426,713	407,927	**97,627**	75,032
Accumulated losses	**(845,958)**	(414,058)	**(635,456)**	(570,591)
	(419,245)	(6,131)	**(537,829)**	(495,559)

Revaluation reserves comprise surplus arising on revaluation of property, plant and equipment net of deferred tax effects.

Capital reserves comprise mainly share of post acquisition reserves of an associated company and profits recorded by a subsidiary company which was incorporated to manage the Ringgit Malaysia debts under the GWRS.

Translation reserves comprise gain or loss on translation of net equity of foreign subsidiary companies.

26. DEFERRED TAXATION

	Group	
	2006 RM'000	2005 RM'000
At 1 July	**(35,587)**	(116,932)
Recognised in income statement (Note 8)	**125,183**	81,345
Acquisition of subsidiary companies (Note 32(c))	**52**	-
At 30 June	**89,648**	(35,587)
Presented after appropriate offsetting as follows:		
Deferred tax assets	**104,678**	-
Deferred tax liabilities	**(15,030)**	(35,587)
At 30 June	**89,648**	(35,587)

Deferred tax assets of the Group

	2006 RM'000	2005 RM'000
At 1 July	**71,012**	-
Recognised in income statement	**115,137**	71,012
Acquisition of subsidiary companies	**1,192**	-
At 30 June	**187,341**	71,012

26. DEFERRED TAXATION (continued)

Deferred tax assets of the Group (continued)

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 July 2004	-	-	-
Recognised in income statement	71,012	-	71,012
At 30 June 2005	**71,012**	**-**	**71,012**
Recognised in income statement	**114,991**	**146**	**115,137**
Acquisition of subsidiary companies	**(559)**	**1,751**	**1,192**
At 30 June 2006	**185,444**	**1,897**	**187,341**

Deferred tax liabilities of the Group

	Group 2006 RM'000	Group 2005 RM'000
At 1 July	**106,599**	116,932
Recognised in income statement	**(10,046)**	(10,333)
Acquisition of subsidiary companies	**1,140**	-
At 30 June	**97,693**	106,599

	Revaluation reserve RM'000	Others RM'000	Total RM'000
At 1 July 2004	116,579	353	116,932
Recognised in income statement	(10,333)	-	(10,333)
At 30 June 2005	**106,246**	**353**	**106,599**
Recognised in income statement	**(10,333)**	**287**	**(10,046)**
Acquisition of subsidiary companies	**-**	**1,140**	**1,140**
At 30 June 2006	**95,913**	**1,780**	**97,693**

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

	Group 2006 RM'000	Group 2005 RM'000
Unutilised tax losses	**192,889**	131,305
Unabsorbed capital allowances	**104,082**	68,561
Other deductible temporary differences	**4,567**	-
	301,538	199,866

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

A subsidiary company has been granted pioneer status under the Promotion of Investments Act, 1986. The Pioneer incentive is given for a period of 5 years from 1 February 2000 and was extended for another 5 years to 31 January 2010.

27. DEFERRED LIABILITIES

	Group 2006 RM'000	Group 2005 RM'000
HIRE PURCHASE LIABILITIES		
Payable within 1 year	**1,635**	1,035
Payable between 1 and 5 years	**2,220**	1,691
	3,855	2,726
Finance charges	**(438)**	(320)
	3,417	2,406
Analysed as:		
Payable within 1 year (Note 20)	**1,439**	912
Payable between 1 and 5 years	**1,978**	1,494
	3,417	2,406

The hire purchase liabilities carry interest rates at the balance sheet date at rates ranging from 2.4% to 6.6% (2005: 2.8% to 5.0%) per annum.

	Group 2006 RM'000	Group 2005 RM'000
Non-Current:		
Hire purchase liabilities	**1,978**	1,494
Product financing liabilities	**67,119**	-
Unfunded defined benefit plan	**1,846**	-
	70,943	1,494

Product financing liabilities relate to arrangements with a creditor where the titles of the inventories pertaining to this arrangement are legally passed to the creditor, and of which the Group has the obligation to repurchase. These inventories are included in inventories as disclosed in Note 16 to the financial statements.

Unfunded defined benefit plan relates to a subsidiary company's plan for its eligible employees. The latest actuarial valuation of the plan was carried out on 23 June 2006 by an independent qualified actuary. The discount rate and expected rate of salary increases used as actuarial assumptions in the unfunded defined benefit plan are 7% and 5% per annum respectively.

28. COMMITMENTS

(a) Capital commitments

As at end of the financial year, the Group has the following capital commitments:

	Group 2006 RM'000	Group 2005 RM'000
Capital expenditure for property, plant and equipment:		
- approved and contracted for	**116,966**	59,459
- approved but not contracted for	**124,734**	3,368
	241,700	62,827

28. COMMITMENTS (continued)

(b) Operating lease commitments

As of the end of the financial year, the Group has the following operating lease commitments:

	Group 2006 RM'000	Group 2005 RM'000
The future minimum lease payments under non-cancellable operating lease are as follows:		
Within 1 year	**186**	186
From 1 to 5 years	**528**	714
	714	900

29. CONTINGENT LIABILITIES

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Guarantees in respect of loans and credit facilities granted to subsidiary companies				
- unsecured	**-**	-	**134,645**	46,767
Litigation claim *	**-**	342	**-**	-
	-	342	**134,645**	46,767

* Represent a claim made against a subsidiary company for the breach of the memorandum of sublet of property and its cost of repairs.

30. RELATED PARTY TRANSACTIONS

(a) Significant transactions undertaken with related parties excluding those parties disclosed as related companies in the financial statements are as follows:

Name of Company	Type of transaction	Group 2006 RM'000	Group 2005 RM'000
(i) With Amsteel Corporation Berhad Group ("Amsteel")			
Lion Tooling Sdn Bhd	Trade purchases	**2,591**	4,211
Singa Logistics Sdn Bhd	Logistic services	**9,845**	14,182
Secom (M) Sdn Bhd	Trade purchases	**367**	335
(ii) With Lion Industries Corporation Berhad Group ("LICB")			
Amsteel Mills Sdn Bhd	Trade sales	**760,699**	787,095
	Trade purchases	**534,416**	1,149,822
Antara Steel Mills Sdn Bhd	Trade sales	**19,573**	30,020
	Trade purchases	**107,513**	-
Amsteel Mills Marketing Sdn Bhd	Management services	**1,665**	1,268

30. RELATED PARTY TRANSACTIONS (continued)

Name of Company	Type of transaction	Group 2006 RM'000	Group 2005 RM'000
(iii) With other related parties			
Bright Steel Sdn Bhd	Trade sales	**-**	234,983
	Trade purchases	**-**	63,756
Bright Steel Service Centre Sdn Bhd	Trade sales	**-**	29,404
	Trade purchases	**-**	1,419
Lion Holdings Pte Ltd	Trade purchases	**386,263**	506,407
Lion Plate Mills Sdn Bhd	Trade sales	**-**	45,402
	Trade purchases	**-**	6,238
Lion Motor Sdn Bhd	Trade sales	**7,354**	3,324
	Trade purchases	**11,405**	13,773
Silverstone Berhad	Trade purchases	**405**	83
S.I.T. Corporate Learning Centre Sdn Bhd	Training services	**157**	134
Silverstone Marketing Sdn Bhd	Rental income	**138**	138
Posim Petroleum Marketing Sdn Bhd	Trade purchases	**2,121**	2,200
Likom Plastic Industries Sdn Bhd	Trade purchases	**428**	325
Lion Forest Industries Berhad	Trade sales	**-**	(1,345)
PT Lion Metal Works Tbk	Trade sales	**3,539**	4,651
Graimpi Sdn Bhd	Trade purchases	**4,405**	-

Amsteel and LICB are associated companies of the Company wherein certain Directors and substantial shareholders of the Company have interests.

Bright Steel Sdn Bhd and Bright Steel Service Centre Sdn Bhd are subsidiary companies of Amalgamated Containers Berhad ("ACB"), a company in which certain Directors and substantial shareholders of the Company are substantial shareholders and/or directors. During the year, the Company acquired ACB and consequently, ACB and its subsidiary companies became subsidiary companies of the Group.

Lion Holdings Pte Ltd, Lion Plate Mills Sdn Bhd ("LPM"), Likom Plastic Industries Sdn Bhd and PT Lion Metal Works Tbk are companies in which certain Directors and substantial shareholders of the Company have an interest. During the year, the Group acquired LPM and consequently, LPM became a subsidiary company of the Group.

Lion Motor Sdn Bhd, Silverstone Berhad, S.I.T. Corporate Learning Centre Sdn Bhd and Silverstone Marketing Sdn Bhd are subsidiary companies of Silverstone Corporation Berhad, a company in which certain Directors and substantial shareholders of the Company are substantial shareholders and/or directors.

Posim Petroleum Marketing Sdn Bhd is a subsidiary company of Lion Forest Industries Berhad, a company in which certain Directors of the Company are substantial shareholders and/or directors.

Graimpi Sdn Bhd is a subsidiary of a major shareholder of the Company wherein certain Directors and substantial shareholders of the Company have an interest.

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

(b) Share options over ordinary share in the Company granted to Executive Directors of the Company during the financial year are as follows:

	Number of options: Granted during the financial year 2006	Granted during the financial year 2005	Unexercised options at financial year end 2006	Unexercised options at financial year end 2005
Tan Sri William H.J. Cheng	**245,000**	-	**245,000**	-

31. SEGMENTAL ANALYSIS

(a) Primary reporting format - business segments:

The Group is organised into three major business segments:

(i) Steel - manufacturing of hot rolled coils, bands, plates and sheets
(ii) Manufacturing - manufacture and distribution of office equipment, security equipment and steel related products
(iii) Motor - assembly of commercial vehicles and trading of motor vehicles

Other business segments comprise investment holding, treasury business, construction and civil engineering works, share registration and secretarial services.

The Directors are of the opinion that all inter-segment transactions were carried out on terms and conditions not materially different from those obtainable in transactions with independent third parties.

2006	**Steel RM'000**	**Manufac-turing RM'000**	**Motor RM'000**	**Others RM'000**	**Elimination RM'000**	**Group RM'000**
Revenue						
External	**2,390,057**	**35,692**	**81,228**	**235**	**-**	**2,507,212**
Inter-segment	**9,205**	**426**	**-**	**99**	**(9,730)**	**-**
	2,399,262	**36,118**	**81,228**	**334**	**(9,730)**	**2,507,212**
Results						
Segment results	**(135,189)**	**(888)**	**(7,315)**	**(38,967)**	**-**	**(182,359)**
Interest income						**7,057**
Investment income						**751**
Loss from operations						**(174,551)**
Finance costs						**(380,289)**
Share in results of associated companies	**(27,154)**	**-**	**-**	**(155)**	**-**	**(27,309)**
Loss before taxation						**(582,149)**
Taxation						**152,091**
Loss after taxation						**(430,058)**
Minority interests						**27,322**
Net loss for the financial year						**(402,736)**
Segment assets	**5,169,540**	**26,957**	**55,936**	**602,417**	**-**	**5,854,850**
Associated companies	**523,491**	**-**	**-**	**479,449**	**-**	**1,002,940**
Unallocated corporate assets						**115,494**
Consolidated total assets						**6,973,284**
Segment liabilities	**2,019,310**	**6,911**	**13,901**	**48,565**	**-**	**2,088,687**
Unallocated corporate liabilities						**4,122,231**
Consolidated total liabilities						**6,210,918**

31. SEGMENTAL ANALYSIS (continued)

(a) Primary reporting format - business segments: (continued)

2006	**Steel RM'000**	**Manufac-turing RM'000**	**Motor RM'000**	**Others RM'000**	**Elimination RM'000**	**Group RM'000**
Other information						
Capital expenditure	**201,301**	**309**	**2,490**	**-**	**-**	**204,100**
Depreciation and amortisation	**243,739**	**902**	**2,029**	**25,220**	**-**	**271,890**
Impairment losses	**-**	**-**	**-**	**20,000**	**-**	**20,000**
Reversal of impairment losses	**-**	**-**	**-**	**(253)**	**-**	**(253)**
Non-cash expenses other than depreciation, amortisation and impairment losses	**4,848**	**311**	**10**	**4,360**	**-**	**9,529**

2005	**Steel RM'000**	**Manufac-turing RM'000**	**Motor RM'000**	**Others RM'000**	**Elimination RM'000**	**Group RM'000**
Revenue						
External	3,877,990	33,201	65,163	732	-	3,977,086
Inter-segment	1,238	396	-	-	(1,634)	-
	3,879,228	33,597	65,163	732	(1,634)	3,977,086
Results						
Segment results	403,302	(1,402)	(2,456)	(20,076)	-	379,368
Interest income						7,754
Investment income						665
Profit from operations						387,787
Finance costs						(320,347)
Share in results of associated companies	156,638	-	-	(12,837)	-	143,801
Profit before taxation						211,241
Taxation						53,719
Profit after taxation						264,960
Minority interests						(33,195)
Net profit for the financial year						231,765
Segment assets	5,208,081	30,615	57,383	585,005	-	5,881,084
Associated companies	548,078	-	-	419,134	-	967,212
Unallocated corporate assets						16,788
Consolidated total assets						6,865,084
Segment liabilities	1,765,900	6,180	12,714	52,779	-	1,837,573
Unallocated corporate liabilities						3,946,619
Consolidated total liabilities						5,784,192

31. SEGMENTAL ANALYSIS (continued)

(a) Primary reporting format - business segments: (continued)

2005	**Steel RM'000**	**Manufac-turing RM'000**	**Motor RM'000**	**Others RM'000**	**Elimination RM'000**	**Group RM'000**
Other information						
Capital expenditure	219,999	277	1,918	-	-	222,194
Depreciation and amortisation	249,528	971	2,032	24,696	-	277,227
Impairment losses	3,869	-	51	-	-	3,920
Non-cash expenses other than depreciation, amortisation and impairment losses	95,767	300	188	1	-	96,256

(b) Secondary reporting format - geographical segments:

The Group principally operates its business segments in Malaysia. Other geographical segments are mainly applicable to segment revenue based on the location of customers:

2006	**Malaysia RM'000**	**Europe RM'000**	**USA RM'000**	**Others RM'000**	**Total RM'000**
Segment revenue	**1,671,543**	**208,293**	**280,177**	**347,199**	**2,507,212**
Segment assets	**5,854,850**	**-**	**-**	**-**	**5,854,850**
Capital expenditure	**204,100**	**-**	**-**	**-**	**204,100**
2005					
Segment revenue	2,541,259	133,799	398,689	903,339	3,977,086
Segment assets	5,881,084	-	-	-	5,881,084
Capital expenditure	222,194	-	-	-	222,194

32. CASH FLOW STATEMENTS

(a) Adjustments for non-cash items, interests and dividend:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Share in results of associated companies	**27,309**	(143,801)	**-**	-
Property, plant and equipment				
- depreciation	**246,691**	237,749	**-**	-
- impairment losses	**-**	3,920	**-**	-
- written off	**26**	24,255	**-**	-
Interest expenses	**380,289**	320,347	**186,334**	176,585
Gain on disposal of:				
- quoted investment	**(13,169)**	(2,284)	**(13,169)**	(2,284)
- investment in an associated company	**-**	-	**-**	(3,890)
Gain on disposal of property, plant and equipment	**(49)**	(69)	**-**	-
Deferred expenditure				
- amortisation	**-**	14,810	**-**	-
- written off	**-**	71,585	**-**	-
Amortisation of:				
- goodwill	**25,231**	24,700	**-**	-
- negative goodwill	**(32)**	(32)	**-**	-
Interest income	**(7,057)**	(7,754)	**(112,885)**	(105,773)
Allowance for doubtful receivables:				
- others	**4,616**	300	**-**	-
- written back	**-**	(35)	**(7,485)**	-
Dividend income	**(751)**	(665)	**(2,546)**	(2,470)
Bad receivables written off	**31**	-	**-**	-
Allowance for obsolete inventories	**37**	116	**-**	-
Impairment losses in:				
- subsidiary companies	**-**	-	**12,660**	10,100
- an associated company	**20,000**	-	**-**	-
Reversal of impairment losses in:				
- an associated company	**(33)**	-	**-**	-
- an investment	**(220)**	-	**-**	-
Inventories written down	**4,819**	-	**-**	-
Unrealised gain on foreign exchange	**(25,603)**	(8,758)	**(297)**	-
	662,135	534,384	**62,612**	72,268

(b) Purchase of property, plant and equipment

	Group	
	2006	**2005**
	RM'000	**RM'000**
Aggregate cost of purchase	**204,100**	222,194
Purchase by means of:		
- hire purchase	**(757)**	(640)
- deferred payment	**(2,211)**	(28,225)
	201,132	193,329

32. CASH FLOW STATEMENTS (continued)

(c) Acquisition of subsidiary companies:

	Group	
	2006	**2005**
	RM'000	**RM'000**
Property, plant and equipment	**70,340**	103,562
Associated company	**91,855**	-
Investments	**135**	-
Deferred tax assets	**1,192**	-
Goodwill on consolidation	**3**	-
Inventories	**88,355**	396
Trade and other receivables	**72,008**	5,559
Tax recoverable	**658**	-
Cash and bank balances	**3,841**	524
Trade and other payables	**(110,219)**	(110,041)
Taxation	**(1,380)**	-
Borrowings	**(107,729)**	-
Minority interests	**(42,389)**	-
Deferred tax liabilities	**(1,140)**	-
	65,530	-
Amount previously accounted for as investment	**(1,464)**	-
Fair value of net assets at date of acquisition	**64,066**	-
Goodwill on acquisition	**40,108**	-
Total purchase consideration	**104,174**	-
Purchase consideration satisfied by:		
- issuance of shares	**(104,174)**	-
- cash *	**-**	-
	-	-
Cash and cash equivalent of subsidiary companies acquired	**3,841**	524
Net cash inflow on acquisition	**3,841**	524

* Purchase consideration is RM1.00 in financial year ended 30 June 2005

(d) Cash and cash equivalents at the end of the financial year

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	**14,037**	22,019	**705**	453
Deposits with the financial institutions	**28,853**	165,622	**673**	1,507
Bank overdrafts	**(11,446)**	(7,830)	**-**	-
	31,444	179,811	**1,378**	1,960

33. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group operates within clearly defined guidelines on financial risk management and it is not the Group's policy to engage in speculative transactions.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:

Foreign currency risk

The Group is principally exposed to currency risks for the purchase of materials and consumables and in its financing activities. The Group strives to monitor these exposure closely and attempts to limit them by entering into forward contracts, where favourable.

The financial assets and financial liabilities of the Group companies that are not denominated in their functional currencies are as follows:

	US Dollar RM'000	Euro RM'000	Singapore Dollar RM'000	Others RM'000	Total RM'000
Group					
2006					
Functional currency					
Trade and other receivables					
Ringgit Malaysia	**17,420**	**-**	**801**	**-**	**18,221**
Trade and other payables					
Ringgit Malaysia	**916,693**	**85,224**	**8,554**	**861**	**1,011,332**
Bonds and debts					
Ringgit Malaysia	**11,808**	**-**	**-**	**-**	**11,808**
Borrowings					
Ringgit Malaysia	**899,154**	**24,751**	**-**	**-**	**923,905**
2005					
Functional currency					
Trade and other receivables					
Ringgit Malaysia	11,898	-	-	-	11,898
Trade and other payables					
Ringgit Malaysia	943,912	138,849	8,370	1,590	1,092,721
Bonds and debts					
Ringgit Malaysia	11,448	-	-	-	11,448
Borrowings					
Ringgit Malaysia	947,484	24,077	-	-	971,561

33. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits. Interest rates of the Group's borrowings are managed through fixed and floating rates. Investments in financial assets are short term in nature and are mostly placed as short term deposits with licensed financial institutions.

The information on maturities dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Receivables are monitored on an on-going basis via Group management review and reporting procedures.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

Market risk

The Group's key business segment operates in a business environment where international finished goods prices generally move in tandem with key raw material prices, except when finished goods prices declined steeply due to unusual factors. The Group reduces its exposure to these fluctuations through close monitoring and maintaining the raw material inventory at appropriate levels, where possible. For its finished goods, the Group serves mainly the domestic market, of which has a relatively more stable price environment.

Liquidity and cash flow risks

As mentioned in Note 2 to the financial statements, the Group seeks long term financing and in discussions with the financial institutions to address its funding requirements.

Fair values

The carrying amounts of financial assets and liabilities of the Group and of the Company as at balance sheet date approximated their fair values except as set out below:

	Group		Company	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
2006				
Financial assets				
Quoted investments	**5,416**	**15,524**	**5,392**	**15,510**
2005				
Financial assets				
Quoted investments	14,455	18,367	14,061	17,757

33. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and cash equivalents and trade and other receivables/payables

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

(ii) Quoted investments

The fair value of quoted shares is determined by reference to the stock exchange quoted market bid prices at the close of the business on the balance sheet date.

The Directors are of the opinion that the excess carrying amount of the quoted investments over their fair value at the balance sheet date is temporary in nature as the net assets of an investee company of the Group's main investment and the net assets of other quoted investments as at end of the year are not significantly different from their carrying amounts.

(iii) Unquoted investments

It is not practical to estimate the fair value of the Group's unquoted investments due to time constraint, lack of market information and the inability to estimate fair value without incurring excessive costs. However, the Group does not expect the carrying amounts to be significantly different from recoverable amounts.

(iv) Long term receivable

The fair value of the long term receivables is not computed as it arose from the issue of Megasteel Sub-Bond (B) for which the consideration is deferred and the timing and mode of settlement is uncertain.

(v) Amount due from/to subsidiary companies

It is not practical to estimate the fair values of amount due from/to subsidiary companies due principally to lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs. However, the Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

(vi) Borrowings

The carrying amount of short term borrowings approximates fair value because of the short maturity period. The fair value of long term borrowings is estimated based on the current rates available for borrowings with the same maturity profile.

(vii) Derivative financial instruments

The fair value of a foreign currency forward contract is the amount that would be payable on termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and forward exchange rate at the balance sheet date applied to a contract of similar quantum and maturity profile.

34. COMPARATIVE FIGURES

The following comparative amounts as at 30 June 2005 have been restated to conform with current year's presentation:

	As Restated RM'000	Adjustments RM'000	As Previously Stated RM'000
Group			
Trade and other receivables	269,595	34,114	235,481
Trade and other payables	1,838,485	(34,114)	1,804,371

35. SIGNIFICANT EVENTS

During the financial year:

(i) The Company had on 19 May 2006 completed the conditional take-over offer to acquire the remaining 71,522,971 ordinary shares of RM1.00 each in Amalgamated Containers Berhad ("ACB") representing approximately 95.73% of ACB's issued and paid-up share capital not already owned by the Company and its wholly-owned subsidiary, Limpahjaya Sdn Bhd, ("ACB Offer Shares") to be satisfied by the issue and allotment of up to 47,681,981 new ordinary shares of RM1.00 each in the Company ("LCB Shares") on the basis of two LCB Shares for every three existing ACB Offer Shares held at an issue price of RM1.31 per LCB Share.

On the close of the offer, 39,130,743 ACB Shares representing 52.37% equity interest in ACB were acquired by the Company and 26,087,094 LCB Shares were issued and allotted at RM1.31 per LCB Share.

(ii) The Company had on 17 March 2006 completed the acquisition of the entire issued and paid-up share capital of Lion Plate Mills Sdn Bhd for a consideration of RM70,000,000 satisfied by the issue and allotment of 53,435,115 new LCB Shares at an issue price of RM1.31 per LCB Share.

(iii) The Conditional Sale and Purchase Agreement dated 25 November 2004 in relation to the acquisition by the Company of approximately 36.68% of the issued and paid-up share capital of Lion Asiapac Limited ("LAP") comprising 148,750,644 ordinary shares ("LAP Shares") together with 148,750,644 detachable warrants in LAP for a purchase consideration of SGD32,725,143 (equivalent to RM75,595,078) to be satisfied by the issue and allotment of 57,706,166 new LCB Shares at an issue price of RM1.31 per LCB Share lapsed on 24 February 2006 following the Securities Commission's rejection on the proposed disposal of the same by the seller.

STATEMENT BY THE DIRECTORS

We, TAN SRI WILLIAM H.J. CHENG and DATUK CHENG YONG KIM, being two of the Directors of LION CORPORATION BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 31 to 80 are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable 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 at 30 June 2006 and of the results, and cash flows of the Group and of the Company for the financial year ended on that date.

Signed in accordance with a resolution of the Directors dated 27 September 2006

TAN SRI WILLIAM H.J. CHENG
Chairman and Managing Director

DATUK CHENG YONG KIM
Director

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

I, TAN SRI WILLIAM H.J. CHENG, the Director primarily responsible for the financial management of LION CORPORATION BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 31 to 80 are, in my opinion and belief, 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 above-named TAN SRI WILLIAM H.J. CHENG at Kuala Lumpur in the Federal Territory on 27 September 2006

TAN SRI WILLIAM H.J. CHENG

Before me

W-217
P. SETHURAMAN
Commissioner for Oaths
Kuala Lumpur

REPORT OF THE AUDITORS TO THE MEMBERS OF LION CORPORATION BERHAD

We have audited the financial statements set out on pages 31 to 80. These financial statements are the responsibility of the Company's Directors. Our responsibility is 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. Those 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 our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of:

  (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and

  (ii) the state of affairs of the Group and of the Company as at 30 June 2006 and of the results, and cash flows of the Group and of the Company for the financial year ended on that date;

and

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of subsidiary companies of which we have not acted as auditors are indicated in Note 11 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those 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 Section 174(3) of the Act.

ONG BOON BAH & CO
AF: 0320
Chartered Accountants

WONG SOO THIAM
1315/12/06(J)
Partner of the Firm

Kuala Lumpur
27 September 2006

LIST OF GROUP PROPERTIES

AS AT 30 JUNE 2006

Location	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/Age of Building (Year)	Net Book Value RM'000	Date of Acquisition/ Valuation
Lot 4, Solok Waja 3 Kawasan Perindustrian Bukit Raja, Klang Selangor - HS (D) 24275 PT. 3499 Mukim Bukit Raja Daerah Klang, Selangor	Leasehold 22.10.2088	24,281 sq metres	Industrial land and building	Factory, office & warehouse 23	3,056	15.08.1983
WTT 144 GPO 889 SEDCO Industrial Estate Mile 5½, Jalan Tuaran Inanam, Kota Kinabalu - CL015379790 Mile 5, Tuaran Road Daerah Kota Kinabalu Sabah	Leasehold 31.12.2034	50,600 sq metres	Industrial land and building	Factory 31	3,889	1977
Lockbag 36, 88993 SEDCO Industrial Estate Mile 5½, Jalan Tuaran Inanam, Kota Kinabalu - CL015379772 Mile 5, Tuaran Road Daerah Kota Kinabalu Sabah	Leasehold 31.12.2034	6,236 sq metres	Industrial land and building	Office cum Workshop 31	1,892	1979
TB 162 Jalan Habib Hussein, Tawau - TL0107504816 Daerah Tawau Sabah	Leasehold 17.9.2056	477.8 sq metres	Industrial land and building	Office cum Showroom 38	482	17.04.1995
Block G, Lot No 2 Sri Kemajuan Industrial Estate, Inanam Kota Kinabalu - CL015449680 Inanam Daerah Kota Kinabalu Sabah	Leasehold 31.12.2043	278.6 sq metres	Industrial land and building	Office 21	255	22.05.1985
Block B, Lot No 1 6½ Miles, Jalan Tuaran Inanam, Kota Kinabalu - CL015449233, Inanam Daerah Kota Kinabalu Sabah	Leasehold 31.12.2043	116.1 sq metres	Industrial land and building	Office 21	251	10.08.1985
Unit No-2-1-14B & 15 Level 1, Ground Floor Wawasan Plaza Kota Kinabalu, Sabah	Leasehold 31.12.2096	332.5 sq metres	Shoplots	Office cum Showroom 8	2,870	02.02.1999

LIST OF GROUP PROPERTIES (Continued)

AS AT 30 JUNE 2006

Location	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/Age of Building (Year)	Net Book Value RM'000	Date of Acquisition/ Valuation
Lot 2319, 2321 & 2323A Mukim Tanjung Dua Belas Daerah Kuala Langat Selangor	Freehold	1,718,673 sq metres (425 acres)	Industrial land and building	Factory & office 7	537,006	18.10.1995
Lot 999 & 1000 (Gr Flr) King's Park Commercial Centre, Miri, Sarawak	Leasehold 06.06.2059	621 sq metres	Shophouse	Office cum Showroom 10	2,035	28.06.1999
Lot 1245, Block 5, Kuala Baram Land District Miri, Sarawak	Leasehold 14.08.2056	3,481 sq metres	Land	Vacant	511	22.06.1999
Lot 93 & 94 Teck Guan Industrial Shoplot Jalan Segama Lahad Datu, Sabah	Leasehold 08.05.2933	390.2 sq metres	Shoplots	Office cum Showroom 7	747	15.12.1999
Lot 13, Kota Kinabalu Industrial Park Jalan Sepanggar, Mengatal Kota Kinabalu, Sabah	Leasehold 2096	87,513 sq metres	Commercial land	Vacant	6,254	06.07.2001
Lot 2823 & 2824 Sungai Tunas Mukim Tanjung Dua Belas Daerah Kuala Langat Selangor	Freehold	1.6643 hectares	Industrial land	Vacant	2,533	20.04.2005
H.S. (D) 2291, PT No. 3916 Mukim Teluk Kalung Daerah Kemaman Terengganu	Leasehold 24.09.2054	17 acres	Industrial land and building	Factory & Office 10	8,434	31.05.2004
Lot 19, Leboh Sultan Hishamuddin Satu Kawasan 20 Bandar Sultan Sulaiman 42000 Port Klang Selangor	Leasehold 29.01.2102	66,450 sq metres	Industrial land and building	Factory & Office 14	13,812	23.02.1990
Lot 177, Jalan Utas 15/7 Section 15, 40000 Shah Alam Selangor	Leasehold 10.07.2074	42,131 sq metres	Land and building	Factory & Office 14	17,704	07.04.1995

ANALYSIS OF SHAREHOLDINGS

Share Capital as at 29 September 2006

Authorised Share Capital	:	RM2,000,000,000
Issued and Paid-up Capital	:	RM1,005,115,831
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One (1) vote per ordinary share

Distribution of Shareholdings as at 29 September 2006

Ordinary Shares

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Less than 100	132	1.61	5,175	0.01
100 to 1,000	1,585	19.39	1,137,015	0.11
1,001 to 10,000	4,489	54.91	20,209,221	2.01
10,001 to 100,000	1,581	19.34	53,175,787	5.29
100,001 to less than 5% of issued shares	384	4.70	463,956,128	46.16
5% and above of issued shares	4	0.05	466,632,505	46.42
	8,175	100.00	1,005,115,831	100.00

Thirty Largest Registered Shareholders as at 29 September 2006

Registered Shareholders	No. of Shares	% of Shares
1. LDH (S) Pte Ltd	226,716,252	22.56
2. AMMB Nominees (Tempatan) Sdn Bhd		
Pledged Securities Account for Horizon Towers Sdn Bhd (HORI000)	128,462,999	12.78
3. Malaysia Nominees (Tempatan) Sendirian Berhad		
Pledged Securities Account for Horizon Towers Sdn Bhd (01-00800-000)	57,818,754	5.75
4. UOBM Nominees (Tempatan) Sdn Bhd		
Pledged Securities Account for Horizon Towers Sdn Bhd (PCI)	53,634,500	5.34
5. Horizon Towers Sdn Bhd	40,622,638	4.04
6. Sims Holdings Sdn Bhd	38,473,283	3.83
7. Mayban Nominees (Tempatan) Sdn Bhd		
Newcom International Limited for Horizon Towers Sdn Bhd (230519)	15,418,335	1.53
8. UOBM Nominees (Tempatan) Sdn Bhd		
Pledged Securities Account for Horizon Towers Sdn Bhd (PCI)	12,588,477	1.25
9. UOBM Nominees (Tempatan) Sdn Bhd		
Pledged Securities Account for Peringkat Prestasi (M) Sdn Bhd (T137-6110539213)	11,671,100	1.16
10. Merchant Nominees (Tempatan) Sendirian Berhad		
Pledged Securities Account for Horizon Towers Sdn Bhd	11,300,000	1.12
11. RHB Merchant Nominees (Tempatan) Sdn Bhd		
Pledged Securities Account for Umatrac Enterprises Sdn Bhd (ACB-A5)	11,083,379	1.10
12. Cheng Yong Kim	10,205,317	1.02
13. Southern Nominees (Tempatan) Sdn Bhd		
Pledged Securities Account for Horizon Towers Sdn Bhd	9,286,966	0.92
14. Mayban Nominees (Tempatan) Sdn Bhd		
Pledged Securities Account for Horizon Towers Sdn Bhd (41408430028B)	9,257,871	0.92

Thirty Largest Registered Shareholders as at 29 September 2006 (continued)

Registered Shareholders	No. of Shares	% of Shares
15. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Horizon Towers Sdn Bhd (41435660121C)	8,917,773	0.89
16. Merchant Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Amanvest (M) Sdn Bhd	7,407,654	0.74
17. Lion Realty Private Limited	6,946,565	0.69
18. HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Oh Kim Sun (M12)	6,908,500	0.69
19. HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Horizon Towers Sdn Bhd (HLF/RMD/LD)	6,840,000	0.68
20. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Horizon Towers Sdn Bhd (41403980012D)	6,447,455	0.64
21. Amanvest (M) Sdn Bhd	6,288,492	0.63
22. Merchant Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Lion Holdings Sdn Bhd	6,221,487	0.62
23. Gan Seong Liam	6,181,000	0.61
24. Tengku Uzir Bin Tengku Ubaidillah	6,149,200	0.61
25. AMSEC Nominees (Tempatan) Sdn Bhd Arab-Malaysian Credit Berhad for Peringkat Prestasi (M) Sdn Bhd (0387)	5,208,000	0.52
26. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Horizon Towers Sdn Bhd (51408415273B)	5,157,996	0.51
27. Tirta Enterprise Sdn Bhd	4,947,582	0.49
28. Citigroup Nominees (Asing) Sdn Bhd Daiwa Secs SMBC HK Ltd for Chun Yuan Steel Industry Co Ltd	4,452,000	0.44
29. HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Tung Lai (M12)	4,274,000	0.43
30. HDM Nominees (Tempatan) Sdn Bhd P & O Capital Sdn Bhd for Exuniq Sdn Bhd	4,201,137	0.42

Substantial Shareholders as at 29 September 2006

Substantial Shareholders	Direct Interest No. of Shares	Direct Interest % of Shares	Indirect Interest No. of Shares	Indirect Interest % of Shares	No. of Warrants[(1)]	No. of Options[(2)]
1. Tan Sri William H.J. Cheng	458,685	0.05	731,471,605	72.77	42,160,189	245,000
2. Datuk Cheng Yong Kim	10,209,517	1.02	441,289,247	43.90	-	-
3. Lion Realty Pte Ltd	6,946,565	0.69	432,882,096	43.07	-	-
4. Lion Development (Penang) Sdn Bhd	2,541,093	0.25	371,679,346	36.98	-	-
5. Horizon Towers Sdn Bhd	369,505,491	36.76	-	-	-	-
6. LDH (S) Pte Ltd	226,716,252	22.56	-	-	-	-
7. Lion Industries Corporation Berhad	1,727,361	0.17	228,138,397	22.70	-	-
8. Lion Diversified Holdings Berhad	431,977	0.04	226,716,252	22.56	-	-
9. Amsteel Mills Sdn Bhd	985,968	0.10	227,148,229	22.60	-	-
10. Steelcorp Sdn Bhd	-	-	228,134,197	22.70	-	-
11. LLB Steel Industries Sdn Bhd	-	-	228,134,197	22.70	-	-

Notes:

(1) *Warrants with a right to subscribe for ordinary shares in the Company on the basis of one new share for every one warrant held.*

(2) *Options granted pursuant to the Company's Executive Share Option Scheme.*

Directors' Interests in Shares in the Company and its Related Companies as at 29 September 2006

The Directors' interests in shares in the Company and its related companies as at 29 September 2006 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	458,685	0.05	731,471,605	72.77
Datuk Cheng Yong Kim	RM1.00	10,209,517	1.02	441,289,247	43.90
Raja Dato' Zainal Abidin bin Raja Haji Tachik	RM1.00	263,280	0.03	442,940	0.04
Dato Haji Yahya bin Haji Talib	RM1.00	-	-	94,060	0.01
Related Companies					
Tan Sri William H.J. Cheng and Datuk Cheng Yong Kim					
Amalgamated Containers Berhad	RM1.00	-	-	42,318,772	56.64
Bersatu Investments Company Limited	HK$10.00	-	-	42,644	71.07
Bright Steel Service Centre Sdn Bhd	RM1.00	-	-	11,420,000	57.10
Bright Enterprise (Sdn) Berhad	RM1.00	-	-	816,000	51.00
B.A.P Industries Sdn Bhd	RM1.00	-	-	4,650,000	77.50
Kinabalu Motor Assembly Sendirian Berhad	RM1.00	-	-	26,985,030	70.01
Logic Concepts (M) Sdn Bhd	RM1.00	-	-	71,072	71.07
Logic Furniture (M) Sdn Bhd	RM1.00	-	-	91,000	91.00
Lyn (Pte) Ltd	@	-	-	1,225,555	78.79
Megasteel Sdn Bhd	RM1.00	-	-	540,000,001	90.00

Related Companies

	Nominal Value per Preference "D" Share	Direct Interest No. of Shares	Direct Interest % of Shares	Indirect Interest No. of Shares	Indirect Interest % of Shares
Tan Sri William H.J. Cheng and Datuk Cheng Yong Kim					
Megasteel Sdn Bhd	RM0.01	-	-	49,000,000	100.00

	Nominal Value per Preference "F" Share	Direct Interest No. of Shares	Direct Interest % of Shares	Indirect Interest No. of Shares	Indirect Interest % of Shares
Tan Sri William H.J. Cheng and Datuk Cheng Yong Kim					
Megasteel Sdn Bhd	RM0.01	-	-	26,670,000	100.00

Notes:

\# *Also interested in 245,000 options granted pursuant to the Company's Executive Share Option Scheme to subscribe for ordinary shares in the Company and 42,160,189 warrants issued by the Company with a right to subscribe for ordinary shares in the Company on the basis of one new ordinary share for every one warrant held.*

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

Distribution of Warrant Holdings as at 29 September 2006

Size of Warrant Holdings	No. of Warrant Holders	% of Warrant Holders	No. of Warrants	% of Warrants
Less than 100	1	0.08	50	0.01
100 to 1,000	241	20.29	237,350	0.26
1,001 to 10,000	656	55.22	2,959,900	3.24
10,001 to 100,000	229	19.28	7,424,200	8.12
100,001 to less than 5% of warrants issued	58	4.88	22,486,936	24.60
5% and above of warrants issued	3	0.25	58,272,314	63.77
	1,188	**100.00**	**91,380,750**	**100.00**

Thirty Largest Registered Warrant Holders as at 29 September 2006

Registered Warrant Holders	No. of Warrants	% of Warrants
1. Umatrac Enterprises Sdn Bhd	24,773,287	27.11
2. Amsteel Equity Capital Sdn Bhd	17,194,000	18.82
3. Exuniq Sdn Bhd	16,305,027	17.84
4. RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Choong Foong Ming (CEB)	4,007,900	4.39
5. TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Oh Kim Sun	1,717,000	1.88
6. TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Wong Ah Tim @ Ong Ah Tin	1,300,000	1.42
7. Choong Moh Guan	980,900	1.07
8. Pacific & Orient Insurance Co Berhad	865,000	0.95
9. Silverstone Corporation Berhad	710,250	0.78
10. Ursula A/P C J French	663,300	0.73
11. Rahmah binti Abdul Rahim	659,333	0.72
12. TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Choong Foong Ming	624,000	0.68
13. Fresh Direct Supply Sdn Bhd	614,400	0.67
14. Yap Kim Mui @ Sarah Margaret Yap	577,100	0.63
15. A. A. Assets Nominees (Tempatan) Sdn Bhd Lim Hock Jin (PCS)	490,000	0.54
16. Percy N Muttiah	400,000	0.44
17. Teh Bee Gaik	391,200	0.43
18. TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Liew Yam Fee	385,000	0.42

Thirty Largest Registered Warrant Holders as at 29 September 2006 (continued)

Registered Warrant Holders	No. of Warrants	% of Warrants
19. Goh Seng Hoon	374,000	0.41
20. Angkasa Marketing (Singapore) Pte Ltd	368,625	0.40
21. Md Ali Bin Md Dewal	300,000	0.33
22. Ong Hung Hock	300,000	0.33
23. Affin Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Angelina Corrina Fernandez (ANG1226M)	290,000	0.32
24. A. A. Assets Nominees Pledged Securities Account for Cheong Chen Yue	280,000	0.31
25. Picamas Nominees (Tempatan) Sdn Bhd PICA (M) Corporation Berhad	280,000	0.31
26. HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Tung Lai (M12)	273,900	0.30
27. Leong Ah Kow @ Leang Lean Yow	269,300	0.29
28. Chai Chin Siong	267,000	0.29
29. Citigroup Nominees (Asing) Sdn Bhd UBS AG Singapore for Djelas Company SA	250,000	0.27
30. Hai Leng Enterprise Sdn Bhd	250,000	0.27

OTHER INFORMATION

(I) MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

i) Conditional Facilitation Agreement dated 24 October 2005 between Megasteel Sdn Bhd ("Megasteel"), a subsidiary of the Company, and Lion Diversified Holdings Berhad ("LDHB"), a major shareholder of the Company and a company wherein certain Directors and major shareholders of the Company have an interest, pursuant to which LDHB agreed to cancel the existing supply agreement, the licensing agreement and other agreements in respect of the direct reduced iron project and procure the execution of similar new agreements by Lion DRI Sdn Bhd ("Lion DRI"), a wholly-owned subsidiary of LDHB, in consideration whereof Megasteel shall compensate LDHB by paying LDHB the sum of USD14 million (equivalent to approximately RM52.78 million) on the completion of the facilitation. Lion DRI will subsequently become a subsidiary of the Company pursuant to a Subscription Agreement dated 24 October 2005 entered into between the Company and Lion DRI.

The aforementioned agreements were terminated on 18 August 2006.

(II) NON-AUDIT FEES

The amount of non-audit fees paid or payable to external auditors for the financial year was RM2,511,000.

(III) RECURRENT RELATED PARTY TRANSACTIONS

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

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(a) Steel related		
(i) The sale of hot rolled coils, steel bars, billets, scrap iron, gases and other related products such as steel bands, steel sheets and steel furniture.	Lion Industries Corporation Berhad Group ("LICB Group") (1)	780,278
	Lion Forest Industries Berhad Group ("LFIB Group") (1)	31
	Silverstone Corporation Berhad Group ("SCB Group") (1)	37
	Amsteel Corporation Berhad Group ("Amsteel Group") (1)	29
	Lion Holdings Pte Ltd Group (2)	3,539
	Lion Diversified Holdings Berhad Group ("LDHB Group") (1)	98
		784,012
(ii) The purchase of hot briquetted iron, gases, scrap iron, lubricant, and other steel related products.	LICB Group (1)	641,929
	Lion Holdings Pte Ltd Group (2)	386,263
	Ributasi Holdings Sdn Bhd Group (2)	428
	LDHB Group (1)	4,405
		1,033,025

(III) RECURRENT RELATED PARTY TRANSACTIONS (continued)

The aggregate value of transactions concluded during the financial year ended 30 June 2006 were as follows: (continued)

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(a) Steel related (continued)		
(iii) The purchase of machinery, spare parts, lubricants, tools and dies, insurance and other related products and services such as component parts, repair and maintenance.	Amsteel Group [(1)]	2,591
	LFIB Group [(1)]	2,121
		4,712
(iv) The obtaining of marketing, distribution and transportation services.	Amsteel Group [(1)]	9,845
	Amble Bond Sdn Bhd Group [(2)]	21
		9,866
(b) Motor vehicles related transactions		
(i) The sale of motor vehicles, component parts, assembly and services of motor vehicle.	SCB Group [(1)]	7,357
	LFIB Group [(1)]	14
		7,371
(ii) The purchase of motor vehicles and component parts of motor vehicles.	SCB Group [(1)]	11,810
(iii) Rental of office premises.	SCB Group [(1)]	138
(c) Others		
(i) The provision of management and support and obtaining of training and educational and other related services such as healthcare and secretarial services.	Amsteel Group [(1)]	28
	SCB Group [(1)]	190
	LFIB Group [(1)]	16
	LDHB Group [(1)]	15
	LICB Group [(1)]	1,847
		2,096

(III) RECURRENT RELATED PARTY TRANSACTIONS (continued)

The aggregate value of transactions concluded during the financial year ended 30 June 2006 were as follows: (continued)

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(c) Others (continued)		
(ii) The purchase of office equipment, furniture, computers, other industrial and consumer products and services, and rental of motor vehicles.	Amsteel Group (1)	367
	Amble Bond Sdn Bhd Group (1)	37
		404
(iii) Consultancy fees	Mr Wang Chung-Yu	338

Notes:
"Group" includes subsidiary and associated companies.
(1) Companies in which certain Directors and major shareholders of the Company have an interest.
(2) Companies in which certain Directors of the Company have an interest.

(IV) STATUS OF CONDITIONS IMPOSED BY THE SECURITIES COMMISSION ("SC")

The status of the various conditions imposed by the SC in its approval of the Group Wide Restructuring Scheme ("GWRS") are as follows:

(a) Status of Compliance on Restructuring of Organisational and Financial Management System

As mentioned in the previous years' Annual Report, the Group had strengthened its Organisational and Financial Management System through the recruitment of experienced and capable personnel to head the Group's operation and the streamlining of the management reporting system. Whilst the identification and recruitment of further specialised and skilled human resources is an ongoing process, the Group, as reported previously, had complied with all material recommendations by PricewaterhouseCoopers Consulting Sdn Bhd ("PwC") as set out in the Circular to Shareholders dated 9 January 2003. Summarised below are the current organisational and financial management structure.

1. Organisation Structure

As proposed by PwC, the Lion Group organisation structure is currently segregated into three (3) distinct levels covering the structure at the overall Group Management level, Public Listed Company ("PLC") Management level and also the structure at the various Key Operating Companies ("KOCs") level.

1.1 Group Management Structure

The Group Executive Chairman heads and oversees the Group's functions and his primary duties include, amongst others, the setting of overall strategic and business directions for the Lion Group to ensure shareholders' values are achieved and also to ensure that the objectives of the GWRS are met. In the discharge of his duties, he is supported by the various high level committee including the Group Investment Committee and the Group Management Committee. Members of these committees comprise Group Directors, Group Executive Directors and the Managing Directors of the PLCs. The post of Group Finance Director is currently overseen by a Group Executive Director.

1.2 Lion Corporation Berhad ("LCB") Management Structure

The LCB management structure is headed by a well-balanced and experienced Board of Directors. Reporting directly to the Board is the Managing Director ("MD") who is accountable for the financial performance and profitability of LCB as well as the implementation of various strategic business plans and objectives of the LCB Group. Together with the Financial Controller, they are responsible for overseeing the divestment plans of the LCB Group. The Chief Executive Officer ("CEO") and General Managers of the various KOCs also report directly to the MD. The Board is also supported by the Audit Committee which comprises a majority of independent Directors. The Audit Committee is assisted by the internal audit function.

1.3 KOC Organisation Structure

Each KOC is headed by a CEO who is responsible for the operational and financial performance and profitability of the KOC. His team includes the Financial Controller and the heads of department of manufacturing, sales and marketing, management information system and human resources.

(IV) STATUS OF CONDITIONS IMPOSED BY THE SECURITIES COMMISSION ("SC") (continued)

2. Financial Management

The recommendations from PwC to streamline the reporting processes for our China operations as well as to meet the stringent reporting requirements of the GWRS have largely been put in place via the enhancement in the reporting packages in terms of consistency and completeness. The management is also working closely with the Monitoring Accountants to ensure that LCB's financial performance is reported to its lenders in a timely and comprehensive manner.

The LCB Group's financial management system has been further strengthened following the establishment of the Corporate Risk Management framework which seeks to identify, evaluate, control and monitor various risk profiles faced by the Group.

(b) Status of the Proposed Divestment Programme ("PDP")

(i) Status of assets to be divested

			(a)	(b)	(a) + (b)
			Proceeds received/to be received (Jan - Dec 2006)		
Stages of the assets to be divested	**PDP (Per GWRS)**	**Divestment concluded Total**	**Jan - June 2006**	**Projected for July - Dec 2006**	**Projected Jan - Dec 2006**
	RM'million	**RM'million**	**RM'million**	**RM'million**	**RM'million**
By December 2003					
Shares in listed and unlisted companies	33.3	-	-	33.3	33.3
By December 2004					
Shares in unlisted companies	38.6	-	-	38.6	38.6
	71.9	-	-	71.9	71.9

(ii) Transactions completed during the financial year

There were no transactions completed during the financial year.

(iii) Plans to overcome any projected shortfall

The Group is actively looking for potential buyers for its assets/companies under the PDP. Where necessary, the Group will divest other assets which are not under the PDP to redeem/repay the LCB Bonds/LCB Debts as scheduled. However, in the event that the Group is unable to effect the divestment on time, lenders consent will be sought to reschedule the redemption/repayment date of its LCB Bonds/LCB Debts.

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LION CORPORATION BERHAD
(Incorporated in Malaysia) (12890-A)

FORM OF PROXY

CDS ACCOUNT NUMBER

			–				–									

I/We ....

I.C. No./Company No. ....

of...

being a member/members of LION CORPORATION 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 Thirty-Third Annual General Meeting of the Company to be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 30 November 2006 at 2.00 pm 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. Datuk Emam Mohd Haniff bin Emam Mohd Hussain		
4. To re-appoint as Director, Mr Folk Fong Shing @ Kok Fong Hing		
5. To re-appoint Auditors		
6. Authority to Directors to issue shares		
7 . Proposed Shareholders' Mandate for Recurrent Related Party Transactions		

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

As witness my/our hand this .... day of 2006

Signed: ....

No. of shares: ....

In the presence of: ....

Representation at Meeting:

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