

Since 1967

LFE Corporation Berhad
(579343-A)

ANNUAL REPORT 2005



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NOTICE OF FOURTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the **Fourth Annual General Meeting** ("the Meeting") of **LFE Corporation Berhad** ("the Company") will be held at Ground Floor, Wisma LFE, Lot 993, Off Jalan Balakong, 43300 Balakong, Seri Kembangan, Selangor Darul Ehsan, Malaysia on Monday, 26 June 2006 at 2.30 p.m. to transact the following businesses :-

Ordinary Business	Ordinary Resolution
1. To receive the Consolidated Audited Financial Statements of the Company for the financial year ended 31 December 2005 and the Reports of the Directors and Auditors thereon.	1
2. To approve payment of Directors' fees totaling RM114,000 for the financial year ended 31 December 2005.	2
3. To re-elect the following Directors who retire by rotation pursuant to Article 84 of the Company's Articles of Association and who, being eligible, have offered themselves for re-election :-	
3.1 Dato' Hamzah bin Zainudin	3
3.2 Ramli bin Abu Kasim	4
3.3 Chin Soong Jin	5
4. To re-appoint Messrs KPMG as Auditors of the Company who shall hold office until the conclusion of the next annual general meeting of the Company, and to authorise the Directors to fix their remuneration.	6
Special Business	
To consider, and if thought fit, to pass the following resolutions :-	
5. Authority For Directors To Allot And Issue Ordinary Shares	
"That subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals, rules and regulations of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to further allot and issue new ordinary shares of RM1.00 each in the Company at any time, from time to time, at such price and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit (other than as a bonus or rights issue) provided that the aggregate number of new ordinary shares to be allotted and issued pursuant to this resolution shall not exceed ten percent (10%) of the total issued and paid-up share capital of the Company as at the date of allotment of such new ordinary shares and in any one (1) financial year, and that such authority shall remain in force until the conclusion of the next annual general meeting of the Company."	7
6. Re-appointment Of Director Pursuant To Section 129(6) Of The Companies Act, 1965	
"That Liew Meow Nyeon, who has attained the age of 70 years, be and is hereby re-appointed as a Director of the Company and to hold office until the conclusion of the next annual general meeting of the Company pursuant to Section 129(6) of the Companies Act, 1965."	Special Resolution

BY ORDER OF THE BOARD
Ng Wai Peng (MAICSA 7014112)
Secretary

Selangor Darul Ehsan, Malaysia
2 June 2006

NOTES

1. Appointment of Proxy

A member entitled to attend and vote at this Meeting is entitled to appoint a proxy or proxies (but not more than two (2) save for an Authorised Nominee as defined in the Securities Industries (Central Depositories) Act, 1991) to attend and vote in his stead. A proxy may but need not be a member of the Company and Section 149 (1) (b) of the Companies Act, 1965 shall not apply.

The Form of Proxy must be deposited at the Company's Registered Office, Wisma LFE, Lot 993, Off Jalan Balakong, 43300 Balakong, Seri Kembangan, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.

2. Statement Accompanying The Notice of Fourth Annual General Meeting

Additional information as required under Appendix 8A pursuant to Paragraph 8.28 of the Listing Requirements of Bursa Malaysia Securities Berhad is set out in the Statement Accompanying The Notice of Fourth Annual General Meeting.

3. Explanatory Notes on Special Businesses

Ordinary Resolution 7

The proposed Ordinary Resolution 7, if passed, will empower the Board of Directors to allot and issue new ordinary shares of RM1.00 each up to ten percent (10%) of the total issued and paid-up share capital of the Company as at the date of allotment of such new ordinary shares in any one (1) financial year, for such purposes and upon such terms as the Directors consider would be in the best interest of the Company (other than as a bonus or rights issue). This authority will, unless revoked or varied by the Company in a general meeting, expire at the conclusion of the next annual general meeting of the Company.

Special Resolution

The proposed Special Resolution is for the purpose of re-appointing Liew Meow Nyeon, who has attained the age of 70 years, as a Director of the Company and to hold office until the conclusion of the next annual general meeting of the Company in compliance with Section 129(6) of the Companies Act, 1965.

STATEMENT ACCOMPANYING THE NOTICE OF FOURTH ANNUAL GENERAL MEETING

1. DIRECTORS STANDING FOR RE-ELECTION

- a. Dato' Hamzah bin Zainudin
- b. Ramli bin Abu Kasim
- c. Chin Soong Jin

2. DIRECTOR STANDING FOR RE-APPOINTMENT

- a. Liew Meow Nyeen

3. THE DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

Five (5) Board meetings were held during the financial year ended 31 December 2005, the details of attendance are as follows :-

No.	Name of Director	Total No. of Meetings Attended	% of Attendance
1.	Dato' Hamzah bin Zainudin	5	100
2.	Lew Mew Choi	5	100
3.	Liew Meow Nyeen	5	100
4.	Ramli bin Abu Kasim	4	80
5.	Liew Kiam Woon	5	100
6.	Chin Soong Jin	5	100
7.	Chung Tack Soon	4	80
8.	Tong Hock Sen	5	100

4. DATE, TIME AND PLACE OF THE BOARD MEETINGS

No.	Date	Time	Place
1.	24 February 2005	3.30 pm	Selangor
2.	26 April 2005	3.30 pm	Selangor
3.	30 May 2005	3.25 pm	Selangor
4.	29 August 2005	3.30 pm	Selangor
5.	28 November 2005	3.30 pm	Selangor

5. DETAILS OF DIRECTORS STANDING FOR RE-ELECTION

No.	Name of Director	No. of Shares held as at 2 May 2006	
		The Company Direct & Indirect	Subsidiary Companies
1.	Dato' Hamzah bin Zainudin	-	-
2.	Ramli bin Abu Kasim	11,557,521	-
3.	Chin Soong Jin	-	-

6. DETAILS OF DIRECTOR STANDING FOR RE-APPOINTMENT

No.	Name of Director	No. of Shares held as at 2 May 2006	
		The Company Direct & Indirect	Subsidiary Companies
1.	Liew Meow Nyeen	8,316,111	-

Profile of the Directors standing for re-election and re-appointment are outlined in pages 6 and 7 of this annual report.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Independent Non-Executive Director

Dato' Hamzah bin Zainudin

Managing Director

Lew Mew Choi

Executive Directors

Liew Kiam Woon

Chin Soong Jin

Non-Executive Directors

Liew Meow Nyeon

Ramli bin Abu Kasim

Independent Non-Executive Directors

Chung Tack Soon

Tong Hock Sen

AUDIT COMMITTEE

Dato' Hamzah bin Zainudin (Chairman)

Chung Tack Soon

Tong Hock Sen

Chin Soong Jin

SECRETARY

Ng Wai Peng (MAICSA 7014112)

REGISTERED OFFICE

Wisma LFE, Lot 993, Off Jalan Balakong

43300 Balakong, Seri Kembangan

Selangor Darul Ehsan, Malaysia

Tel : 603-89958888

Fax : 603-89610042

SHARE REGISTRARS

Symphony Share Registrars Sdn Bhd

Level 26, Menara Multi Purpose

Capital Square, No. 8, Jalan Munshi Abdullah

50100 Kuala Lumpur, Malaysia

Tel : 603-27212222

Fax : 603-27212530

AUDITORS

KPMG

Chartered Accountants

Wisma KPMG, Jalan Dungun

Damansara Heights

50490 Kuala Lumpur, Malaysia

PRINCIPAL BANKERS

OCBC Bank (Malaysia) Berhad

EON Bank Berhad

Malayan Banking Berhad

Alliance Bank Malaysia Berhad

PRINCIPAL OFFICES

Kuala Lumpur, Malaysia

Wisma LFE, Lot 993, Off Jalan Balakong

43300 Balakong, Seri Kembangan

Selangor Darul Ehsan, Malaysia

Tel : 603-89958888

Fax : 603-89610042

Email : lfe@lfe.com.my

Johor Bahru, Malaysia

No. 43, Jalan Molek 2/30

Taman Molek

81100 Johor Bahru, Malaysia

Tel : 607-3539817

Fax : 607-3515887

Email : akk@lfe.com.my

China

Room 2806, Tower 1

Kerry Everbright City

218, Tian Mu West Road

Zhabei District, Shanghai 200070

China

Tel : +8621-63176786

Fax : +8621-63535792

Email : lfesh@lfe.com.my

Vietnam

10th Floor, Bitexco Building

19-25 Nguyen Hue Street

District 1, Ho Chi Minh City

Vietnam

Tel. : (84) 8-821 6786

Fax : (84) 8-821 6785

United Arab Emirates

Appt No. 203, Kanoo Building

Trade Centre Road

Plot No. 53/1, Dubai

United Arab Emirates

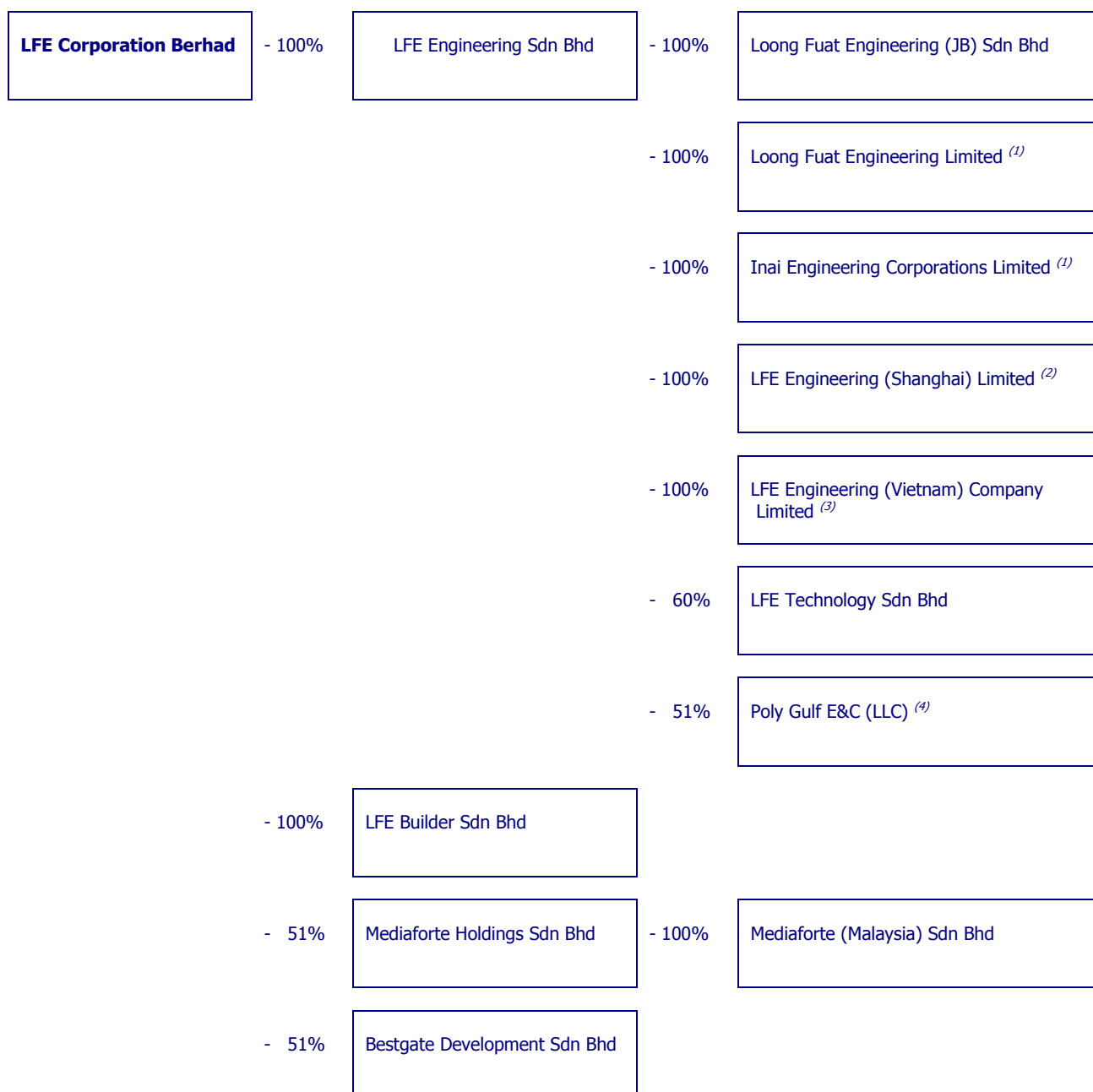
LISTING

Second Board of Bursa Malaysia Securities Berhad

Stock Name : LFECORP

Stock Code : 7170

Group Structure as at @ 2 May 2006



⁽¹⁾ Incorporated in The British Virgin Islands

⁽²⁾ Incorporated in The People's Republic of China

⁽³⁾ Incorporated in The Socialist Republic of Vietnam

⁽⁴⁾ Incorporated in The United Arab Emirates

PROFILE OF DIRECTORS

Dato' Hamzah bin Zainudin

***Chairman and Independent Non-Executive Director
Chairman of Audit Committee***

Dato' Hamzah bin Zainudin, a Malaysian, aged 49, was appointed as Chairman and Independent Non-Executive Director and as Chairman of the Audit Committee of LFE Corporation Berhad ("LFE" or "the Company") on 15 September 2003. He graduated from University Technology Malaysia with a Diploma in Quantity Surveying in 1979 and has vast experience in property development having worked for Maju Bangun Sdn Bhd (a subsidiary of The Perak State Development Corporation) as its General Manager from 1980 to 1984. He ventured into private business in 1989 and currently sits on the board of several public companies listed on Bursa Malaysia Securities Berhad ("Bursa Securities") namely Asian Pac Holdings Berhad and Evermaster Group Berhad. He is also currently a Senator in Malaysia's Dewan Negara (Senate), Chairman of Evermaster Group Berhad and Chairman of Felcra Berhad (the Federal Land Consolidation and Rehabilitation Authority that oversees land management and development of agricultural land owned by the State and individuals). He has attended all of the 5 Board meetings held during the financial year. He is not a substantial shareholder of the Company and he has no family relationship with any Director and/or substantial shareholder of the Company, and he has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

Liew Meow Nyeau

Non-Executive Director

Mr Liew Meow Nyeau, a Malaysian, aged 70, was appointed as a Non-Executive Director of the Company on 15 September 2003. He is also currently the Executive Chairman of LFE Engineering Sdn Bhd ("LFEE"). He started his career as an apprentice and later as a competent wireman with several electrical contracting firms from the 1950s to 1960s. He was certified as a competent 'Wireman Nil' in 1965. With the invaluable hands-on experience that he has acquired in electrical installations over the years, he set up his own electrical contracting business in 1967 called Loong Fuat Electrical Company ("Loong Fuat") as a sole proprietorship which he later sold to LFEE in 1975. He is currently not a director of any other public company. He has attended all of the 5 Board meetings held during the financial year. He is a substantial shareholder of the Company. His wife, Mdm Chang Low Hoi @ Chang Sow Lan is a substantial shareholder of the Company. His son, Mr Liew Kiam Woon, is an Executive Director and a substantial shareholder of the Company and his brother, Mr Lew Mew Choi, is the Managing Director and a substantial shareholder of the Company. He has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

Lew Mew Choi

Managing Director

Mr Lew Mew Choi, a Malaysian, aged 62, was appointed as Managing Director of the Company on 15 September 2003. He is also currently the Managing Director of LFEE and Managing Director of Loong Fuat Engineering Limited. He joined Loong Fuat in 1967 to assist his brother, Mr Liew Meow Nyeau, in the day-to-day operations of Loong Fuat. With the hands-on experience that he has gained in electrical installations for infrastructure, residential and commercial developments, he was promoted to the position of Managing Director of LFEE in 1975. He is currently not a director of any other public company. He has attended all of the 5 Board Meetings held during the financial year. He is a substantial shareholder of the Company. His wife, Mdm Soong Moi @ Song Mou is a substantial shareholder of the Company. His brother, Mr Liew Meow Nyeau, is a Non-Executive Director and a substantial shareholder of the Company and his nephew, Mr Liew Kiam Woon is an Executive Director and a substantial shareholder of the Company. He has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

Liew Kiam Woon

Executive Director

Mr Liew Kiam Woon (Kenneth), a Malaysian, aged 43, was appointed as an Executive Director of the Company on 15 September 2003. He is also currently an Executive Director of LFEE. He graduated from the University of Oregon, United States of America in 1987 with a Bachelor of Arts Degree, majoring in Business Administration and has completed a basic mechanical and electrical engineering course conducted by the Association of Consulting Engineers Malaysia. He started his career as a Business Development Executive with MBF Factors Sdn Bhd in 1987 for 3 years. He then joined LFEE in 1990 as a Project Coordinator and has since then progressed himself to his current position. Currently, he also sits on the board of Sunway Infrastructure Berhad, a public company listed on Bursa Securities and is a Council Member of Master Builders Association Malaysia. He has attended all of the 5 Board meetings held during the financial year. He is a substantial shareholder of the Company. His father, Mr Liew Meow Nyeau, is a Non-Executive Director and a substantial shareholder of the Company. His mother, Mdm Chang Lau Hoi @ Chang Sow Lan is a substantial shareholder of the Company and his uncle, Mr Lew Mew Choi is the Managing Director and a substantial shareholder of the Company. He has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

Ramli bin Abu Kasim
Non-Executive Director

Encik Ramli bin Abu Kasim, a Malaysian, aged 57, was appointed as a Non-Executive Director of the Company on 15 September 2003. He completed the Malaysia Certificate of Education (Senior Cambridge) in Yeo Chu Kang Secondary School, Singapore in 1966, and started his career with Jabatan Perumahan Negara as a civil engineering technician where he gained hands-on experience in civil engineering works. He left Jabatan Perumahan Negara (then known as Housing Trust) in 1972 and joined William Jacks & Co (M) Sdn Bhd, an engineering firm as a sales executive until he resigned in 1980. He is currently not a director of any other public company. He has attended 4 out of the 5 Board meetings held during the financial year. He is a substantial shareholder of the Company. He has no family relationship with any Director and/or substantial shareholder of the Company and he has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

Chin Soong Jin
Executive Director & Member of Audit Committee

Mr Chin Soong Jin (Kevin), a Malaysian, aged 39, was appointed as an Executive Director and a member of the Audit Committee of the Company on 15 September 2003. He is also currently the Director of Corporate Affairs of LFEE. He graduated from Monash University, Melbourne in 1990 with a double degree in Bachelor of Economics (Accountancy) and Bachelor of Laws. He started his career at Messrs Chooi & Company and was admitted to practice as an advocate and solicitor of the High Court of Malaya in 1991. He then joined Messrs Khaw & Partners (then Messrs Khaw & Hussein) for two and a half years until 1994. Thereafter, he joined the corporate finance department of RHB Sakura Merchant Bankers Berhad for a period of 6 years until he left and joined the LFE Group in 2000. He is also currently a director of eB Capital Berhad, a public company listed on Bursa Securities. He has attended all of the 5 Board meetings held during the financial year. He is not a substantial shareholder of the Company and he has no family relationship with any Director and/or shareholder of the Company, and has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

Chung Tack Soon
Independent Non-Executive Director & Member of Audit Committee

Mr Chung Tack Soon, a Malaysian, aged 44, was appointed as an Independent Non-Executive Director and a member of the Audit Committee of the Company on 15 September 2003. He obtained a Bachelor of Accounting degree from University Malaya in 1988 and he is a member of the Malaysian Institute of Accountants. He started his career in Arthur Andersen in 1988 until 1991. Subsequently, he joined Commerce International Merchant Bankers Berhad as a merchant banker from 1991 to 1994 and was seconded to the stockbroking subsidiary, CIMB Securities Sdn Bhd from 1994 to 1995. In 1995, he assumed the position of Senior Vice President in K&N Kenanga Bhd until 1999 and left to join DC One Technology Sdn Bhd as its Chief Operating Officer from 1999 to 2001. Currently, he is the Chief Executive Officer and Associate Director of Xynaxcom Sdn Bhd and Devonshire Capital Sdn Bhd respectively. He is currently not a director of any other public company. He has attended 4 out of the 5 Board meetings held during the financial year. He is not a substantial shareholder of the Company and has no family relationship with any Director and/or substantial shareholder of the Company, and has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

Tong Hock Sen
Independent Non-Executive Director & Member of Audit Committee

Mr Tong Hock Sen (John), a Malaysian, aged 38, was appointed as an Independent Non-Executive Director of the Company on 15 September 2003 and appointed as a member of the Company's Audit Committee on 5 May 2004. He graduated with an Honours Degree in law from the University of Warwick, England in 1991 and was admitted to the Malaysian Bar in 1993. Shortly after his admission to the Bar, he practised law at Messrs. Kiru & Yong. In 1994, he joined the legal department of the Sunway Group of Companies ("Sunway Group"). After a 7-year tenure, he left his position as Head of the Legal Department of the Sunway Group in 2001 and returned to legal practice at Messrs Susie See, Norbaya & Cheah. In 2002, he joined Messrs Shui-Tai as a partner where he now heads the corporate and commercial department. He is currently not a director of any other public company. He has attended all of the 5 Board meetings held during the financial year. He is not a substantial shareholder and has no family relationship with any Director and/or substantial shareholder of the Company, and has no conflict of interest with the Company nor any conviction for any offence within the past 10 years.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of LFE Corporation Berhad ("LFE" or "the Company"), I present to you the Annual Report and Financial Statements of the Company for the financial year ended 31 December 2005.

Operating Environment And Business Review

The operating environment for the LFE Group's ("the Group") core business of mechanical and electrical ("M&E") engineering remained tough throughout 2005. In part this was caused by large increases and volatility in raw materials / commodity prices used in its business, in particular the price of copper. Further, it is a sub-set of the construction industry which domestically is characterised by margin compression and intense competition with few public sector jobs. Other parts of the world, such as the Middle East, the Peoples Republic of China ("the PRC"), Vietnam and selective North African countries are experiencing or are anticipating robust construction activities. In this light, the Group's focus and efforts has moved overseas and the Group has rebounded in 2005 with an order book of almost 3 times of that secured in 2004. The Group's penetration into new overseas markets such as Vietnam, the United Arab Emirates ("UAE") and Qatar more recently had contributed significantly to this rebound. The Group had also managed to secure several sizeable M&E contracts in Malaysia in 2005, mainly from the semi-private sector, as well as contracts in the PRC. A large number of these contracts are expected to complete in 2006 and 2007 and revenue derived therefrom to be recognised in these two financial years.

Corporate Development

During the financial year under review, the Company had acquired equity interests in Mediaforte Holdings Sdn Bhd ("Mediaforte Holdings") and Mediaforte (Malaysia) Sdn Bhd ("Mediaforte Malaysia") thereby resulting in these companies becoming 51% controlled subsidiaries of the Company. Mediaforte Malaysia is involved in the business of dealing in computers, computer parts and components whilst Mediaforte Holdings is an investment holding company which holds the Company's 51% equity interest in Mediaforte Malaysia. The Group had also completed the incorporation of a new 100% controlled subsidiary called LFE Engineering (Vietnam) Company Limited in Vietnam ("LFE Vietnam").

Subsequent to the financial year ended 31 December 2005, the Group had acquired 51% equity interests in 2 other companies namely Bestgate Development Sdn Bhd ("Bestgate") and Poly Gulf E&C (LLC) ("PolyGulf"). Bestgate's principal business activity will be in property development whilst PolyGulf, a company registered in UAE, is involved in the business of electromechanical engineering.

These acquisitions are part of the Group's long term strategy to expand our core business of M&E engineering globally and to diversify our business interests into other industry sectors for long term growth.

Financial Review

For the financial year ended 31 December 2005, the Group registered lower consolidated revenue of RM40.7 million as compared to RM101.7 million in the previous financial year mainly due to lower billings in 2005 arising from a lower order book in 2004, and some larger contracts secured in 2005 being still in the early stages of completion in 2005 whereby the revenue recognition therefor in 2005 was very minimal. The Group suffered a loss before tax of RMRM38.5 million for the financial year under review as compared to a profit before tax of RM1.2 million in the financial year ended 31 December 2004. Loss after tax and minority interest was at RM38.7 million as compared to the preceding year's loss after tax and minority interest of RM1.5 million. The Group's total shareholders' funds stood at RM25.7 million as at the financial year ended 31 December 2005.

The loss before tax arose from several large provisions made such as the provision of RM17.1 million for impairment of the Group's investment in Sunway Infrastructure Berhad ("SIB") shares, the provision of RM2.8 million for losses incurred arising from 2 abandoned projects in the PRC and the provision of RM4.2 million for foreseeable losses derived from a few local M&E contracts and higher finance cost arising from the term loan of RM35 million granted to a subsidiary under the primary collateralised loan obligations programme.

Dividend

The Board of Directors is not recommending the payment of any dividend in respect of the financial year ended 31 December 2005 due to the losses suffered. Nevertheless, our directions and priorities remain focused in turning the Group around and back to profitability, and we are determined to reward our shareholders with increased long term value and returns in the coming years.

Future Prospects

In 2005, the Group embarked on a major drive to secure M&E contracts from outside of Malaysia, and has thus far succeeded making significant inroads into Vietnam and Qatar. M&E contracts secured from Vietnam, the PRC and now Qatar in 2006 currently contribute in aggregate to approximately 50% of the Group's outstanding order book. Moving forward under this new income trend, the Group will continue with its strategy to expand its M&E operations further in these countries as well as to explore other emerging markets in Indo China, the Middle East and North Africa. The Group will capitalise on our homegrown experience in large scale, complex projects with high engineering content like infrastructure projects to vie for participation in such similar projects abroad. This would be in line with the Government's call, under the 9th Malaysia Plan, for local contractors to export local expertise, particularly in construction and project management, to explore new markets such as the Middle East and Eastern Europe which are rapidly expanding their infrastructure facilities.

On the domestic front, the Group anticipates M&E opportunities to derive largely from the private and public sector. As such, we will continue to focus our marketing efforts on our existing clients, key industry players and influencers. Nevertheless, the Group will still participate in tenders for infrastructure projects available under the 9th Malaysia Plan in particular those under the infrastructure and utilities sector which has gained allocation of RM48.6 billion, an increase of 21.1% from allocation under the 8th Malaysia Plan.

In addition, the Group will continue to explore investment opportunities for diversification into other industry sectors, both locally and abroad, that can contribute towards long term income growth for the Group.

Potential further write-downs from its investment in SIB notwithstanding, the Group remains optimistic to meet the business challenges ahead and expects to achieve better performance in the coming years.

Acknowledgement

On behalf of the Board of Directors, I wish to express our utmost appreciation to the Management and staff of the LFE Group for their untiring dedication and commitment in enduring the challenges faced by the Group in the past 2 years. It is their concerted efforts that have helped the Group weather through these challenges to emerge stronger in the current year.

Last but not least, I would like to thank our customers, business partners, financiers, advisers, the government authorities and particularly our valued shareholders for your continuing support.

Dato' Hamzah bin Zainudin
Chairman

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") of LFE Corporation Berhad ("the Company" or "LFE") is committed to upholding the sound principles of corporate governance within the LFE Group ("the Group"), which are critical to building and enhancing long-term shareholders' value.

In view thereof, the Board is pleased to report in this statement the manner in which the Group has applied the principles of good governance and the extent of compliance with the best practices set out in Part 1 and 2 of The Malaysian Code on Corporate Governance ("Code") throughout the financial year ended 31 December 2005.

1. BOARD OF DIRECTORS

1.1 Board Composition

The Company is led by an experienced Board comprising members with diverse qualifications and experience in a wide range of fields such as entrepreneurship, business management, corporate finance, accounting, legal, property development as well as those with long extensive hands-on experience in the mechanical and electrical engineering business.

The Board currently has eight (8) members comprising one (1) Independent Non-Executive Chairman, one (1) Managing Director, two (2) Executive Directors, two (2) Non-Executive Directors and two (2) Independent Non-Executive Directors, thus complying with the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for a minimum of one-third of the Board to be independent directors.

The Board believes that its existing composition has the required collective skills for the Board to provide clear and effective leadership for the Group. Brief descriptions of the background of each of the Directors are presented on pages 6 and 7 of this annual report.

1.2 Board Balance

There is a clear division of responsibility between the Chairman and the Managing Director of the Company in order to maintain a balance of control, power and authority. The Board is currently led by an Independent Non-Executive Chairman who is primarily responsible for the orderly conduct and working of the Board. The Managing Director together with the two (2) Executive Directors, who collectively constitute "the Management", will be responsible for the making of day-to-day business and operational decisions and implementation of Board policies.

The Independent Non-Executive Directors play a key supporting role, contributing their skills and knowledge in all major matters and issues referred to the Board for consideration and approval. Their role is particularly important in ensuring that matters proposed by the Management to the Board will be fully discussed and examined, taking into account the long term interest of the Company's minority shareholders. Their responsibilities and contributions will provide an element of objectivity, independent judgement and balance on the Board. All three (3) of the Independent Non-Executive Directors including the Chairman are not members of the Management and are free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Although the Code recommends to identify a Senior Independent Non-Executive Director ("SINED") to whom matters may be conveyed, the Board is of the opinion that it is not necessary to identify a SINED since the Chairman who is an Independent Non-Executive Director encourages full deliberation of issues affecting the Group by all members of the Board.

1.3 Board Responsibilities

The Board retains control of the Company and is committed to take full responsibility for the overall corporate governance of the Group, including its strategic business direction and overall well being. It has reserved for itself a schedule of matters for consideration and decision which include inter alia, the Group's business strategy and direction, management succession plan, risks management, acquisition, divestment, capital expenditure, investors relations and internal control policies, significant financial matters, related party transactions and review of financial and operating results and performance of the Group.

1.4 Board Meetings

There were five (5) Board meetings held during the financial year. The Board had, at the Board meetings, deliberated and considered a variety of matters including amongst others, the Group's financial results before release to Bursa Securities, the Group's overall performance, recurrent related party transactions and business development activities and strategies. Details of attendance of each of the Director at the Board meetings are disclosed under their respective profiles on pages 6 and 7 of this annual report. All of the Directors have met the minimum 50% attendance at Board meetings during a financial year as required under the Listing Requirements of Bursa Securities. In addition, the Board exercised control on matters that required the Board's approval during the intervals between

the scheduled Board meetings through the circulation of Directors' Circular Resolutions prepared from time to time by the company secretary.

1.5 Board Committee

The Board has delegated certain of its responsibilities to the Audit Committee ("AC") in order to enhance business and operational efficiency and to comply with the Listing Requirements of Bursa Securities as well as in line with the best practices prescribed in the Code. The AC functions in accordance with its terms of reference set out by the Board. The AC comprises three (3) Independent Non-Executive Directors and one (1) Executive Director and the Chairman of the AC reports the outcome of the AC meetings to the Board. Information on the AC and its activities during the financial year are presented in the Audit Committee Report on pages 14 to 17 of this annual report.

1.6 Supply of Information

The Management has the responsibility and duty to provide the entire Board with all the information, of which it is aware, to facilitate the effective discharge of the Board's duties. Matters specifically reserved for the Board's consideration and decisions were dealt with at the Board meetings. Prior to the Board meetings, all Directors received the Board papers in advance together with the notice calling for each meeting. The Board papers were comprehensive and encompass both quantitative and qualitative factors so that informed decisions can be made by the Directors at the meetings. All Board members, whether as a full Board or in their individual capacity, had access to the advice and services of the company secretary and auditors and all information relating to the Group to assist them in the furtherance of their duties. The Directors may, if necessary, obtain independent professional advice from external consultants, at the Company's expense.

1.7 Appointments to the Board

The Code endorses as a good practice, a formal procedure for appointments to the Board based on the recommendation of a nomination committee. The Code, however, states that this procedure may be performed by the Board as a whole, although, as a matter of best practice, it recommends that this responsibility be delegated to a committee. In place of a nomination committee, the Board appoints its members through a formal and transparent selection process which is consistent with the Articles of Association of the Company ("the Articles") and in compliance with all legal and regulatory obligations. Any nomination for the appointment of any new Director will be proposed to the Board and the final decision on the suitability and appointment of any new Director lies with the entire Board. The Board, as a whole, will ensure that the resulting mix of experience and expertise of Board members is sufficient to address issues relating to the Group. There were no appointment of additional members to the Board during the financial year.

1.8 Re-election of Directors

According to the Articles, any Director who is appointed during the year shall retire at the Company's annual general meeting following his appointment and one-third of the Board who do not retire as aforesaid, will retire by rotation at every annual general meeting. The Articles further provide that every Director is subject to retirement once in every three (3) calendar years and all retiring Directors are eligible for re-election. All of the Directors who are retiring by rotation at the Company's Fourth Annual General Meeting are eligible for re-election and have offered themselves for re-election.

All Directors who have attained the age of seventy (70) years are required to submit themselves for re-appointment annually at the Company's annual general meetings in accordance with Section 129 (6) of the Companies Act, 1965 ("the Act"). One (1) Director is submitting himself for re-appointment at the Company's Fourth Annual General Meeting pursuant to this requirement.

1.9 Directors' Training

Out of the eight (8) Directors, only two (2) Directors were required to obtain the seventy-two (72) Continuing Education Programme ("CEP") points by 31 December 2005, and these two (2) Directors have successfully collated all 72 CEP points within the stipulated time-frame. Notwithstanding the abolishment of the CEP by Bursa Securities, the Board acknowledges the importance of continuous education to further equip themselves and to keep abreast with relevant developments in corporate matters as well as industry practices for them to discharge their duties more effectively. As such, they have and will continue to attend training courses to ensure that they obtain the relevant training as they deem appropriate. All of the Directors have attended training courses within the financial year which include topics relating to inter alia, "managing corporate turnaround", "managing global strategies", "responsibilities in businesses" and "accounting and financial manipulation".

2. DIRECTORS' REMUNERATION

The Board adopts a formal and transparent procedure to assess and determine the remuneration packages offered by the Group to individual Directors. The Group has adopted the objective recommended by the Code to determine the remuneration for Directors so as to attract and retain Directors of the caliber needed to run the Group successfully.

In general, the component parts of remuneration are structured so as to link rewards to corporate and individual performance, in the case of Executive Directors. In the case of Non-Executive Directors, the level of remuneration reflects the experience and responsibilities undertaken by the particular Non-Executive Director.

Following a review of the need to establish a remuneration committee as recommended by the Code, the Board concluded that the determination of Directors' remuneration is a matter for the Board as a whole. However, Directors do not participate in decisions regarding their own remuneration packages and Directors' fees must be approved by shareholders at the annual general meetings.

The remuneration of the Company's Directors derived from the Group during the financial year ended 31 December 2005 are as follows :-

Type of Remuneration	Executive Directors RM	Non-Executive Directors RM	Total RM
Fees	-	114,000	114,000
Salaries	798,494	81,033	879,527
Bonuses	-	-	-
Benefits-in-kind	59,420	21,250	80,670
Total	857,914	216,283	1,074,197

The number of Directors whose total remuneration fell within the following bands for the financial year ended 31 December 2004 are as follows :-

Remuneration Band (RM per annum)	Number of Directors		Total
	Executive Directors	Non-Executive Directors	
Below 50,000	-	3	3
50,001 to 100,000	-	1	1
100,001 to 150,000	-	1	1
150,001 to 200,000	-	-	-
200,001 to 250,000	-	-	-
250,001 to 300,000	2	-	2
300,001 to 350,000	1	-	1
Total	3	5	8

3. SHAREHOLDERS

The Board recognises the importance of maintaining clear and effective communication with the Company's shareholders and investors, and accordingly have ensured that information concerning the Group's performances, corporate developments and matters affecting shareholders' interests are conveyed to shareholders and investors on a timely basis through the following channels :-

- The annual general meeting ("AGM"), which is the principal forum for dialogue between the Board and shareholders. Shareholders are encouraged to participate in the question and answer sessions during the AGMs where the Managing Director and Executive Directors respond to shareholders' questions to ensure a high level of accountability and transparency on the business operations, strategy and goals of the Group ;
- The various disclosures and announcements to Bursa Securities including quarterly financial results, the annual reports and where appropriate, circulars and press releases ;
- Open door forums with research analysts, investment bankers, fund managers and business journalists. Price sensitive and undisclosed material information about the Group, is however, not disclosed at these forums until after the relevant prescribed announcements have been made to Bursa Securities.

4. ACCOUNTABILITY AND AUDIT

4.1 Financial Reporting

The Board is responsible to present a true and fair assessment of the Group's financial positions and prospects in the Company's quarterly financial results and annual audited financial statements. All quarterly financial results have been reviewed by the AC and approved by the Board prior to announcement to Bursa Securities. A statement by the Directors of their responsibilities in the preparation of the audited financial statements for the financial year ended 31 December 2005 is set out in section 4.4 herein.

4.2 Internal Control

Whilst matters relating to internal controls and risk management are dealt with in detail by the AC, the Board has the overall responsibility to maintain a sound internal control system that provides reasonable assurance of effective and efficient operations and compliance with internal procedures and guidelines.

The Board had, upon the recommendation of the AC, continued with the engagement of the external consultant to carry out the internal audit functions for the Company and some operating subsidiaries during the financial year ended 31 December 2005.

The Statement on Internal Control set out on pages 18 and 19 of this annual report provides an overview of the Group's approach in maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets.

4.3 Relationship with the Auditors

The Board maintains a formal and transparent relationship with the Company's external auditors in seeking professional advice and ensuring compliance with the relevant laws and applicable approved accounting standards in Malaysia. The final quarter results for the year were discussed in the AC meeting with the presence of the external auditors and some of the Board members and then approved by the Board, upon the recommendation of the AC, before announcement to Bursa Securities. The Board was also assisted by the AC in the review of the audit plans and audit findings of the external auditors.

4.4 Statement of Directors' Responsibilities

The Directors are required by the Act to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and the profit and loss account of the Company and the Group for the financial year. Further, the Board is required to ensure that the financial statements have been prepared in compliance with the Act, the Listing Requirements of Bursa Securities and in accordance with the applicable approved accounting standards in Malaysia.

In preparing the financial statements for the financial year ended 31 December 2005, the Directors, with the advice from the external auditors, have :-

- a. adopted the suitable accounting policies and have applied them consistently ;
- b. made judgements and estimates that are prudent and reasonable ;
- c. ensured that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements ; and
- d. prepared the financial statements on a going concern basis.

The Directors will ensure that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Act.

This Statement was approved by the Board on 24 April 2006.

AUDIT COMMITTEE REPORT

COMPOSITION

The Audit Committee ("AC") of LFE Corporation Berhad ("the Company") currently comprises the following three (3) Independent Non-Executive Directors and one (1) Executive Director :

Dato' Hamzah bin Zainudin	(Chairman) - Independent Non-Executive Director
Chung Tack Soon	(member) - Independent Non-Executive Director
Tong Hock Sen	(member) - Independent Non-Executive Director
Chin Soong Jin	(member) - Executive Director

TERMS OF REFERENCE OF AUDIT COMMITTEE

The AC is governed by the following Terms of Reference which have been endorsed by the Board on 15 September 2003 with no amendments thereto since then :

Objectives

- 1.1 To provide additional assurance to the Board by giving objective and independent review of Group's financial, operational and administrative controls and procedures.
- 1.2 To assist the Board in establishing and maintaining internal controls for areas of risks as well as safeguarding of assets within the Group.
- 1.3 To assess and supervise the quality of audits conducted by the Internal Auditors and External Auditors.
- 1.4 To reinforce the independence of the External Auditors and to assure that the External Auditors will have free rein in the audit process.
- 1.5 To provide a forum for regular, informal and private discussion between the External Auditors and Directors who have no significant relationship with Management.
- 1.6 To reinforce the objectivity of the Internal Auditors.

Membership

- 2.1 The AC shall be appointed by the Board pursuant to a Board Resolution.
- 2.2 It shall comprise at least three (3) Members of whom a majority shall be independent non-executive Directors.
- 2.3 An alternate Director and the chief executive officer of the Company (by whatever name called) is not eligible for membership in the AC.
- 2.4 At least one (1) Member of the AC :-
 - 2.4.1 must be a member of the Malaysian Institute of Accountants ("MIA") ; or
 - 2.4.2 if he/she is not a member of MIA, he must have at least three (3) years' of working experience and :-
 - (a) he/she must have passed the examination specified in Part I of the 1st Schedule of the Accountants Act, 1967 ; or
 - (b) he/she must be a member of one (1) of the associations of accountants specified in part II of the 1st Schedule of the Accountants Act, 1967.
 - 2.4.3 must possess such qualifications as may from time to time be prescribed by Bursa Malaysia Securities Berhad.
- 2.5 A Member who wishes to retire or resign should provide sufficient written notice to the Company so that a replacement may be appointed before he/she leaves.
- 2.6 If the number of Members is reduced to below three (3) as a result of resignation or death of a Member, or for any other reason(s) the Member ceases to be a Member of the AC, the Board shall, within two (2) months of that event but in any case not later than three (3) months, appoint amongst such other Directors, a new Member to make up the minimum number required herein subject to all of the requirements with regard to the composition of the AC and the qualification of such new Member as contained in these Terms of Reference.

- 2.7 The Chairman of the AC shall be appointed by the Board, or failing which, amongst the Members of the AC themselves PROVIDED THAT he/she must be an independent non-executive Director.

Authority

- 3.1 The AC shall have explicit authority to carry out the functions and duties and to investigate any matters within these Terms of Reference.
- 3.2 It shall have the resources and full access to both the Internal Auditors and External Auditors as well as all employees of the Group including but not limited to the Management, the chief executive officer and the chief financial officer of the Company or Group Company (by whatever name called) and any information which it requires in the course of performing its duties, and the Management and/or employee shall provide the fullest co-operation in providing the information and resources to the AC, and in implementing or carrying out all requests made by the AC.
- 3.3 It shall have direct communication channels with the External Auditors and Internal Auditors with or without the presence of the Management.
- 3.4 It shall also have the authority to obtain, at the cost of the Company or Group Company, independent legal and/or other professional advice and to secure attendance of outsiders with relevant experience and expertise at its meetings if it considers this necessary.
- 3.5 It shall also have the power to establish Sub-AC(s) and delegate its powers to such Sub-AC(s) for the purpose of carrying out certain investigations on its behalf in such manner as the AC deems fit and necessary and, to appoint such officers within the Group as members of the Sub-AC(s).

Functions

- 4.1 To review with both the Internal Auditors and External Auditors their audit plans and reports.
- 4.2 To nominate a person or persons as the External Auditors.
- 4.3 To discuss with the External Auditors before the audit commences, the nature and scope of their audit and ensure co-ordination where more than one audit firm is involved, and to review the adequacy of the existing external audit arrangements, with particular emphasis on the scope and quality of the audit.
- 4.4 To consider the audit fee and any question of resignation or dismissal of the External Auditors.
- 4.5 To review the scope of the internal audit programmes and procedures, consider the results of internal audit investigations and assess Management's response and actions to rectify any reported shortcoming.
- 4.6 To review and evaluate the adequacy and effectiveness of the internal audit function and the internal control systems as well as the management information systems, the administrative, operating and accounting policies employed.
- 4.7 To review the assistance given by the officers and employees of the Group to the Internal Auditors and External Auditors.
- 4.8 To review the Company's quarterly and annual financial reports and statements with both the External Auditors and the management and thereafter to submit them to the Board, focusing particularly on any changes in accounting policies and practices; significant adjustments arising from the audit; the going concern assumption; compliance with accounting standards and other legal requirements.
- 4.9 To review all areas of significant financial risks within the Group and the arrangements in place to contain those risks to acceptable levels.
- 4.10 To review all related party transactions and all potential conflict of interest situations that may arise within the Company or Group.
- 4.11 To identify and direct any special projects or investigations it deems necessary.
- 4.12 To discuss problems and reservations arising from the interim and final audits, and any other matter the External Auditors and/or Internal Auditors may wish to discuss in the absence of the Management, where necessary.
- 4.13 To review the External Auditors' audit report and management letter and the Management's response thereto.
- 4.14 To carry out such other functions and consider other topics as may be agreed upon from time to time with the Board.
- 4.15 To review reports and consider recommendations of the Sub-AC(s), if any.

Meetings

- 5.1 The AC will hold regular meetings as and when the need arises and any such additional meetings as the Chairman of the AC so decides to fulfill its duties.
- 5.2 A quorum shall consist of two (2) Members. The majority of Members present must be independent non-executive Directors.
- 5.3 Notice of not less than three (3) working days shall be given for the calling of any meeting to those entitled and required to be present.
- 5.4 Matters raised and tabled at all meetings shall be decided by a majority of votes of the Members.
- 5.5 A resolution in writing, signed by all the Members shall be as valid and effective as if it had been deliberated and decided upon at a meeting of the AC.
- 5.6 Proceedings of all meetings held and resolutions passed as referred to in Clause 5.5 above shall be recorded by the Secretary and kept at the Company's registered office.
- 5.7 Every member of the Board shall have the right at any time to inspect the minutes of all meetings held and resolutions passed by the AC and the reports submitted thereat.
- 5.8 The External Auditors and Internal Auditors shall have the right to appear and be heard at any meeting and shall appear before the AC when so required by the AC.
- 5.9 Upon the request of the External Auditors or Internal Auditors, the Chairman shall convene a meeting to consider any matters the External Auditors or Internal Auditors believe should be brought to the attention of the Directors or shareholders of the Company.
- 5.10 The AC shall function independently of the other Directors and officers of the Company or Group Company. Such other directors or officers may attend any particular AC meeting only at the AC's invitation, specific to the relevant meeting.
- 5.11 The AC shall meet with the External Auditors and Internal Auditors at least once in a financial year without the presence of any executive board member of the Company or the Management.

Compliance

- 6.1 The provisions of Articles 119, 120 and 121 of the Company's Articles of Association except as otherwise expressly provided in these Terms of Reference shall apply to the AC.

AUDIT COMMITTEE MEETINGS

During the financial year ended 31 December 2005, the AC had five (5) AC meetings and one (1) Independent AC ("IAC") meeting which was held without the presence of any executive board member or the Management in compliance Clause 5.11 of the Terms of Reference of the AC. All AC and IAC meetings were duly convened with sufficient notice been given to all AC members together with the agenda, report and proposals for deliberation at the meetings.

Save for the IAC meeting, all Directors who are not members of the AC were invited to the AC meetings and responded to all queries raised by the AC thereat. Representatives from the external auditors and internal auditors, as the case may be, and the Group Financial Controller were in attendance to present the relevant reports and proposals to the AC at the meetings which included inter alia, the auditors' audit plans and audit reports, the unaudited fourth quarter results of the Company and the audited financial statements for the financial year ended 31 December 2005.

Details of attendance of the AC members at the AC meetings and the Independent AC meeting during the financial year are as follows :

Name of AC Member	AC Meetings Attended	Independent AC Meeting Attended
• Dato' Hamzah bin Zainudin	5	1
• Chung Tack Soon	4	-
• Tong Hock Sen	5	1
• Chin Soong Jin	5	Not applicable

SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

During the AC meetings held throughout the year, the AC carried out the following activities in the discharge of its duties :

- Reviewed all quarterly financial results of the Company including the announcements pertaining thereto before recommending them to the Board for approval ;
- Reviewed the audited financial statements of the Company for the financial year ended 31 December 2005 and issues arising from the audit thereof before recommending them to the Board for approval ;
- Reviewed with the external auditors, the audit plan and scope of audit for the financial year ended 31 December 2005 ;
- Reviewed the internal audit plan, work done and reports from the internal auditors and considered the findings of internal audit investigations and the Management's response thereto to ensure that appropriate actions are taken by the Management on the recommendations raised by the internal auditors ;
- Reviewed the assistance given by the Company's officers and employees to the auditors ; and
- Reviewed all recurrent related party transactions that arose in the Group on a quarterly basis in compliance with the Listing Requirements of Bursa Securities.

This Report was approved by the Audit Committee on 24 April 2006.

STATEMENT ON INTERNAL CONTROL

Introduction

According to the best practices prescribed by The Malaysian Code on Corporate Governance ("the Code"), all listed companies should maintain a sound system of internal controls to safeguard shareholders' investments and the company's assets. Paragraph 15.27 (b) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") requires all public companies listed on Bursa Securities to include in their annual reports a statement about the state of internal control of the listed company as a group. The Board of Directors ("the Board") of LFE Corporation Berhad ("LFE" or "the Company") is pleased to provide the following statement which outlines the nature and scope of internal control of the LFE Group ("the Group") during the financial year.

Board Responsibility

The Board is committed to maintaining both a sound system of internal control and the proper management of risks throughout the operations of the Group in order to safeguard shareholders' investment and assets of the Group. The Board acknowledges its overall responsibility for the Group's system of internal control and for reviewing its adequacy, integrity and effectiveness. The role of the Management, comprising the Managing Director and the Executive Directors, is to implement the Board's policies on risk and control. The Management is accountable to the Board for monitoring the Group's internal control system and for providing assurance to the Board that it has done so.

Due to the inherent limitations in any system of internal control, this system is designed to manage rather than eliminate the risk of failure to achieve business objectives. It should be noted that the system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

To this end, the Board also ensures that the External Auditors review the statement on internal control and report the results thereof to the Board.

Enterprise Risk Management Framework

In dealing with its stewardship and responsibilities, the Board is aware that effective risk management is part of good business management practice. The Board acknowledges that all areas of the Group's activities involve some degree of risk and is committed to ensuring that the Group has an effective risk management framework which will enable the Group to identify, evaluate and manage the principal risks that are faced by the Group, and that this process is subject to periodic review by the Board and in accordance with the "Statement on Internal Control: Guidance to Director of Public Listed Companies" (the "Guidance").

Against this backdrop, the Company has established a formal Enterprise Risk Management ("ERM") framework with the assistance of the external consultant. The Board believes that such an exercise has allowed for a more structured and focused approach in managing the Group's significant business risks and has enabled the Group to effectively adopt a risk-based internal control system that is embedded within the Group. The Group's ERM framework encompasses the following key elements:

- Interviews with Directors and selected Management staff of the Group to identify and evaluate the principal risks faced by the Group resulting in the creation of a database of all risks and controls and a detailed risk register and risk profiles for the pilot companies;
- Issuance of a risk management policy and procedure which outlines the risk framework for the Group and offers practical guidance to all employees in identifying and managing risks;
- Establishment of a risk management structure which outlines the responsibility of the Risk Management Committee and Risk Management Units; and
- Record of the risk assessment process which involves the identification of key risks facing the Group, the potential impact and likelihood of those risks occurring, the effectiveness of controls and the action plans being taken to manage those risks to the desired level. The development of a consolidated risk profile of the Group together with a summary of key findings.

Internal Audit Function

The Group has outsourced its internal audit function to an external consultant who provides the Board and the Audit Committee with the level of assurance required on the adequacy and the integrity of the system of internal control. The internal auditors adopt a risk-based approach and prepare its audit strategy and plan based on the risk profile of the Group established from the ERM framework.

During the financial year, the internal auditors have completed the one (1) cycle of internal audit and the findings of the internal audit review has been communicated to the Audit Committee.

The Audit Committee reviewed the reports from internal audit and the Management's responses, before reporting and making recommendations to the Board in strengthening the risk management, internal control and governance systems.

Other Key Elements of Internal Control

Apart from risk management and internal audit, the Group has an embedded system of internal control that includes the following :

- The Board meets at least once every quarter and has an agenda to bring to the Board's attention significant matters related to internal control, ensuring that it maintains full and effective supervision over appropriate controls;
- Executive Directors participate actively in the daily operations of the Group and regular operational meetings were held with heads of departments. The heads of departments are delegated with the responsibility to ensure that the system of internal control are put into place accordingly;
- Quarterly review of financial results by the Board and the Audit Committee before announcement to Bursa Securities;
- An organisational structure with defines lines of responsibilities and delegation of authority within which the Management operates;
- The principal operating subsidiary, LFE Engineering Sdn Bhd, has a formalised Quality Procedure Manual ISO 9001:2000 ("ISO") to provide guidance to employees in carrying out daily tasks and to ensure that there is a clear understanding of the operations of the Group; and
- Scheduled in-house ISO internal audit held once a year to ensure full compliance with the ISO requirements, where findings are discussed during the Management review committee meetings.

Weaknesses in Internal Controls that Result in Material Losses

There were no material or significant losses incurred during the financial year ended 31 December 2005 as a result of weakness in internal control. The Board and the Management continue to take appropriate measures to improve and strengthen the control environment.

This Statement was reviewed by the Audit Committee and approved by the Board on 24 April 2006.

ADDITIONAL COMPLIANCE INFORMATION

1. Utilisation of Proceeds

There were no proceeds raised from any corporate exercises during the financial year ended 31 December 2005.

2. Share Buybacks

There were no share buybacks by the Company during the financial year.

3. Options, Warrants or Convertible Securities

There were no options, warrants or convertible securities issued by the Company during the financial year.

4. Related Party Transactions

All recurrent related party transactions entered into by the Group during the financial year are disclosed in Note 25 to the financial statements on pages 58 and 59 of this annual report.

5. Imposition of Sanctions / Penalties

There were no sanctions / penalties imposed on the Company and its subsidiaries, Directors or Management by any regulatory body.

6. Non-audit Fees

The amount of non-audit fees paid or payable to the external auditors by the Group for the financial year ended 31 December 2005 was RM3,000.

7. Profit Estimate, Forecast or Projection & Variation In Results

There Company did not issue any profit estimates, forecasts or projections for the financial year. There were no variances of 10% or more between the audited results for the financial year and the unaudited results announced.

8. Profit Guarantee

There were no profit guarantees given by the Company and its subsidiaries in respect of the financial year.

9. Material Contracts

There were no material contracts (not being contracts entered into in the ordinary course of business) either subsisting as at the financial year end ended 31 December 2005 or entered into during the financial year, by the Company and its subsidiaries which involved the interest of the Directors and major shareholders.

10. Revaluation of Landed Properties

The Group did not adopt any revaluation policy on its landed properties during the financial year.

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

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DIRECTORS' REPORT for the year ended 31 December 2005

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2005.

Principal activities

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are as stated in Note 4 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM	Company RM
Net loss for the year	38,683,411 =====	41,570,629 =====

Reserves and provisions

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

Dividend

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

Directors of the Company

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

Dato' Hamzah Bin Zainudin
Lew Mew Choi
Liew Meow Nyeon
Liew Kiam Woon
Chin Soong Jin
Chung Tack Soon
Ramli Bin Abu Kasim
Tong Hock Sen

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1 each			At 31.12.2005
	At 1.1.2005	Bought	Sold	
Shareholdings in the Company in which Directors have direct interests				
Lew Mew Choi	7,604,108	-	-	7,604,108
Liew Meow Nyeon	710,549	-	-	710,549
Liew Kiam Woon	133,843	-	-	133,843
Shareholdings in the Company in which Directors have deemed interests*				
Lew Mew Choi	8,557,521	-	-	8,557,521
Liew Meow Nyeon	7,605,562	-	-	7,605,562
Liew Kiam Woon	4,605,562	-	-	4,605,562
Ramli Bin Abu Kasim	11,557,521	-	-	11,557,521

* Deemed interests in shares held by virtue of section 6A(4)(c) of the Companies Act, 1965

By virtue of their interests in the shares of the Company, Lew Mew Choi, Liew Meow Nyeon, Liew Kiam Woon and Ramli Bin Abu Kasim are also deemed to have an interest in the shares of all subsidiaries of the Company to the extent the Company has an interest.

None of the other Directors holding office at 31 December 2005 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 25 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares and debentures

There were no changes in the issued and paid-up capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take-up unissued shares of the Company during the financial year.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

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

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, except for the allowance for diminution in value of quoted shares, the results of the Group and of the Company for the financial year ended 31 December 2005 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

Lew Mew Choi

Liew Kiam Woon

Kuala Lumpur,
Date: 24 April 2006

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 27 to 64 are drawn up in accordance with the provisions of the Companies Act, 1965 and 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 at 31 December 2005 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

Lew Mew Choi

Liew Kiam Woon

Kuala Lumpur,
Date: 24 April 2006

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, **Liew Kiam Woon**, the Director primarily responsible for the financial management of LFE Corporation Berhad, do solemnly and sincerely declare that the financial statements set out on pages 27 to 64 are, to the best of my knowledge 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 abovenamed in Kuala Lumpur on 24 April 2006.

Liew Kiam Woon

Before me:

Commissioner for Oaths
Barathan A/L Sinniah @ Chinniah
No. W202

REPORT OF THE AUDITORS

to the members of LFE Corporation Berhad

(Company No. 579343-A)

We have audited the financial statements set out on pages 27 to 64. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit on the 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 purposes. We do not assume responsibility to any other person for the contents of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2005 and the results of their operations and cash flows for the year ended on that date; and
 - ii) 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
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

The subsidiaries in respect of which we have not acted as auditors are identified in Note 4 to the financial statements and we have considered their financial statements and the auditors' reports thereon except as disclosed in Note 4 to the financial statements.

We are satisfied that the financial statements of the subsidiaries 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 required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment under subsection (3) of Section 174 of the Act.

KPMG

Firm Number: AF 0758
Chartered Accountants

Kuala Lumpur,
Date: 24 April 2006

Hew Lee Lam Sang

Partner
Approval Number: 1862/10/07(J)

BALANCE SHEETS at 31 December 2005

		Group		Company	
	Note	2005 RM	2004 RM	2005 RM	2004 RM
Property, plant and equipment	2	14,093,944	18,309,612	10,757,205	10,116,093
Property held under development	3	1,703,531	-	-	-
Investments in subsidiaries	4	-	-	150,578	31,603,697
Investment in associate	5	342,735	320,598	350,000	-
Investment properties	6	1,269,441	1,286,669	-	-
Other investments	7	15,599,970	32,744,985	-	-
Intangible assets	8	587,872	587,872	-	-
Deferred tax assets	16	-	518,874	-	-
Current assets					
Inventories	9	5,394,819	2,425,976	-	-
Investment properties	6	3,975,262	3,422,400	-	-
Trade and other receivables	10	59,075,162	69,039,136	6,024,271	12,729,489
Tax recoverable		3,627,360	578,270	-	-
Cash and cash equivalents	11	3,445,929	11,186,694	211,928	3,751,146
		75,518,532	86,652,476	6,236,199	16,480,635
Current liabilities					
Trade and other payables	12	30,577,117	27,066,609	960,275	125,152
Borrowings	13	16,726,241	10,998,374	-	-
Taxation		270,293	826,308	-	5,713
		47,573,651	38,891,291	960,275	130,865
Net current assets					
		27,944,881	47,761,185	5,275,924	16,349,770
		61,542,374	101,529,795	16,533,707	58,069,560
		=====	=====	=====	=====
Financed by:					
Capital and reserves					
Share capital	14	52,000,002	52,000,002	52,000,002	52,000,002
Reserves		(26,297,173)	12,270,219	(35,510,465)	6,041,164
		25,702,829	64,270,221	16,489,537	58,041,166
Long term and deferred liabilities					
Borrowings	13	35,655,057	36,897,083	-	-
Deferred tax liabilities	15	184,488	362,491	44,170	28,394
		35,839,545	37,259,574	44,170	28,394
		61,542,374	101,529,795	16,533,707	58,069,560
		=====	=====	=====	=====

The financial statements were approved and authorised for issue by the Board of Directors on 24 April 2006.

The notes set out on pages 34 to 64 form an integral part of, and should be read in conjunction with, these financial statements.

INCOME STATEMENTS for the year ended 31 December 2005

		Group		Company	
	Note	2005 RM	2004 RM	2005 RM	2004 RM
Revenue	16	40,716,607 =====	101,719,490 =====	324,000 =====	324,000 =====
Operating (loss)/profit	16	(35,071,757)	3,149,868	(41,554,853)	(55,396)
Interest income		125,707	185,598	-	81,625
Interest expense	18	(3,571,814)	(2,545,474)	-	-
Share of profits of associate		6,875	23,012	-	-
Gain on disposal of manufacturing segment	29	-	425,062	-	850,144
(Loss)/profit before taxation		(38,510,989)	1,238,066	(41,554,853)	876,373
Tax expense	19	(196,922)	(3,106,970)	(15,776)	(48,526)
(Loss)/profit after taxation		(38,707,911)	(1,868,904)	(41,570,629)	827,847
Add : Minority interests		24,500	344,860	-	-
Net (loss)/profit for the year		(38,683,411) =====	(1,524,044) =====	(41,570,629) =====	827,847 =====
Basic (loss) per ordinary share (sen)	20	(74.39) =====	(2.93) =====		
Dividend per ordinary share (sen)	21	NIL =====	NIL =====		

(Note- The results of the continuing operations and the discontinued operation are shown in page 29)

The notes set out on pages 34 to 64 form an integral part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2005

Group	Note	Continuing operations		Discontinued operation		Total consolidated	
		2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM
Revenue	16	40,716,607 =====	88,016,842 =====	- =====	13,702,648 =====	40,716,607 =====	101,719,490 =====
Operating (loss)/profit	16	(35,071,757)	4,229,417	-	(1,079,549)	(35,071,757)	3,149,868
Interest income		125,707	185,598	-	-	125,707	185,598
Interest expense	18	(3,571,814)	(2,494,683)	-	(50,791)	(3,571,814)	(2,545,474)
Share of profit of associates		6,875	23,012	-	-	6,875	23,012
Gain on disposal of manufacturing segment	29	-	-	-	425,062	-	425,062
(Loss)/profit before taxation		(38,510,989)	1,943,344	-	(705,278)	(38,510,989)	1,238,066
Tax expense	19	(196,922)	(3,106,970)	-	-	(196,922)	(3,106,970)
Loss after taxation		(38,707,911)	(1,163,626)	-	(705,278)	(38,707,911)	(1,868,904)
Add: Minority interests		24,500	-	-	344,860	24,500	344,860
Net loss for the year		(38,683,411) =====	(1,163,626) =====	- =====	(360,418) =====	(38,683,411) =====	(1,524,044) =====

The notes set out on pages 34 to 64 form an integral part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2005

<i>Group</i>	<i>Non-Distributable</i>			<i>Distributable</i>	Total
	Share capital	Share premium	Exchange reserve	Retained profits	
	RM	RM	RM	RM	
At 1 January 2004	52,000,002	5,187,316	-	11,215,938	68,403,256
Overprovision of share issue expenses	-	11,809	-	-	11,809
Net loss for the year	-	-	-	(1,524,044)	(1,524,044)
Dividend - 2003 final	-	-	-	(2,620,800)	(2,620,800)
At 31 December 2004	52,000,002	5,199,125	-	7,071,094	64,270,221
At 1 January 2005	52,000,002	5,199,125	-	7,071,094	64,270,221
Overprovision of share issue expenses	-	19,000	-	-	19,000
Exchange differences on translation	-	-	97,019	-	97,019
Net loss for the year	-	-	-	(38,683,411)	(38,683,411)
At 31 December 2005	52,000,002	5,218,125	97,019	(31,612,317)	25,702,829
Note 14					
Company					
At 1 January 2004	52,000,002	5,187,316	-	2,634,992	59,822,310
Overprovision of share issue expenses	-	11,809	-	-	11,809
Net profit for the year	-	-	-	827,847	827,847
Dividend - 2003 final	-	-	-	(2,620,800)	(2,620,800)
At 31 December 2004	52,000,002	5,199,125	-	842,039	58,041,166
At 1 January 2005	52,000,002	5,199,125	-	842,039	58,041,166
Overprovision of share issue expenses	-	19,000	-	-	19,000
Net loss for the year	-	-	-	(41,570,629)	(41,570,629)
At 31 December 2005	52,000,002	5,218,125	-	(40,728,590)	16,489,537
Note 14					

The notes set out on pages 34 to 64 form an integral part of, and should be read in conjunction with, these financial statements.

CASH FLOW STATEMENTS for the year ended 31 December 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Cash flows from operating activities				
(Loss)/profit before taxation	(38,510,989)	1,238,066	(41,554,853)	876,373
Adjustments for:				
Allowance for diminution in value of investment	17,139,096	-	41,478,619	-
Depreciation				
- property, plant and equipment	803,368	949,258	100,430	100,430
- investment properties				
- long term	17,228	17,314	-	-
- short term	68,700	64,025	-	-
Investment written off	5,919	-	-	-
Interest expense	3,571,814	2,545,474	-	-
Interest income	(125,707)	(185,598)	-	(81,625)
Loss on disposal of property, plant and equipment	481,073	11,708	-	-
Goodwill written off	109,196	-	-	-
Gain from disposal of investment properties	(195,579)	-	-	-
Share of profits in associate	(6,875)	(23,012)	-	-
Share of loss in minority interest	-	344,860	-	-
Write back of share issue expenses	19,000	-	19,000	-
Gain on disposal of discontinued operation	-	(425,062)	-	(850,145)
Loss on disposal of associate	10,711	-	-	-
Unrealised loss on foreign exchange	967	79,242	-	-
Operating (loss)/profit before working capital changes	(16,612,078)	4,616,275	43,196	45,033
Changes in working capital:				
Inventories	(2,262,979)	(1,121,858)	-	-
Trade and other receivables	9,240,945	(4,402,833)	(3,320,282)	643,549
Trade and other payables	5,130,803	(17,101,481)	835,123	5,540,313
Cash (used in)/generated from operations	(4,503,309)	(18,009,897)	(2,441,963)	6,288,895
Income taxes paid	(3,582,690)	(3,447,026)	(5,713)	(17,142)
Interest paid	(3,571,814)	(2,545,474)	-	-
Net cash (used in)/generated from operating activities	(11,657,813)	(24,002,397)	(2,447,676)	6,211,753

CASH FLOW STATEMENTS
for the year ended 31 December 2005 (continued)

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired (Note 27)	31,366	-	-	-
Property development costs	(29,721)	-	-	-
Disposal of subsidiary (Note 28)	-	458,878	-	-
Interest received	125,707	185,598	-	81,625
Decrease/(increase) of deposit pledged	215,960	(961,980)	-	-
Purchase of property, plant and equipment (Note ii)	(1,151,107)	(2,148,682)	(741,542)	-
Proceeds from disposal of property, plant and equipment	565,492	-	-	-
Purchase of other investments	-	(4,030,516)	-	-
Proceeds from disposal of investment properties	118,000	-	-	-
Minority interest contribution	24,451	-	-	-
Acquisition of associate	(350,000)	-	(350,000)	-
Net cash (used in)/generated from investing activities	<u>(449,852)</u>	<u>(6,496,702)</u>	<u>(1,091,542)</u>	<u>81,625</u>
Cash flows from financing activities				
Proceeds from term loans and bank borrowings	6,090,093	46,764,319	-	-
Repayments of term loans and other bank borrowings	(6,036,760)	(13,125,248)	-	-
Repayments of hire purchase liabilities	(535,226)	(522,626)	-	-
Dividend paid	-	(2,620,800)	-	(2,620,800)
Net cash (used in)/generated from financing activities	<u>(481,893)</u>	<u>30,495,645</u>	<u>-</u>	<u>(2,620,800)</u>
Exchange differences on translation of the financial statement of foreign operations	97,019	-	-	-
Net (decrease)/ increase in cash and cash equivalents	<u>(12,492,539)</u>	<u>(3,454)</u>	<u>(3,539,218)</u>	<u>3,672,578</u>
Cash and cash equivalents at beginning of year	3,724,696	3,728,150	3,751,146	78,568
Cash and cash equivalents at end of year	<u><u>(8,767,843)</u></u>	<u><u>3,724,696</u></u>	<u><u>211,928</u></u>	<u><u>3,751,146</u></u>

CASH FLOW STATEMENTS
for the year ended 31 December 2005 (continued)

i) Cash and cash equivalents

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

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Deposits placed with licensed banks	1,470,777	5,140,510	-	3,399,306
Cash and bank balances	1,975,152	6,046,184	211,928	351,840
Bank overdrafts	(11,467,752)	(6,500,018)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Pledged deposit	(8,021,823) (746,020)	4,686,676 (961,980)	211,928 -	3,751,146 -
	<hr/>	<hr/>	<hr/>	<hr/>
	(8,767,843)	3,724,696	211,928	3,751,146
	=====	=====	=====	=====

ii) Purchase of plant, property and equipment

In the previous year, the Group acquired property, plant and equipment with an aggregate cost of RM3,246,782 of which RM1,098,100 was acquired by means of hire purchase.

The notes set out on pages 34 to 64 form an integral part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Intra group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(c) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

1. Summary of significant accounting policies (continued)

(d) Property, plant and equipment

Freehold land is stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

Depreciation

Freehold land is not amortised. Leasehold land and buildings are amortised in equal instalments over the period of the lease of ninety nine (99) years. Other property, plant and equipment are depreciated on the reducing balance basis at rates which are intended to write off the cost of the assets over their estimated useful lives. However, certain subsidiaries adopt the straight line method to write off the cost of the following assets over the term of their estimated useful lives at the following principal annual rates:

Buildings	2%
Motor vehicles	20%
Furniture, fittings and office equipment	10% - 20%
Air conditioners and renovation	10%
Equipment	10%

(e) Property held for development

Property held for development comprises development land and incidental costs which are stated at cost.

(f) Intangible assets

i) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment loss (refer to note 1(l)).

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

ii) Negative goodwill

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill, not exceeding the fair values of the non-monetary assets is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

To the extent the negative goodwill relates to expectation of future losses and expenses that are identified in the plan of the acquisition and can be measured reliably, but which are not identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised.

1. Summary of significant accounting policies (continued)

(g) Investments

i) Investment properties

Investment properties – Non-current are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes related and incidental expenditure incurred.

Investment properties – Current are properties held for disposals and are stated at the lower of cost less accumulated depreciation and accumulated impairment losses and net realisable value.

Depreciation

Freehold land is not amortised. Buildings are depreciated on the reducing balance basis at rates which are intended to write off the cost of the assets over their estimated useful lives of fifty (50) years. Leasehold land and buildings are amortised in equal instalments over the period of the respective lease of ninety nine (99) years.

ii) Subsidiaries and associates

Long term investments in subsidiaries and associates are stated at cost in the Company, less impairment loss where applicable.

iii) Other investments

Long term investments other than investments in subsidiaries and associates, are stated at cost. Investments in unquoted subordinated bonds are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

(h) Inventories

Inventories comprise raw materials, which are stated at the lower of cost and net realisable value with weighted average cost being the main basis for cost.

(i) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

(j) Amounts due from/to contract customers

Amount due from contract customers on electrical and mechanical engineering work contract is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct electrical and mechanical engineering work cost and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

1. Summary of significant accounting policies (continued)

(l) Impairment

The carrying amount of assets, other than inventories, assets arising from electrical and mechanical contracts, deferred tax assets and financial assets (other than investments in subsidiaries and associates), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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 had been recognised. The reversal is recognised in the income statement.

(m) Employee benefits

(i) Short term benefits

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

(i) Defined contribution plan

Obligations for contribution to defined contribution plan are recognised as an expense in the income statement as incurred.

(n) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

(o) Liabilities

Borrowings, trade and other payables are stated at cost.

1. Summary of significant accounting policies (continued)

(p) Accounting for hire purchase

Property, plant and equipment held under hire purchase are capitalised and depreciated over their estimated useful lives, and the corresponding obligation relating to the remaining life capital payments are disclosed as hire purchase liabilities.

(q) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(r) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

(ii) Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rate used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations is as follows:

	2005 RM	2004 RM
1USD	3.78	3.80

1. Summary of significant accounting policies (continued)

(s) Revenue

i) Goods sold

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Construction contracts

Revenue from fixed price electrical and mechanical engineering contracts is recognised on the percentage of completion method, measured by reference to the proportion that contract costs incurred for contract work performed to date that reflect work performed bear to the total estimated contract costs.

When the outcome of an electrical and engineering contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

An expected loss on a contract is recognised immediately in the income statement.

iii) Dividend income

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

iv) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

v) Rental income

Rental income is recognised based on value invoiced to customers during the year.

(t) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of hire purchase payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

(u) Discontinuing operation

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed or terminated pursuant to a single plan which represents a separate major line of business or geographical area of operations and can be distinguished operationally and for financial reporting purposes.

2. Property, plant and equipment

Group	Freehold land and buildings	Leasehold land and buildings	Motor vehicles	Furniture, fittings and office equipment	Air conditioners and renovation	Total
<i>Cost</i>	RM	RM	RM	RM	RM	RM
At 1 January 2005	12,361,124	2,160,055	3,337,888	1,169,002	474,862	19,502,931
Acquisition of subsidiaries	-	-	3,500	11,435	-	14,935
Additions for the year	741,542	-	-	399,185	10,380	1,151,107
Reclassification	(1,673,810)	-	-	-	-	(1,673,810)
Disposal	(278,062)	(2,114,551)	(866,451)	(2,365)	-	(3,261,429)
Exchange differences	-	-	(1,192)	(416)	(221)	(1,829)
At 31 December 2005	11,150,794	45,504	2,473,745	1,576,841	485,021	15,731,905
Accumulated depreciation						
At 1 January 2005	145,499	57,505	736,878	187,792	65,645	1,193,319
Charge for the year	104,885	11,441	471,514	167,980	47,548	803,368
Disposal	(8,756)	(66,847)	(281,776)	(485)	-	(357,864)
Exchange differences	-	-	(549)	(211)	(102)	(862)
At 31 December 2005	241,628	2,099	926,067	355,076	113,091	1,637,961
Net book value						
At 31 December 2005	10,909,166	43,405	1,547,678	1,221,765	371,930	14,093,944
At 31 December 2004	12,215,625	2,102,550	2,601,010	981,210	409,217	18,309,612
Depreciation charge for the year ended 31 December 2004	109,118	43,124	586,947	160,671	49,398	949,258

2. Property, plant and equipment (continued)

Company	Freehold land and building RM
<i>Cost</i>	
At 1 January 2005	10,250,000
Additions	741,542
	<hr/>
	10,991,542
	=====
<i>Accumulated depreciation</i>	
At 1 January 2005	133,907
Charge for the year	100,430
	<hr/>
At 31 December 2005	234,337
	=====
<i>Net book value</i>	
At 31 December 2005	10,757,205
	=====
At 31 December 2004	10,116,093
	=====
Depreciation charge for the year ended 31 December 2004	100,430
	=====

The cost and carrying value of land is not segregated from buildings, as the required records are not available.

Securities

Certain land and building of the Group costing RMNil (2004 - RM806,454) have been pledged as security for loan facilities as set out in Note 13 to the financial statements.

Assets under hire purchase

Included in property, plant and equipment of the Group are plant and machinery acquired under hire purchase arrangements with a net book value of RM1,394,371 (2004 - RM2,206,752).

3. Property held for development

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
<i>Cost</i>				
Land – Reclassification from property, plant and equipment	1,673,810	-	-	-
Development costs	29,721	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,703,531	-	-	-
	=====	=====	=====	=====

4. Investment in subsidiaries

	Company	
	2005 RM	2004 RM
Unquoted shares, at cost	41,629,197	31,603,697
Less : Impairment losses	(41,478,619)	-
	<u>150,578</u>	<u>31,603,697</u>
	=====	=====

The principal activities of the subsidiaries, their places of incorporation, and the interest of the Company are as follows:

Name of Company	Country of incorporation	Principal activities	Effective ownership interest	
			2005	2004
LFE Engineering Sdn. Bhd.	Malaysia	Provision of general and specialised electrical and mechanical engineering services and maintenance works	100%	100%
Loong Fuat Engineering Limited	British Virgin Islands	Provision of general and specialised electrical and mechanical engineering services and maintenance works	100%	100%
Inai Engineering Corporations Limited	British Virgin Islands	Supply of general and specialised electrical and mechanical equipment and components	100%	100%
Loong Fuat Engineering (JB) Sdn. Bhd.	Malaysia	Provision of general and specialised electrical and mechanical engineering services and maintenance works	100%	100%
*LFE Builder Sdn. Bhd.	Malaysia	Property investment	100%	100%
LFE Technology Sdn. Bhd.	Malaysia	Provision of specialised engineering services for extra low voltage electrical systems and instrumental and control systems for intelligent transportation systems applications such as expressway traffic management systems, tunnel plant and traffic management systems, toll collection systems and automatic cash transfer systems	60%	60%

4. Investment in subsidiaries (continued)

Name	Country of incorporation	Principal activities	Effective percentage of ownership	
			2005	2004
* LFE Engineering (Shanghai) Limited	People's Republic of China	Provision of general and specialized electrical and mechanical engineering services and maintenance works	100%	100%
Mediaforte Holdings Sdn. Bhd.	Malaysia	Investment Holding Company	51%	-
Mediaforte (Malaysia) Sdn. Bhd.	Malaysia	Trading and distributing computer products, parts and components	100%	-
**LFE Engineering (Vietnam) Company Limited	Vietnam	Technical design and provision of consultancy services for design, implementation and contracting of mechanical and electrical engineering services	100%	-

Mayduct Technology Sdn. Bhd. was disposed by the Group on 31 December 2004 (Note 29).

* Company not audited by KPMG.

** Company not audited by KPMG and consolidated using financial statements for management reporting purposes, which are not audited.

5. Investment in associate

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Unquoted shares - at cost	350,000	280,000	350,000	-
Share of post-acquisition reserves	(7,265)	40,598	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	342,735	320,598	350,000	-
	=====	=====	=====	=====
Represented by:				
Group's share of net assets other than goodwill	342,735	280,684		
Goodwill on acquisition	-	39,914		
	<hr/>	<hr/>		
	342,735	320,598		
	=====	=====		

5. Investment in associate (continued)

The associate of the Group and the Company is as follows:

Name	Country of incorporation	Principal activities	Effective percentage of ownership	
			2005	2004
Kejuruteraan Rayton Sdn. Bhd.	Malaysia	Provision of water and sewerage related mechanical engineering services for applications such as water treatment plants, sewerage treatment plants, pumping plants, fire protection systems and pipe laying.	-	40%
Bestgate Development Sdn. Bhd.	Malaysia	Builders and contractors for construction work.	35%	-

6. Investment properties

Investment properties - Non-current

	Freehold land and buildings	Leasehold land and buildings	Total
	RM	RM	RM
Cost			
At 1 January 2005/31 December 2005	215,342	1,304,711	1,520,053
	=====	=====	=====
Accumulated depreciation			
At 1 January 2005	5,733	227,651	233,384
Charge for the year	4,192	13,036	17,228
	-----	-----	-----
At 31 December 2005	9,925	240,687	250,612
	=====	=====	=====
Net book value			
At 31 December 2005	205,417	1,064,024	1,269,441
	=====	=====	=====
At 31 December 2004	209,609	1,077,060	1,286,669
	=====	=====	=====
Depreciation charged for the year ended 31 December 2004	4,278	13,036	17,314
	=====	=====	=====

The cost and carrying value of land is not segregated from buildings, as the required records are not available.

6. Investment properties (continued)

Investment properties - Current

	Freehold land and buildings	Leasehold land and buildings	Total
<i>Cost</i>	RM	RM	RM
At 1 January 2005	1,044,898	2,487,082	3,531,980
Addition	1,750,983	-	1,750,983
Disposal	(1,044,898)	(129,418)	(1,174,316)
	<hr/>	<hr/>	<hr/>
At 31 December 2005	1,750,983	2,357,664	4,108,647
	=====	=====	=====
<i>Accumulated depreciation</i>			
At 1 January 2005	27,817	81,763	109,580
Charge for the year	28,566	40,134	68,700
Disposal	(38,873)	(6,022)	(44,895)
	<hr/>	<hr/>	<hr/>
At 31 December 2005	17,510	115,875	133,385
	=====	=====	=====
<i>Net book value</i>			
At 31 December 2005	1,733,473	2,241,789	3,975,262
	=====	=====	=====
At 31 December 2004	1,017,081	2,405,319	3,422,400
	=====	=====	=====
Depreciation charge for the year ended 31 December 2004	20,757	43,268	64,025
	=====	=====	=====

The cost and carrying value of land is not segregated from buildings, as the required records are not available.

7. Other investments

	Group	
	2005 RM	2004 RM
Investments in unquoted subordinated bonds	3,500,000	3,500,000
	=====	=====
Quoted shares	29,244,985	29,298,251
Less: Allowance for diminution in value of quoted shares	(17,139,096)	(53,266)
Less: Investment written off	(5,919)	-
	<hr/>	<hr/>
	12,099,970	29,244,985
	-----	-----
	15,599,970	32,744,985
	=====	=====
Market value of quoted shares	4,381,971	17,014,726
	=====	=====

7. Other investments (continued)

Group

Investments in unquoted subordinated bonds are in respect of those bonds issued by Kerisma Berhad, which are under the primary collateralised loan obligations (CLO) programme in order to obtain the term loan of RM35,000,000.

Investments in quoted shares with a carrying value of RM153,361 (2004 - RM530,516) have been obtained by utilising the share financing facilities as disclosed in Note 13 to the financial statements.

The carrying values of the quoted shares as at 31 December 2005 exceeded its market value by approximately RM7.7 million. An allowance for diminution in value has been made in the financial statements for the amount of RM17,139,096 based on the net tangible assets per share of the quoted shares as at 31 December 2005.

8. Intangible assets

	Group	
	2005 RM	2004 RM
Purchased goodwill	393,950	393,950
Goodwill arising on consolidation	193,922	193,922
	<hr/>	<hr/>
	587,872	587,872
	=====	=====

9. Inventories

	Group	
	2005 RM	2004 RM
At cost:		
Raw materials	5,394,819	2,425,976
	=====	=====

10. Trade and other receivables

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Trade receivables	28,609,930	41,150,525	-	-
Retention receivables	16,333,580	15,517,223	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	44,943,510	56,667,748	-	-
Amount due from contract customers	2,972,558	4,398,294	-	-
Other receivables, deposits and prepayments	11,159,094	7,973,094	2,730,098	3,501,475
Subsidiaries	-	-	3,294,173	9,228,014
	<hr/>	<hr/>	<hr/>	<hr/>
	59,075,162	69,039,136	6,024,271	12,729,489
	=====	=====	=====	=====

The amount due from subsidiaries is non-trade in nature, unsecured and interest free.

Bad debts written off against allowance for doubtful debts during the year amounted to RM182,533 (2004 – Nil).

10. Trade and other receivables (continued)

Amount due from contract customers

	Group	
	2005 RM	2004 RM
Aggregate costs incurred to date	236,276,867	234,226,369
Add : Attributable profits	31,798,130	43,631,994
Less: Provision for foreseeable losses	(4,621,847)	(398,019)
	<hr/>	<hr/>
Less: Progress billings	263,453,150 (265,749,298)	277,460,344 (277,637,607)
	<hr/>	<hr/>
	(2,296,148)	(177,263)
Amount due to contract customers reclassified (Note 12)	5,268,706	4,575,557
	<hr/>	<hr/>
	2,972,558	4,398,294
	=====	=====

11. Cash and cash equivalents

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Deposits placed with licensed banks	1,470,777	5,140,510	-	3,399,306
Cash and bank balances	1,975,152	6,046,184	211,928	351,840
	<hr/>	<hr/>	<hr/>	<hr/>
	3,445,929	11,186,694	211,928	3,751,146
	=====	=====	=====	=====

Deposits placed with licensed banks and financial institutions of the Group of RM746,020 (2004 – RM961,980) are pledged to banks as security for bank guarantees and overdraft facilities granted to its subsidiaries.

12. Trade and other payables

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Trade payables	20,006,569	16,431,687	-	-
Amount due to contract customers (Note 10)	5,268,706	4,575,557	-	-
Other payables and accrued expenses	4,934,279	5,935,183	399,317	125,152
Amount due from Subsidiaries	-	-	209,958	-
Amount due to Directors	367,563	124,182	351,000	-
	<hr/>	<hr/>	<hr/>	<hr/>
	30,577,117	27,066,609	960,275	125,152
	=====	=====	=====	=====

Included in other payables and accrued expenses in the previous year, were an amount of RM13,615 due to companies of which certain Directors have interest and amount of RM2,000,000 in respect of dividend payable by a subsidiary to the previous shareholders of the said subsidiary pursuant to the restructuring scheme of the initial public offering exercise of the Group in 2003.

The amount due to Directors is unsecured, interest free and has no fixed terms of repayment.

13. Borrowings

	Group	
	2005 RM	2004 RM
Current		
Term loan - secured	-	1,351,152
Term loans - unsecured	927,064	204,167
Overdrafts - secured	11,467,752	6,500,018
Bankers' acceptances - unsecured	2,593,850	1,897,166
Trust receipts - unsecured	1,119,965	-
Hire purchase liabilities	329,990	463,493
Share margin financing - secured	287,620	582,378
	<u>16,726,241</u>	<u>10,998,374</u>
	=====	=====
Non-current		
Term loan - secured	-	840,303
Term loans - unsecured	35,000,000	35,000,000
Hire purchase liabilities	655,057	1,056,780
	<u>35,655,057</u>	<u>36,897,083</u>
	=====	=====

The secured term loan granted to the Group was secured by way of a third party charge over certain land pledged by the Directors of the Group.

The unsecured term loan of RM35,000,000 granted to a subsidiary bears fixed interest at 7.0% per annum and is to be repayable in a bullet repayment in the fifth year of the drawdown, which is in 2009. The unsecured term loan was granted under the primary collateralised loan obligations ("Primary CLO") programme.

The share margin financing was granted to a subsidiary to invest in qualifying quoted securities secured by mortgage/qualifying security or assignment of rights in qualifying securities. Bank overdrafts are secured by way of fixed deposit and fixed charges over the Group's long term leasehold and freehold land and building and are guaranteed by the Company.

	Total	Under 1 year	1 - 2 year	2 - 5 years
Group	RM	RM	RM	RM
Unsecured term loan - fixed at 7.0% per annum	35,927,064	927,064	-	35,000,000
Secured overdrafts - variable at 1.25% to 1.75% above BLR	11,467,752	11,467,752	-	-
Unsecured bankers' acceptances - variable at 0.5% to 1.5% above the prevailing interbank rate	2,593,850	2,593,850	-	-
Unsecured trust receipts - variable at 1.0% to 1.5% above the bank's base lending rate	1,119,965	1,119,965	-	-
Hire purchase liabilities - fixed at 3.25% to 6.5% per annum	985,047	329,990	655,057	-
Secured share margin financing - fixed at 9% per annum	287,620	287,620	-	-
	<u>52,381,298</u>	<u>16,726,241</u>	<u>655,057</u>	<u>35,000,000</u>
	=====	=====	=====	=====

13. Borrowings (continued)

Hire purchase liabilities

Hire purchase liabilities are payable as follows:

	Payments	Interest	Principal	Payments	Interest	Principal
	2005 RM	2005 RM	2005 RM	2004 RM	2004 RM	2004 RM
Group						
Less than one year	395,556	65,566	329,990	560,849	97,356	463,493
Between one and five years	791,077	136,020	655,057	1,275,322	218,542	1,056,780
	1,186,633	201,586	985,047	1,836,171	315,898	1,520,273
	=====	=====	=====	=====	=====	=====

14. Share capital

	Group and Company	
	2005 RM	2004 RM
Ordinary shares of RM1 each:		
Authorised		
Balance at 1 January 2005/31 December 2005	100,000,000	100,000,000
	=====	=====
Issued and fully paid		
Balance at 1 January 2005/31 December 2005	52,000,002	52,000,002
	=====	=====

15. Deferred taxation

The amounts, determined after appropriate offsetting, are as follows:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Deferred tax liabilities	184,488	362,491	44,170	28,394
Deferred tax assets	-	(518,874)	-	-
	=====	=====	=====	=====
	184,488	(156,383)	44,170	28,394
	=====	=====	=====	=====

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

15. Deferred taxation (continued)

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

<i>Group</i>	At 1.1.2005	Charged/ (Credited) to income statement	Acquisition of subsidiary	At 1.12.2005
	RM	RM	RM	RM
<i>Deferred tax liabilities</i>				
Property, plant and equipment				
- capital allowances	362,491	(318,321)	-	44,170
Others	-	-	140,318	140,318
<i>Deferred tax assets</i>				
Provisions	(518,874)	518,874	-	-
	<hr/> (156,383)	<hr/> 200,553	<hr/> 140,318	<hr/> 184,488
	<hr/> =====	<hr/> =====	<hr/> =====	<hr/> =====

<i>Company</i>	At 1.1.2005	Charged to income statement	At 31.12.2005
	RM	RM	RM
<i>Deferred tax liabilities</i>			
Property, plant and equipment			
- capital allowances	28,394	15,776	44,170
	<hr/> =====	<hr/> =====	<hr/> =====

No deferred tax has been recognised for the following items:

	Group	
	2005 RM	2004 RM
Taxable temporary differences	506,131	334,932
Unabsorbed capital allowances	(48,499)	(240,961)
Unutilised tax losses	(26,021,442)	(93,971)
Provisions	(7,167,362)	-
	<hr/> (32,731,172)	<hr/> -
	<hr/> =====	<hr/> =====

The unutilised tax losses, unabsorbed capital allowances and temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit would be available against which the companies in the Group could utilise the benefits.

16. Operating profit

		Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
Revenue	- contract revenue	39,934,402	88,016,842	-	-
	- manufacturing	-	13,702,648	-	-
	- rental income	264,000	-	324,000	324,000
	- computer products	518,205	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
		40,716,607	101,719,490	324,000	324,000
		<hr/>	<hr/>	<hr/>	<hr/>
Contract costs recognised as an expense		(45,100,662)	(78,442,535)	-	-
Cost of manufactured goods		-	(12,474,830)	-	-
Cost of computer products		(497,689)	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
		(45,598,351)	(90,917,365)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Gross (loss)/profit		(4,881,744)	10,802,125	324,000	324,000
Administration expenses		(9,594,468)	(10,800,206)	(415,062)	(450,881)
Other operating expenses		(21,069,795)	(1,422,652)	(41,478,619)	-
Other operating income		474,250	4,570,601	14,828	71,485
		<hr/>	<hr/>	<hr/>	<hr/>
Operating (loss)/ profit		(35,071,757)	3,149,868	(41,554,853)	(55,396)
		=====	=====	=====	=====

Operating (loss)/profit is arrived at after crediting:

Gain on disposal of property, plant and equipment	-	15,511	-	-
Gain on disposal of investment properties	195,579	-	-	-
Rental income on land and buildings	292,908	117,988	324,000	324,000
Allowance for doubtful debts written back	27,250	3,492,703	-	-
Write back of share issue expenses	19,000	-	19,000	-
	=====	=====	=====	=====

16. Operating profit (continued)

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
and after charging:				
Allowance for doubtful debts	3,182,423	1,270,739	-	-
Auditors' remuneration				
- Holding company auditors				
- statutory audit	67,575	55,400	20,000	20,000
- Other auditors - statutory audit	1,200	9,800	-	-
- Other services	34,350	192,400	34,350	112,400
- Under/(over) provision in prior year	3,151	(2,000)	-	-
Bad debts written off	41,250	-	-	-
Company's Director				
Remuneration	1,161,338	1,324,740	-	-
Fees	120,500	114,000	114,000	114,000
Depreciation				
- property, plant and equipment (Note 2)	803,368	949,258	100,430	100,430
- investment properties (Note 6)				
- non-current	17,228	17,314	-	-
- current	68,700	64,025	-	-
Allowance for diminution in value of investment	17,139,096	-	-	-
Allowance for diminution in value of investment in subsidiaries	-	-	41,478,619	-
Loss on disposal of property, plant and equipment	481,073	11,708	-	-
Rental of premises	226,101	133,587	-	-
Rental of equipment	34,823	35,523	-	-
Rental of plant and machinery	226,409	480,695	-	-
Loss on foreign exchange-realised	4,776	48,254	-	-
Loss on foreign exchange-unrealised	967	79,242	-	-
Loss on disposal of associates	10,711	-	-	-
Provision for foreseeable losses	4,223,828	398,019	-	-
Goodwill written off	109,196	-	-	-
Investments written off	5,919	-	-	-
	=====	=====	=====	=====

17. Employee information

	Group	
	2005 RM	2004 RM
Staff costs	7,142,966	8,539,577
	=====	=====

i) The estimated monetary value of Directors' benefits-in-kind is RM88,610 (2004 - RM80,569).

ii) The number of employees of the Group (including Directors) at the end of the year was 198 (2004 - 127).

Staff costs include contributions to the Employees' Provident Fund of the Group of RM623,500 (2004 - RM814,264).

18. Interest expense

	Group	
	2005 RM	2004 RM
Interest:		
Bank overdrafts	737,559	571,185
Hire purchase	100,662	101,541
Term loans	2,587,652	1,652,318
Trade financing	145,941	220,430
	<u>3,571,814</u>	<u>2,545,474</u>
	=====	=====

19. Tax expense

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Current tax expense				
Malaysia - current	14,428	795,570	-	20,132
- prior year	(117,740)	1,379,744	-	-
Overseas	99,681	267,030	-	-
	<u>(3,631)</u>	<u>2,442,344</u>	<u>-</u>	<u>20,132</u>
Deferred tax expense				
origination and reversal				
of temporary differences	200,553	664,626	15,776	28,394
	<u>196,922</u>	<u>3,106,970</u>	<u>15,776</u>	<u>48,526</u>
	=====	=====	=====	=====

Reconciliation of effective tax expense

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
(Loss)/profit before taxation	(38,510,989)	1,238,066	(41,554,853)	876,373
	=====	=====	=====	=====
Income tax using Malaysian				
tax rate	(10,783,077)	346,659	(11,635,358)	245,385
Tax concession	(20,107)	(80,000)	-	-
Effect of different tax rates in				
foreign jurisdiction	-	(8,831)	-	-
Non deductible expenses	2,304,260	1,818,256	11,633,262	32,342
Tax exempt income	-	(258,057)	-	(238,041)
Deferred tax assets not recognised	9,164,728	-	-	-
Effect of deferred tax now				
recognised	-	(100,284)	-	-
Other items	(351,142)	9,483	17,872	-
	<u>314,662</u>	<u>1,727,226</u>	<u>15,776</u>	<u>39,686</u>
(Over)/under provision				
in prior years	(117,740)	1,379,744	-	8,840
	<u>196,922</u>	<u>3,106,970</u>	<u>15,776</u>	<u>48,526</u>
	=====	=====	=====	=====

20. Earnings per ordinary share - group

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net loss attributable to ordinary shareholders of RM38,683,411 (2004 - RM1,524,044) and the weighted average number of ordinary shares outstanding during the year of 52,000,002 (2004 - 52,000,002).

The diluted earning per ordinary share is not shown as the Company has no dilution in its ordinary shares.

21. Dividend

	Group and Company	
	2005 RM	2004 RM
Final paid		
2003 - 7% less tax	-	2,620,800
	=====	=====

The Directors do not recommend any dividend to be paid for the financial year ended 31 December 2005.

22. Segmental information

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following main business segments:

Electrical and mechanical engineering	Provision of general and specialised electrical and mechanical engineering services and maintenance works
Manufacturing	Manufacturing of electrical busbar trunking system, equipment, components and other related electrical products
Trading and distributing of computer products	Trading and distributing computer products, parts and components

On 31 December 2004 the manufacturing operation was discontinued (Note 30).

Geographical segments

The electrical and mechanical engineering segment is operated mainly in Malaysia and other principal geographical areas are China and Vietnam.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

22. Segmental information (continued)

	Electrical and mechanical engineering	Trading and distribution of computer products	Investment holdings	Eliminations	Consolidated
2005	RM	RM	RM	RM	RM
Business segments					
Revenue from external customers	39,934,402	518,205	264,000	-	40,716,607
Inter segment sales	2,003,135	18,700	60,000	(2,081,835)	-
Total revenue	41,937,537	536,905	324,000	(2,081,835)	40,716,607
Segment results	(16,222,151)	(130,838)	(41,747,868)	23,029,100	(35,071,757)
Interest income					125,707
Interest expense					(3,571,814)
Share of profit of associate					6,875
Loss before taxation					(38,510,989)
Tax expense					(196,922)
Minority interests					24,500
Net loss for the year					(38,683,411)

	Electrical and mechanical engineering	Trading & distribution of computer product	Investment holdings	Eliminations	Consolidated
2005	RM	RM	RM	RM	RM
Segment assets	85,568,714	1,640,856	20,148,054	(26,818,549)	80,539,075
Investment in associate	342,735				342,735
Unallocated assets					28,234,215
Total assets					109,116,025
Segment liabilities	(45,970,185)	(1,600,372)	(2,560,367)	19,921,371	(30,209,553)
Unallocated liabilities					(53,203,643)
Total liabilities					(83,413,196)
Capital expenditure	409,565	-	741,542		1,151,107
Depreciation	(702,349)	(589)	(100,430)		(803,368)
Non-cash expenses other than depreciation	(17,301,143)	-	-		(17,301,143)

22. Segmental information (continued)

	Electrical and mechanical engineering	Manufacturing	Investment holdings	Eliminations	Consolidated
2004	RM	RM	RM	RM	RM
Business segments					
Revenue from external customers	88,016,842	13,702,648	-	-	101,719,490
Intersegment sales	-	10,970	-	(10,970)	-
Total revenue	88,016,842	13,713,618	-	(10,970)	101,719,490
Segment results	4,098,834	(1,079,549)	699,843	(569,260)	3,149,868
Interest income					185,598
Interest expense					(2,545,474)
Share of profit of associates					23,012
Gain on disposal of discontinued operation - manufacturing segment		425,062			425,062
Profit before taxation					1,238,066
Tax expense					(3,106,970)
Minority interests					344,860
Net loss for the year					(1,524,044)

	Electrical and mechanical engineering	Investment holdings	Eliminations	Consolidated
2004	RM	RM	RM	RM
Segment assets	107,535,937	60,867,539	(66,863,788)	101,539,688
Investment in associate	320,598	-	-	320,598
Unallocated assets				38,560,800
Total assets				140,421,086
Segment liabilities	(30,488,552)	(953,894)	-	(31,442,446)
Unallocated liabilities				(44,708,419)
Total liabilities				(76,150,865)
Capital expenditure	1,572,972	1,673,810	-	3,246,782
Depreciation	(930,167)	(100,430)	-	(1,030,597)
Non-cash expenses other than depreciation	2,221,964	-	-	2,221,964

22. Segmental information (continued)

	Malaysia	Overseas	Elimination	Consolidation
2005	RM	RM	RM	RM
Geographical segments				
Revenue from external customers by location of customers	34,776,063	8,022,379	(2,081,835)	40,716,607 =====
Segment assets by location of assets	81,905,673	25,451,951	(26,818,549)	80,539,075 =====
Capital expenditure by location of assets	885,389	265,718		1,151,107 =====
2004				
Geographical segments				
Revenue from external customers by location of customers	77,519,665	24,210,795	(10,970)	101,719,490 =====
Segment assets by location of assets	152,386,585	16,016,891	(66,863,788)	101,539,688 =====
Capital expenditure by location of assets	3,237,831	8,951	-	3,246,782 =====

23. Contingent liabilities

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
In respect of letters of guarantee issued by banks to third parties (performance guarantee)	14,845,824	13,058,763	-	-
In respect of corporate guarantee issued to financial institutions in respect of credit facilities granted to a subsidiary	-	-	61,900,000	60,900,000
In respect of corporate guarantee issued to suppliers of raw materials purchased by a subsidiary	-	-	7,000,000	2,000,000
In respect of letter of guarantee issued by a subsidiary to a third party	250,000	250,000	-	-

23. Contingent liabilities (continued)

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
In respect of performance bond in the form of a corporate guarantee issued by company to a client for performance of contracts awarded to a subsidiary	-	-	627,900	-
	=====	=====	=====	=====

Included in the letters of guarantee issued by banks to third parties is an amount of RM464,963 (2004 - RM356,833) and RM515,253 (2004 - RM515,253) and RM3,060,000 (2004 - Nil) which are issued on behalf of three subsidiary companies, Loong Fuat Engineering (J.B.) Sdn. Bhd., Loong Fuat Engineering Limited and LFE Engineering (Vietnam) Company Limited respectively.

24. Commitments

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Capital commitments:				
Property, plant and equipment				
Contracted but not provided for in the financial statements	610,000	610,000	-	-
Investments:				
Approved but not contracted for	1,130,700	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,740,700	610,000	-	-
	=====	=====	=====	=====

25. Related parties

Controlling related party relationships are as follows:

- i) companies in which certain Directors have interests; and
- ii) its subsidiaries as disclosed in Note 4.

25. Related parties (continued)

Transactions with Directors

Significant transactions with Directors other than those disclosed elsewhere in the financial statements are as follows:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Lew Mew Choi, a Director - rental expenses	113,246	110,507	-	-
Company in which Liew Kiam Woon has interest:				
Kajang Rocks Quarry Sdn. Bhd.				
Purchases	-	7,722	-	-
Rental income received	1,800	6,300	-	-
Companies in which Lew Mew Choi has interest:				
Mayduct Technology Sdn. Bhd.				
Rental income received	-	-	264,000	264,000
Busway Industries Sdn. Bhd.				
Purchases	-	4,955	-	-
Labour charges paid	-	226,884	-	-
Megaduct Marketing Sdn. Bhd.				
Sales	-	15,500	-	-
Kejuruteraan Rayton Sdn. Bhd.				
Contract revenue receivable from a company	786,234	-	-	-

Subsidiaries

LFE Engineering Sdn. Bhd.				
Rental income receivables	-	-	60,000	60,000

The transactions have been entered into the normal course of business and have been established under negotiated terms.

26. Financial instruments

Financial risk management objectives and policies

Exposure to credit, interest rate, currency and liquidity risks arises in the normal course of the Group and the Company's business. The Board of Directors reviews and agrees on the policies for managing each of these risks and they are summarised as below:

Credit risk

Exposure to credit risk is monitored on an ongoing basis via review of receivables' ageing. At the balance sheet date, there was no concentration of credit risk other than 45% (2004 - 39%) of trade receivables due from two trade receivables.

The maximum exposure to credit risks for the Group and the Company are represented by the carrying amount of each financial asset.

26. Financial instruments (continued)

Interest rate risk

The Group utilised short term borrowings for working capital purposes and borrows term loans to finance capital expenditure. In view of the low interest rate scenario, exposure to fluctuation of interest rate risk is minimised.

Foreign currency risk

The Group and the Company incur foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia and also from translation of the financial statements of the Company's foreign subsidiary to Ringgit Malaysia. Exposure to foreign currency risks are monitored on an ongoing basis. The Group and the Company do not hedge their foreign currency risks but keeps this policy under review and will take necessary action to minimise the exposure of the risk.

Liquidity risk

The Group and the Company monitors and maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to finance the Group and the Company's operations and to mitigate the effects of fluctuation in cash flows.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprise or mature, whichever is earlier.

	Effective interest rate per annum	Total	Within 1 year	1-5 years	After 5 years
Group	%	RM	RM	RM	RM
2005					
Financial assets					
Deposits placed with licensed banks	3.3	1,470,777	1,470,777	-	-
Unquoted subordinated bonds	*	3,500,000	3,500,000	-	-
Financial liabilities					
Bank overdrafts – secured	7.5	11,467,752	11,467,752	-	-
Bankers' acceptances – unsecured	1.4	2,593,850	2,593,850	-	-
Trust receipts – unsecured	0.6	1,119,965	1,119,965	-	-
Term loan – unsecured	7.0	35,927,064	927,064	35,000,000	-
Secured share margin financing	9.0	287,620	287,620	-	-

26. Financial instruments (continued)

	Effective interest rate per annum	Total	Within 1 year	1-5 years	After 5 years
Group	%	RM	RM	RM	RM
2004					
Financial liabilities					
Deposits placed with licensed banks	3.3	5,140,510	5,140,510	-	-
Unquoted subordinated bonds	*	3,500,000	3,500,000	-	-
Bank overdrafts - secured	7.6	6,500,018	6,500,018	-	-
Bankers' acceptances - unsecured	2.9	1,897,166	1,897,166	-	-
Term loan - unsecured	7.0	35,204,167	204,167	35,000,000	-
Term loan - secured	7.5	2,191,455	2,191,455	-	-
Secured share margin financing	9.0	582,378	582,378	-	-

* Nil during the year, coupon rate is unfixed as this bond is subordinated and interest payments depend on residual cash available.

Fair values

Recognised financial instruments

In respect of cash and cash equivalents, trade and other receivables, trade and other payables and short term borrowings, the carrying amounts approximate fair values due to the relatively short term nature of these financial instruments.

The Directors deemed the fair value of long term investment properties to approximate their carrying amount.

The aggregate fair values of other financial assets and liabilities carried on the balance sheet as at 31 December were shown below:

	2005	2005	2004	2004
	Carrying amount	Fair value	Carrying amount	Fair value
Group	RM	RM	RM	RM
Financial assets				
Quoted shares	12,099,970	4,639,734	29,244,985	17,014,726
Unquoted subordinated bonds	3,500,000*	*	3,500,000	*
Financial liabilities				
Term loans - unsecured	35,927,064	35,927,064	35,204,167	35,204,167
Term loans - secured	-	-	2,191,455	2,191,455

* No fair value has been disclosed for unquoted subordinated bonds as it is not practical to estimate its fair value due to the lack of market information and the assumptions used in valuation models to value these investments cannot be reasonably established.

26. Financial instruments (continued)

The fair values of quoted shares are their quoted bid price at the balance sheet date. The secured term loan approximates its carrying value as the interest rate of the instrument approximates market rate at year end.

The fair value of unsecured term loan approximates the carrying value as the credit rating of the Group has not changed significantly since the drawdown of the term loans and the interest rate of the instrument approximates market rate at year end.

27. Acquisition of subsidiaries

Acquisitions

On 1 July 2005, the Company acquired 51% equity interest in Mediaforte Holdings Sdn. Bhd. (formerly known as Swiss Station Sdn. Bhd.) for a consideration of RM51, satisfied by cash.

On 1 December 2005, Mediaforte Holdings Sdn. Bhd. acquired 100% of the total issued and paid-up share capital of Mediaforte (Malaysia) Sdn. Bhd. at a total purchase consideration of RM49,911.

The fair values of assets and liabilities assumed in the acquisition of the subsidiaries and the cash flow effects are as follows:

	Acquisition
	2005 RM
Non current assets	
Property, plant and equipment	14,935
Current assets	1,509,904
Current liabilities	(1,443,706)
Long term liabilities	(140,318)
Net assets	(59,185)
Less : Minority interest	(49)
	(59,234)
Goodwill on acquisition	109,196
Purchase consideration	49,962
	=====
Consideration satisfied in cash	(49,962)
Cash acquired	81,328
	=====
Net cash outflow	31,366
	=====

27. Acquisition of subsidiaries (continued)

Effect of acquisition

The acquisition of subsidiaries had the following effect on the Group's operating results for the year ended 31 December 2005 and on the Group's assets and liabilities as at 31 December 2005:

	From date of acquisition to 31.12.2005
	RM
Income statement:	
Revenue	536,905
Operating costs	(667,743)
	<hr/>
Loss before taxation	(130,838)
Tax expense	(2,996)
	<hr/>
Decrease in the Group's net profit at the end of financial year	(133,834)
	=====
Balance sheet:	
Property, plant and equipment	14,348
Current assets	1,642,508
Current liabilities	(1,600,372)
Long term liability	(140,318)
	<hr/>
Decrease in the Group's net assets	(83,834)
	=====

28. Disposal of subsidiary

On 30 December 2004, the Company's subsidiary, Mayduct Technology Sdn. Bhd. allotted and issued 1,250 new ordinary shares of RM1.00 each as fully paid-up in cash to a third party at an issue price of RM253.96 per ordinary share thereby increasing its total issued and paid-up share capital from 10,000 comprising 10,000 ordinary shares of RM1.00 each to RM11,250 comprising 11,250 ordinary shares of RM1.00 each.

After the allotment, the Company's shareholding of 5,100 ordinary shares of RM1.00 each in Mayduct Technology Sdn. Bhd. remained unchanged but the effective equity interest of the Company was diluted from 51% to 45.3%.

On 31 December 2004, the Group disposed off Mayduct Technology Sdn. Bhd. for RM1,359,829 giving rise to a gain on disposal of RM425,062 to the consolidated net profit for the year ended 31 December 2004.

28. Disposal of subsidiary (continued)

The fair value of assets and liabilities disposed and the cash flow effects of the disposal are as follows:

	Disposal
	2004
	RM
Non current assets	
Property, plant and equipment	1,975,268
Development expenditure	298,596
Current assets	8,091,602
Current liabilities	(7,711,031)
Non-current liabilities	(502,687)
	<hr/>
Net assets	2,151,748
Minority interests	(1,216,981)
	<hr/>
	934,767
Gain on disposal	425,062
	<hr/>
Consideration receivable	1,359,829
	=====
Cash and cash equivalents disposed off	
Cash and bank balance	45,780
Bank overdrafts	(504,658)
	<hr/>
Net cash disposed off	(458,878)
	=====

29. Discontinued operation

On 31 December 2004, the Company entered into a Share Sale Agreement to dispose off its entire manufacturing division, a separate business segment. Control of the segment effectively ceased on 31 December 2004.

At 31 December 2004, the division had net assets of RM2,151,748. The division was sold for RM1,359,829 and a gain on disposal of RM425,062 was recorded. Note 29 shows the effect of the disposal on individual assets and liabilities of the Group.

At 31 December 2004, the manufacturing division had cash outflow from operating activities of RM435,487, cash outflow from investing activities of RM201,792 and cash inflow from financing activities of RM313,785.

LIST OF PROPERTIES as at 31 December 2005

Title/ Location	Description/ existing use	Tenure	Total land area sq. ft.	Built-up area sq. ft	Age of building / land (years)	NBV as at 31-12-2005 RM	Date of revaluation / *Date of Acquisition
Held under H.S.(M) 16668 P.T. No. 43118, Mukim Ceras, Daerah Hulu Langat, Negeri Selangor (previously held under the undivided Geran Mukim 1388, Mukim of Ceras, District of Hulu Langat, State of Selangor)	3 storey office building and a single-storey factory. Office building used as business office of LFE Group and factory rented out	Freehold	153,457 9,757 ----- 163,214	50,427 -	4 -	10,367,205 390,000 ----- 10,757,205	11.06.02 * 22.08.05
H.S. (M) 12069 Lot P.T. No. 7142 in Taman Cahaya Ampang, 5 th Mile Jalan Ampang Kuala Lumpur	4 storey light industrial building for investment purpose	Leasehold for a period of 99 years, expiring on 19.04.2082	2,800	2,800	21	731,013	18.04.03
Bungalow Lot No. 253 (Phase 1A) Bandar Tasik Puteri Kundang on land held under Master Title H.S.(M) 9231, P.T. No. 23803, Gombak, Mukim of Rawang	Bungalow land for investment purpose	Leasehold for a period of 99 years, expiring on 17.12.2099	11,550	Not Applicable	Not Applicable	333,011	16.05.00
Block D, 1 st Floor, Phase 7E, Bukit Rahman Putra erected on land held under Master Title H.S. (D) 94706 P.T. No. 28632, Mukim of Sungai Buloh, District of Petaling, State of Selangor	Shop lot for investment purpose	Freehold	1,650	1,360	5	205,417	19.12.01
Serdang Perdana, Phase 1, Unit B-G-07, G- Storey, Building No. B erected on land held under Master Title H.S. (D) 103045 P.T. No. 35940, Mukim of Petaling, District of Petaling, State of Selangor	4 storey shop apartment for investment purpose	Leasehold for a period of 99 years, expiring in April 2195	-	1,343	Partly constructed	246,679	* 8.12.00
Lot 1616 erected on land held under H.S.(D) 32183 P.T. No. 20038 (previously held under Pajakan Negeri 5325, Lot No. 1571), Mukim of Rawang, District of Gombak, State of Selangor	Single storey house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	1,604	1,212	5	92,222	* 26.02.99

Title/ Location	Description/ existing use	Tenure	Total land area sq. ft.	Built-up area sq. ft	Age of building / land (years)	NBV as at 31-12-2005 RM	Date of revaluation / *Date of Acquisition
Held under GM 333, Lot P.T. No. 1189, Mukim Petaling, Dearah Petaling, Negeri Selangor	Agricultural land for investment purpose	Freehold	47,630 47,630 ----- 95,260	Not Applicable	Not Applicable	804,160 899,371 ----- 1,703,531	* 19.03.04 * 29.03.04
Lot 1648 erected on land held under H.S.(D) 32183 P.T. No. 20038 (previously held under Pajakan Negeri 5325, Lot No. 1571), Mukim of Rawang, District of Gombak, State of Selangor	Single Storey house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	1,604	1,600	5	92,222	* 26.02.99
Lot 26-329 erected on land held under H.S. (D) 32209 P.T. No. 20064, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	1,040	1,200	5	117,152	* 01.10.01
Lot 27-347 erected on land held under H.S. (D) 32210 P.T. No 20065, Mukim of Rawang, Daerah Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	1,044	1,200	5	122,609	* 10.10.01
Lot 28-300 erected on land held under H.S. (D) 32211 P.T. No. 20066, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	1,119	1,200	5	117,152	* 01.10.01
Lot 27-431 erected on land held under H.S. (D) 32210 P.T. No 20065, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	1,044	1,200	5	119,169	* 16.10.01
Lot 16-015 erected on land held under H.S. (D) 32202 P.T. No. 20057, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	1,119	1,380	4	154,968	* 17.06.02
Lot 16-340 erected on land held under H.S(D) 32202 P.T No. 20057 in the Mukim of Rawang District of Gombak State of Selangor	Double storey link house for investment purposes	Leasehold for a period of 99 years, expiring on 11.07.2060	1,173	1,380	4	154,968	* 01.07.02

Title/ Location	Description/ existing use	Tenure	Total land area sq. ft.	Built-up area sq. ft	Age of building / land (years)	NBV as at 31-12-2005 RM	Date of revaluation / *Date of Acquisition
Lot 8-106 erected on land held under H.S. (D) 32195 P.T. No. 20050, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	309.92 sq meters	1,555	4	190,692	* 17.06.02
Lot 8-107 erected on land held under H.S. (D) 32195 P.T. No. 20050, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	350.89 sq meters	1,566	4	197,756	* 17.06.02
Lot 16-571 erected on land held under H.S. (D) 32202 P.T. No. 20057, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	269 sq meters	1,566	4	183,684	* 17.06.02
Lot 8-154 erected on land held under H.S. (D) 32195 P.T. No. 20050, Mukim of Rawang, District of Gombak, State of Selangor	Double storey link house for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	365.84 sq meters	1,566	4	206,233	* 17.06.02
Unit F1-2-33A erected on land held under H.S. (D) 32195 P.T. No. 20050, Mukim of Rawang, District of Gombak, State of Selangor	Apartment for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	-	624	4	60,109	* 17.06.02
Unit F2-2-37 erected on land held under H.S. (D) 32195 P.T. No. 20050, Mukim of Rawang, District of Gombak, State of Selangor	Apartment for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	-	667	4	62,926	* 17.06.02
Unit F2-2-82 erected on land held under H.S. (D) 32195 P.T. No. 20050, Mukim of Rawang, District of Gombak, State of Selangor	Apartment for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	-	667	4	62,926	* 17.06.02
Unit F1-2-37 erected on land held under H.S. (D) 32195 P.T. No. 20050, Mukim of Rawang, District of Gombak, State of Selangor	Apartment for investment purpose	Leasehold for a period of 99 years, expiring on 11.07.2060	-	624	4	60,322	* 17.06.02

Title/ Location	Description/ existing use	Tenure	Total land area sq. ft.	Built-up area sq. ft	Age of building / land (years)	NBV as at 31-12-2005 RM	Date of revaluation / *Date of Acquisition
Unit No. RC-16-7 erected on lands held under Geran Mukim 1831 & 1832, Lot 220 & 221, & H.S. (D) 75981 P.T. No. 171, Seksyen 83, Bandar & Daerah Kuala Lumpur, Negeri Wilayah Persekutuan	Apartment for investment purpose	Freehold	-	1,272	Partly constructed	286,210	* 14.06.05
Unit No. RC-18-7 erected on lands held under Geran Mukim 1831 & 1832, Lot 220 & 221, & H.S. (D) 75981 P.T. No. 171, Seksyen 83, Bandar & Daerah Kuala Lumpur, Negeri Wilayah Persekutuan	Apartment for investment purpose	Freehold	-	1,272	Partly constructed	288,666	* 14.06.05
Lot 28-2B erected on lands held under H.S. (D) 103399 & 103401 P.T. No. 17739 & 17741, Mukim of Batu, District of Kuala Lumpur, Wilayah Persekutuan	Apartment for investment purpose	Freehold	-	913	Partly constructed	386,199	* 24.06.05
Lot 28-2C erected on lands held under H.S. (D) 103399 & 103401 P.T. No. 17739 & 17741, Mukim of Batu, District of Kuala Lumpur, Wilayah Persekutuan	Apartment for investment purpose	Freehold	-	913	Partly constructed	386,199	* 24.06.05
Lot 28-2D erected on lands held under H.S. (D) 103399 & 103401 P.T. No. 17739 & 17741, Mukim of Batu, District of Kuala Lumpur, Wilayah Persekutuan	Apartment for investment purpose	Freehold	-	913	Partly constructed	386,199	* 24.06.05

ANALYSIS OF SHAREHOLDINGS as at 2 May 2006

SHARE CAPITAL

Authorised share capital	:	RM100,000,000
Issued and paid-up share capital	:	RM52,000,002
Class of Shares	:	Ordinary shares of RM1.00 each
Voting rights	:	One (1) vote per ordinary share
Number of shareholders	:	1,047

ANALYSIS OF SHAREHOLDINGS

Size of holdings	No. of Shareholders	%	Shareholdings	%
Less than 100	3	0.29	154	0.00
100 to 1,000	448	42.79	295,700	0.57
1,001 to 10,000	424	40.50	1,860,900	3.58
10,001 to 100,000	129	12.32	3,769,015	7.25
100,001 to less than 5 % of issued share capital	38	3.63	19,707,042	37.90
5% and above of issued share capital	5	0.48	26,367,191	50.71
Total	1,047	100.00	52,000,002	100.00

SUBSTANTIAL SHAREHOLDERS

As per the Register of Substantial Shareholders

Name	Shareholdings			%
	Direct	Indirect	Note	
Lew Mew Choi	7,604,108	8,557,521	¹	31.08
Ramli bin Abu Kasim	-	11,557,521	²	22.23
Kekal Jaya Holdings Sdn Bhd	8,557,521	-	-	16.46
Soong Moi @ Song Mou	-	8,557,521	³	16.46
Liew Meow Nyeam	710,549	7,605,562	⁴	16.00
Liew Kiam Woon	133,843	4,605,562	⁵	9.12
Liew Meow Nyeam Realty Sdn Bhd	4,605,562	-	-	8.86
Chang Lau Hoi @ Chang Sow Lan	-	4,605,562	⁶	8.86
Kekal Jaya Ventures Sdn Bhd	3,000,000	-	-	5.77
Eminent Builders Sdn Bhd	2,600,000	-	-	5.00
Abdul Rahim bin Achmed	-	2,600,000	⁷	5.00

Note ^{1 to 7} : Indirect interest pursuant to Section 6A of the Companies Act, 1965

DIRECTORS' INTERESTS IN SHARES

As per the Register of Directors' Shareholdings

In The Company

Name	Shareholdings			%	Note
	Direct	%	Indirect	%	
Dato' Hamzah bin Zainudin	-	-	-	-	-
Lew Mew Choi	7,604,108	14.62	8,557,521	16.46	¹
Liew Meow Nyeam	710,549	1.37	7,605,562	14.63	²
Ramli bin Abu Kasim	-	-	11,557,521	22.23	³
Liew Kiam Woon	133,843	0.26	4,605,562	8.86	⁴
Chin Soong Jin	-	-	-	-	-
Chung Tack Soon	-	-	-	-	-
Tong Hock Sen	-	-	-	-	-

Note ^{1 to 4} : Indirect interest pursuant to Section 6A of the Companies Act, 1965

THIRTY (30) LARGEST SHAREHOLDERS

No.	Name	Shareholdings	%
1.	Kekal Jaya Holdings Sdn Bhd	8,557,521	16.46
2.	Lew Mew Choi	7,604,108	14.62
3.	Liew Meow Nyeen Realty Sdn Bhd	4,605,562	8.86
4.	Kekal Jaya Ventures Sdn Bhd	3,000,000	5.77
5.	Eminent Builders Sdn Bhd	2,600,000	5.00
6.	Liberty Spear (M) Sdn Bhd	2,585,381	4.97
7.	Ekuiti Rancak Sdn Bhd	1,650,000	3.17
8.	Lee Muk Siong	1,500,000	2.88
9.	Rudy Ng Chong Jin	1,292,900	2.49
10.	Lan Geok Nam @ Tan Geok Nam	1,016,501	1.95
11.	Amsec Nominees (Tempatan) Sdn Bhd AmMerchant Bank Bhd for Tan Soon Muay @ Tan Kim Huay	1,000,000	1.92
12.	Cheong Thiam Fook	952,000	1.83
13.	Liew Meow Nyeen	710,549	1.37
14.	Razman Md Hashim bin Che Din Md Hashim	684,900	1.32
15.	Raymond Fam Chye Soon	665,800	1.28
16.	HSBC Nominees (Asing) Sdn Bhd Exempt An for Credit Suisse (SG BR-TST-Asing)	606,900	1.17
17.	Yong Mee Queen	524,100	1.01
18.	Tan Chin Boon @ Tan Choo Boon	500,000	0.96
19.	Citicorp Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Kee Ju-Hun	490,000	0.94
20.	Wong Yoke Fong @ Wong Nyok Fing	478,800	0.92
21.	Lee Kuan Chen	463,700	0.89
22.	Citigroup Nominees (Asing) Sdn Bhd UBS AG Singapore for JKC & Partners Corporation	400,000	0.77
23.	M.I.T. Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Kee Ju-Hun	380,000	0.73
24.	Ong Bee Bee	350,000	0.67
25.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for OSK-UOB Dana Islam	304,900	0.59
26.	On Hai Swee	292,168	0.56
27.	ECM Libra Securities Nominees (Tempatan) Sdn Bhd Peter Yew Cheong Eng	258,300	0.50
28.	Thong Lou Hoong	244,800	0.47
29.	ECM Libra Securities Nominees (Asing) Sdn Bhd ECM Libra Securities Limited for Asia New Economy Fund	219,900	0.42
30.	Chang Chai Kin	218,700	0.42
Total		44,157,490	84.92



LFE CORPORATION BERHAD (579343-A)

FORM OF PROXY

I/We _____
of _____
being a member / members of LFE CORPORATION BERHAD ("the Company") hereby appoint
_____ of _____
or failing whom _____
of _____

/ the Chairman of the Meeting as my/our proxy to attend, speak and vote on my/our behalf at the FOURTH ANNUAL GENERAL MEETING of the Company ("the Meeting") to be held at Ground Floor, Wisma LFE, Lot 993, Off Jalan Balakong, 43300 Balakong, Seri Kembangan, Selangor Darul Ehsan, Malaysia on Monday, 26 June 2006 at 2.30 p.m. and at any adjournment thereof.

I / We direct my / our proxy to vote (*see Note 4 herein*) for or against the resolutions to be proposed at the Meeting as indicated hereunder :-

Ordinary Resolution		For	Against
1	Consolidated Audited Financial Statements		
2	Approve payment of Directors' Fees		
3	Re-election of Dato' Hamzah bin Zainudin		
4	Re-election of Ramli bin Abu Kasim		
5	Re-election of Chin Soong Jin		
6	Re-appointment of Auditors		
7	Authority For Directors To Allot And Issue Shares		
Special Resolution	Re-appointment of Liew Meow Nyeen		

Dated this _____ day of _____ 2006.

No. of Shares Held

Signature/ common seal of shareholder

NOTES

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies (but not more than two (2) save for an Authorised Nominee as defined in the Securities Industries (Central Depositories) Act, 1991) to attend and vote in his stead. A proxy may but need not be a member of the Company and Sections 149 (1) (a) and (b) of the Companies Act, 1965 shall not apply.
2. This Form of Proxy, in the case of an individual, must be signed by the appointor or by his attorney duly authorised in writing and in the case of a body corporate, it must be given under its common seal or signed on its behalf by an attorney or officer of the body corporate duly authorised in writing.
3. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of shareholdings to be represented by each proxy. Each proxy appointed shall represent a minimum of 100 shares held by the member.
4. Please indicate with an X in the appropriate column as to how you wish your proxy to vote [For or Against] each resolution. If this Form of Proxy is returned without any indication as to how the proxy shall vote, the proxy will be entitled to vote or abstain from voting as he thinks fit.
5. This Form of Proxy must be deposited at the Company's Registered Office, Wisma LFE, Lot 993, Off Jalan Balakong, 43300 Balakong, Seri Kembangan, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.

Fold along this line

Affix Postage
Stamp
Here

The Company Secretary
LFE CORPORATION BERHAD (579343-A)
Wisma LFE, Lot 993, Off Jalan Balakong
43300 Balakong, Seri Kembangan
Selangor Darul Ehsan
Malaysia

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