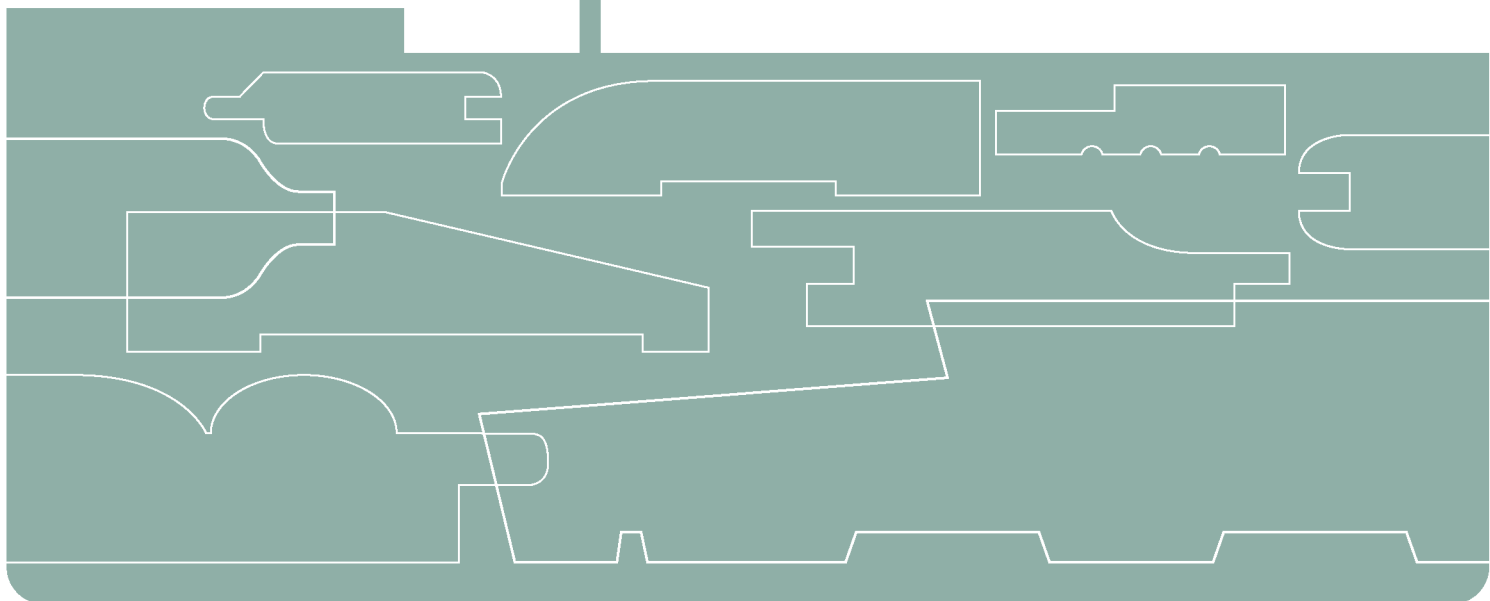


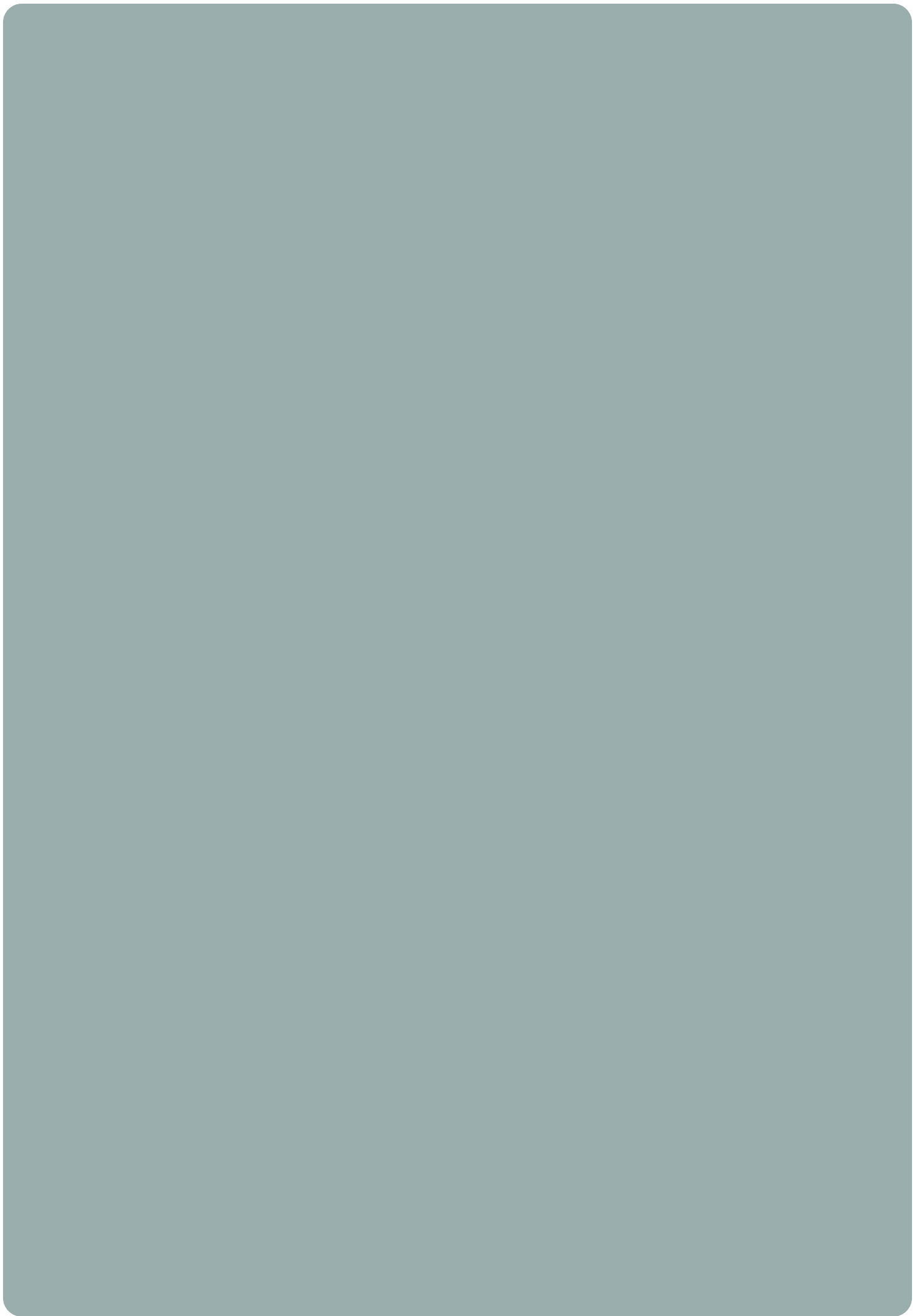
Annual
Report **2005**

MANAGING
FOREST
RESOURCES
ON A
SUSTAINABLE
BASIS



Leweko
Resources Berhad
(568420-k)





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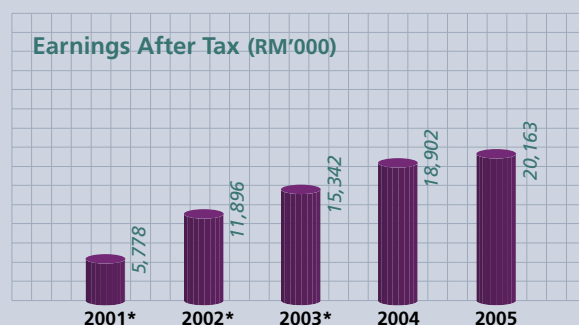
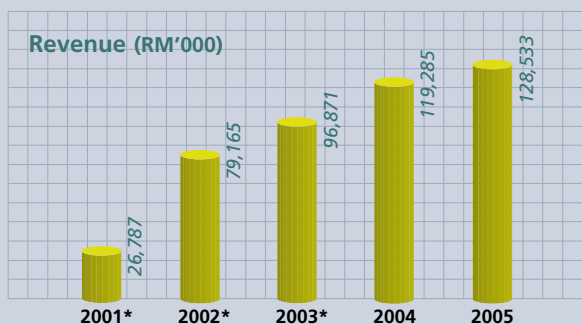


Cover Rationale

Graphic profiles of solid timber mouldings form a dynamic collage against a gentle grey-green background; aptly symbolising the growth of downstream timber products within Leweko's commitment to managing forest resources on a sustainable basis.

Group Financial Highlights

Performance



	2005 RM'000	2004 RM'000	2003* RM'000	2002* RM'000	2001* RM'000
Funds Employed					
Shareholders' funds	164,958	152,430	139,112	#	#
Net assets per share (RM)	1.43	1.32	1.21	#	#
Earnings per share (sen):					
EBITDA	29.9	28.3	21.6	20.9	9.2
Gross	23.1	22.4	18.7	18.7	7.0
Net	17.5	16.4	13.3	10.3	5.0
Net Return on Equity (%)	12.2	12.4	11.0	#	#
Gross dividend per share (sen)	7.0	6.0	2.0	#	#
Net dividend per share (sen)	5.6	4.4	1.4	#	#
31 December closing price (RM)	1.40	1.56	1.28	^	^
Price earnings ratio - based on 31 December closing price (times)	8.0	9.5	9.6	^	^

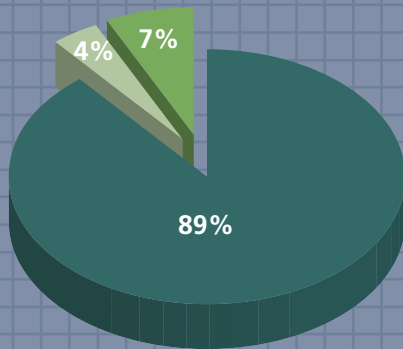
* The figures for 2001 to 2003 were prepared on a proforma basis as the Group only came into existence on 13 November 2003

Not applicable

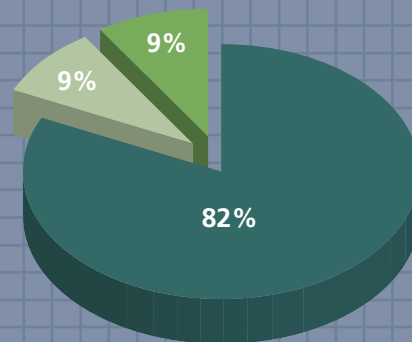
^ Not applicable as the Company was only listed on Bursa Malaysia Securities Berhad on 31 December 2003

Segmental Analysis

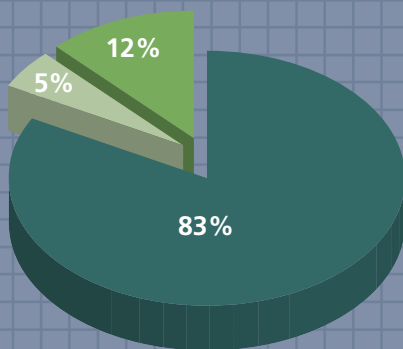
Revenue
2005



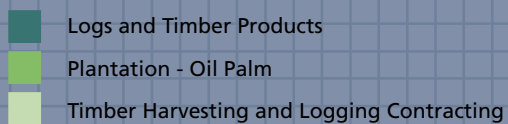
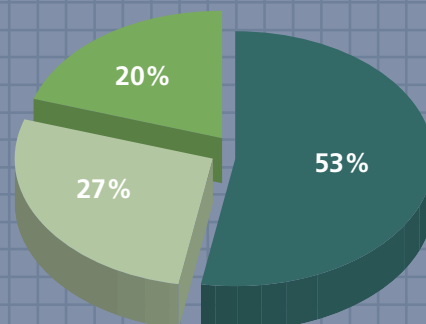
Revenue
2004



Earnings Before Tax
2005



Earnings Before Tax
2004



Corporate Information

Company Secretaries

Chung Wai Choong
Tan Cheong Yeow

Audit Committee

Dato' Seri Haji Mohamed Pakri @ Mohamed
Nazri bin Haji Abdul Rahim (Chairman)
Tuan Haji Othman bin Haji Sulaiman
Tan Cheong Yeow

Nomination Committee

Dato' Seri Haji Mohamed Pakri @ Mohamed
Nazri bin Haji Abdul Rahim (Chairman)
Tuan Haji Othman bin Haji Sulaiman

Remuneration Committee

Dato' Seri Haji Mohamed Pakri @ Mohamed
Nazri bin Haji Abdul Rahim (Chairman)
Tuan Haji Othman bin Haji Sulaiman
Dato' Leong Wei Kong

Registered/Head Office

36-38, Lengkok Tasek Timur
Taman Tasek Indra
31400 Ipoh
Perak Darul Ridzuan
Tel: 605-548 6663
Fax: 605-545 0088

Kuala Lumpur Corporate Office

Office Suite 34-5, 34th Floor
Wisma UOA II
No. 21 Jalan Pinang
50450 Kuala Lumpur
Tel: 603-2163 8883
Fax: 603-2168 8377

Share Registrar

Lawco Corporate Services Sdn Bhd
Suite 16-10, Level 16
Wisma UOA II
21 Jalan Pinang
50450 Kuala Lumpur
Tel: 603-2170 2622
Fax: 603-2163 0763

Auditors

Messrs. Deloitte KassimChan

Solicitors

Messrs. Chooi & Company
Messrs. Kadir, Andri & Partners

Principal Banker

Malayan Banking Berhad

Stock Exchange Listing

Main Board of Bursa Malaysia Securities Berhad

Sector

Industrial Products

Stock Name/Code

LEWEKO/8745

ISIN

MYL87450001

Board of Directors



**Dato' Seri Haji Mohamed Pakri @
Mohamed Nazri bin Haji Abdul Rahim**

**Independent Non-Executive Chairman
Managing Director**

Dato' Leong Wei Kong

Independent Non-Executive Director

Tuan Haji Othman bin Haji Sulaiman

Executive Director – Upstream & Plantation Operations

Abd Aziz bin Jantan

Executive Director – Downstream Operations

Leong Chee Nang

Executive Director – Finance

Tan Cheong Yeow

Executive Director – Corporate Affairs

Chung Wai Choong

From left to right:

Dato' Seri Haji Mohamed Pakri @ Mohamed Nazri bin Haji Abdul Rahim, Chung Wai Choong,
Tuan Haji Othman bin Haji Sulaiman, Abd Aziz bin Jantan, Tan Cheong Yeow, Leong Chee Nang, Dato' Leong Wei Kong

Board of Directors' Profile

Dato' Seri Haji Mohamed Pakri @ Mohamed Nazri bin Haji Abdul Rahim

Independent Non-Executive Chairman

Dato' Seri Haji Mohamed Pakri @ Mohamed Nazri bin Haji Abdul Rahim, a Malaysian citizen, aged 64, was appointed the Independent Non-Executive Chairman of Leweko Resources Berhad ["Leweko"] on 13 November 2003. Prior to his appointment as the Political Secretary to the Menteri Besar of Perak Darul Ridzuan in 1983, he was with Jabatan Pengairan dan Saliran, Hilir Perak. He was a Councillor of the State Executive Council of Perak Darul Ridzuan from 1986 to 1995 and the Speaker of the Perak State Legislative Assembly from 1995 to 1999. He was also the Member of the Perak State Legislative Assembly for the state constituency of Sungai Manik from 1986 to 2004. He is currently a director cum chairman and shareholder of several private companies engaged in investment holding, property development and the provision of educational services.

Dato' Leong Wei Kong

Managing Director

Dato' Leong Wei Kong, a Malaysian citizen, aged 53, the Managing Director of Leweko, has more than thirty years of experience in the timber industry. He started his career as a logging contractor in 1972 and was appointed to the Board of Leweko on 13 November 2003. He is currently a director and/or shareholder of several other private companies engaged in property development and investment holding.

Tuan Haji Othman bin Haji Sulaiman

Independent Non-Executive Director

Tuan Haji Othman bin Haji Sulaiman, a Malaysian citizen, aged 64, was appointed an Independent Non-Executive Director of Leweko on 13 November 2003. He holds a Senior Cambridge School Certificate and a Malaysian Certificate of Education. Upon his graduation from the Days Training College in 1968, he became a teacher, a job he held until his retirement in 2001. He was a Councillor of Pejabat Daerah Hulu Selangor from 1996 to 1999.

Abd Aziz bin Jantan

Executive Director – Upstream and Plantation Operations

Abd Aziz bin Jantan, a Malaysian citizen, aged 56, the Executive Director (Upstream and Plantation Operations) of Leweko, was appointed a Director on 13 November 2003. Prior to joining Maju Weko Timber Industries Sdn. Bhd. ["MWTI"] in 1980, he was with Jabatan Perhutanan Negeri Perak from 1969 to 1976 and was the logging manager of Syarikat Usaha Jaya from 1976 to 1980. He is currently a director of Ikatan Sharikat Pembalakan-Pembalakan Perak Berhad and he also sits on the boards of directors of a number of private companies with interests in property development, timber logging and sawmilling, and investment holding.

Tan Cheong Yeow

Executive Director – Finance

Tan Cheong Yeow, a Malaysian citizen, aged 47, the Executive Director (Finance) and a Joint Company Secretary of Leweko is a Member of the Malaysian Institute of Certified Public Accountants and a Member of the Malaysian Institute of Accountants. He was trained as an articled student with Hanafiah, Raslan & Mohamad (then also practising as Touché Ross & Co.). In 1993, he left Deloitte Ross Tohmatsu (now known as Deloitte KassimChan) to join the Samling Strategic Corporation Group ["SSC Group"] which has diversified activities including forest management, downstream wood-based processing and property development, as an assistant manager (administration & finance [downstream division]). In 1996, he was seconded to the SSC Group's timber operations (upstream and downstream) in Guyana as its general manager (accounts and finance). He returned to Malaysia in 2001 and was the assistant general manager (risk management) of Lingui Developments Berhad and Glenealy Plantations (Malaya) Berhad until he left to join MWTI in January 2003. He joined the Board of Leweko on 13 November 2003.

Board of Directors' Profile (continued)

Leong Chee Nang

Executive Director – Downstream Operations

Leong Chee Nang, a Malaysian citizen, aged 29, the Executive Director (Downstream Operations) of Leweko is the son of Dato' Leong Wei Kong. He joined MWTI in 2001 after his graduation with a Bachelor of Engineering Degree majoring in Civil Engineering from the University of New South Wales in Australia. He was appointed to the Board of Leweko on 13 November 2003.

Chung Wai Choong

Executive Director – Corporate Affairs

Chung Wai Choong, a Malaysian citizen, aged 46, the Executive Director (Corporate Affairs) and a Joint Company Secretary of Leweko is a Member of the Malaysian Institute of Certified Public Accountants and a Member of the Malaysian Institute of Accountants. He was articled with Hanafiah Raslan & Mohamad (then also practising as Touché Ross & Co.). He joined Coopers & Lybrand, Singapore in 1987. In 1988, he returned to Malaysia to join Mustapha Law/Touché Ross & Co. Upon the merger of Mustapha Law/Touché Ross & Co. and Kassim Chan & Co./Deloitte Haskins & Sells in 1992, he was transferred to the merged firm's management consultancy arm as a senior manager. He commenced public practice in 1993 when he joined Sekhar & Tan as a principal. He retired from public practice in 2003 and in January 2004, he joined Leweko as its General Manager (Corporate Finance). On 9 February 2004, he was appointed to the Board of Leweko. He has extensive experience in auditing and has also worked on special assignments involving corporate finance, corporate recovery, project management, systems review, corporate restructuring, mergers and acquisitions, and feasibility studies for multinational and large national enterprises. In addition, he also has vast knowledge in corporate secretarial matters and was the joint company secretary of Lingui Developments Berhad and Glenealy Plantations (Malaya) Berhad from 1996 to early 2003. He has also previously served as a member of the Malaysian Institute of Certified Public Accountants' Auditing and Accounting Standards Committee.

Group Corporate Structure



Leweko
Resources Berhad
(568420-k)

100%
MWTI
Logs trading, processing and manufacturing of sawn timber, moulded timber and other timber related products

100%
SAM
Timber logging, trading and transportation

100%
SASB
Oil palm cultivation

100%
MLT
Contractor for timber harvesting and logging infrastructure

100%
KPSB
Oil palm cultivation

100%
PSB
Oil palm cultivation

- MWTI** – Maju Weko Timber Industries Sdn Bhd
- MLT** – Maju Leweko Timber Sdn Bhd
- SAM** – Syarikat Amiziz (M) Sdn Bhd
- KPSB** – Kota Pinang Sdn Bhd
- SASB** – Sesenduk Air Sdn Bhd
- PSB** – Petralman Sdn Bhd

Chairman's Statement

Dear Shareholders,

On behalf of your Board of Directors, I am pleased to present the Annual Report and the Audited Financial Statements of our Group and Company for the financial year ended 31 December 2005.



Share Price Performance

The performance of our Company shares in 2005 has been disappointing in the midst of poor interest in small-capitalised stocks listed on Bursa Malaysia Securities Berhad ["Bursa Securities"]. Our Company shares price declined by 10.3% (based on the closing prices as of 31 December 2004 and 2005) in 2005 as compared to a decline of 0.8% in the Kuala Lumpur Composite Index ["KLCI"] during the same period.

Despite the above disappointment, I must highlight that our gross dividend yield of 5% (based on total gross dividend of 7 sen and closing price of RM1.40 per share as at 31 December 2005) for 2005 remains parallel to if not better than the average dividend yield of the KLCI component stocks.

As you are aware, the listing of and quotation of our Company's entire issued and paid-up share capital was transferred from the Second Board to the Main Board of Bursa Securities on 18 January 2005. While this has enhanced our Group's prestige, reputation, credit standing, recognition and prominence, it has not attracted the anticipated greater equity participation in our Company from institutional investors and portfolio managers.

Nonetheless, backed by solid growth prospects and financials, I believe that interest in our Company shares by institutional investors and portfolio managers will gradually increase.

Financial Performance Review

Our Group's financial performance for 2005 was commendable. The revenue of our Group increased from RM119.3 million in the previous financial year to RM128.5 million, representing an increase of RM9.2 million or 7.7%.

The profit before and after tax attributable to the said total revenue was RM26.6 million and RM20.2 million respectively, and the net earnings per share ["EPS"] was 17.5 sen (an increase of 6.7% over the previous financial year's EPS of 16.4 sen).

Although our growth rate for 2005 has moderated as compared to the double digit growth of the last two financial years, it must be noted that it was achieved despite escalating global crude oil prices and rising costs of our major input components such as logs in 2005. The reduced contribution from the plantation division was a significant factor in the moderation of the growth rate.

Logs and Timber Products Division

The logs and timber products division registered revenue of RM114.9 million for 2005. This was 17.6% higher than that of the previous financial year. This increase was achieved mainly on the back of better prices for our timber products and higher capacity utilisation of our downstream timber processing facilities.

Revenue from our sales of our sawn timber of RM46.2 million in 2005 was more or less the same as the revenue of the previous financial year. Although there was no hardly any increase in revenue on a year-to-year basis, it must be noted that the volume of sawn timber sold in 2005 declined from that of 2004 by about 18.1%. This decline in volume was due to the fact that some of the sawn timber produced by us was utilised for our internal moulding operations instead of being sold outright.

In my last two years' statements, I spoke about our Group's emphasis on our higher profit margin moulding operations. I am pleased to inform you that this strategy which was on-going has boosted our revenue from the sales of solid wood mouldings to RM24.1 million in 2005 from RM13.1 million in the previous financial year. This additional revenue was derived from increases of 42.7% and 28.7% in volume sold and selling prices respectively. The accreditation of the Certificate for Chain-of-Custody by the Malaysian Timber Certification Council to our subsidiary company, Maju Weko Timber Industries Sdn. Bhd. ["MWTI"], in February 2005 was also a contributory factor to these increases.

As for our logs trading activities, although selling prices obtained dipped 2.2% year-on-year, both revenue and volume sold in 2005 registered increases of 16.1% and 18.7% respectively over those of 2004. These increases were due to more logs being harvested from the in-house forest concessions during the current financial year.



Timber Harvesting and Logging Contracting Division

The revenue and profit before tax of this division in 2005 declined by 53.8% and 81.9% respectively year-on-year. These declines were mainly due to the fact that most of our Group's equipment and resources were used to service our in-house forest concessions during the current financial year.

The decreased activities of this division during 2005 in carrying contract work for external parties have resulted in an increase of its average production cost thereby decreasing its profit before tax margin to 25.5% for 2005 from 64.9% in the previous financial year.

Plantation Division – Oil Palm

Our plantation division contributed RM8.5 million and RM3.2 million to our Group's revenue and profit before tax respectively for the financial year under review. These contributions declined by 25.0% and 44.4% respectively from those of the previous financial year.

The main factors for the lower contribution were the easing of average crude palm oil prices by 16.3% and the reduced output of fresh fruit bunches by 4.5% year-on-year.

Outlook

Our satisfactory results in 2005 were achieved primarily as a consequence of the good performance achieved by our logs and timber products division which generally enjoyed good prices throughout 2005.

The current on-going re-organisation and revamping of our Group's downstream timber production facilities (with the additions of new machinery and equipment) which commenced in the third quarter of 2005, once successfully completed and commissioned, is expected to augur well for our Group. The recent granting of the Certificate for Chain-of-Custody by the Forest Stewardship Council A.C. ["FSC"] to MWTI as a trader in FSC-certified timber products will position our Group to further expand and penetrate new markets as well as securing higher prices for our timber products.

These together with the development of new products and the seeking of additional international certifications for our Group's timber products should

Chairman's Statement (continued)

enable our Group's logs and timber products division to enhance its future performance.

As for our plantation business, our Group is hopeful that crude palm oil prices can be sustained at current or higher levels so that it will continue to contribute positively to our Group's profitability in 2006.

On the other hand, the expected continued strengthening of Ringgit Malaysia against the United States Dollar is likely to cast downward pressure on both our Group's timber export revenue and crude palm oil prices. The current high fuel prices and the recently announced increase in electricity tariffs will also bring forth higher operating costs.

Against this negative macro background, our Group's management will undertake all necessary efforts to lower its production cost by higher capacity utilisation and margin improvements through sales expansion of new and higher value niche solid wood products.

The Board is hopeful that these measures can partially mitigate the effects of the adverse factors and barring unforeseen circumstances, our Group should be able to achieve a satisfactory performance in 2006.

Dividends

As I have informed you last year, although most of our earnings have been utilised to fund the working capital needs of our subsidiary companies, it is the Board's policy to reward you with fair and equitable dividends on a sustainable basis for investing in our Company.

As such, the Board has proposed a final dividend of 3.5 sen per share less income tax of 28% (2.52 sen net per share) amounting to approximately RM2.9 million for 2005 for your approval at the forthcoming Fourth Annual General Meeting.

Together with the special interim dividend of 3.5 sen per share, comprising 2.0 sen tax exempt and 1.5 sen less income tax of 28% (1.08 sen net) paid on 24 June 2005, the total dividend for 2005 is 7.0 sen per share comprising 2 sen tax exempt and 5.0 sen less income tax of 28% (3.60 sen net).

The above net dividend payout of 5.60 sen represents an increase of almost 30% over the net dividend payout of 4.32 sen for 2004 and a distribution of about 32% of our Group's post tax earnings for 2005.



In addition to the above, the Board has on 21 March 2006 paid a special interim dividend in respect of 2006 of 3.5 sen per share, comprising 2.0 sen tax exempt and 1.5 sen less income tax of 28% (1.08 sen net).

Acknowledgement

On behalf of the Board, I would like to express our deep appreciation to all our shareholders, customers, business partners and bankers as well as the governmental and regulatory authorities for their continuing support of and confidence in our Group.

I would also like to express my heartfelt thanks to our advisers, solicitors, consultants and the relevant regulatory authorities for their invaluable assistance and advice.

Last but not least, I must acknowledge the contribution of our Group's employees for their strong dedication, support, professionalism and hard work throughout 2005, without which, it would not be possible to deliver the growth in shareholder value for you.

Dato' Seri Haji Mohamed Pakri
@ Mohamed Nazri bin Haji Abdul Rahim
Chairman

30 May 2006

Statement on Corporate Governance

The Board of Directors of Leweko Resources Berhad ["Leweko"] is pleased to report on the application by Leweko and its subsidiary companies ["Leweko Group"] of the principles of corporate governance as set out in the Malaysian Code on Corporate Governance ["Code"] and the extent of compliance by the Leweko Group with the best practices of the Code as required by the Listing Requirements of Bursa Malaysia Securities Berhad ["Bursa Securities"]. The principles have been applied and the best practices have been complied with throughout the financial year ended 31 December 2005 to ensure that the affairs of the Leweko Group are managed in accordance with the applicable standards of good corporate governance and any departures from the Code have been narrated accordingly.

Directors

The Board

Leweko has an effective Board of Directors ["Board"] which leads and controls the Leweko Group to discharge its stewardship responsibilities pursuant to the best practices of the Code. The Board's principal responsibilities are as follows:

- Reviewing and adopting a strategic plan for the Leweko Group
- Overseeing the conduct of the Leweko Group's business to evaluate whether the business is properly managed
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks
- Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management
- Developing and implementing an investor relations programme or shareholder communications policy for the Leweko Group
- Reviewing the adequacy and integrity of the Leweko Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines

The Board has through its various meetings discussed and deliberated on the various corporate affairs of the Leweko Group including its overall strategy and plans.

Board Balance

The Board has seven members out of which two are Independent Non-Executive Directors. Except in cases where conflicts of interest arise, these two Independent Non-Executive Directors that are affected will refrain from the deliberations concerned and do not vote but they are otherwise independent.

The Chairman's and the Managing Director's roles and responsibilities are divided to ensure that there

is a balance of power and authority. This balance ensures that all matters brought before the Board are fully, adequately and objectively discussed taking into account the interests of the various stakeholders including the minority shareholders.

Being a Board with a relatively small number of Directors, the Board felt that it was not necessary to identify a Senior Independent Non-Executive Director in this Annual Report to whom concerns of the other Directors may be conveyed as all such concerns can be conveyed either to the Chairman or the other Independent Non-Executive Director.

The brief description of the background of each Director is presented in the "Board of Directors' Profile" set out on pages 6 to 7. Although their roles are clearly demarcated, together, they provide the Leweko Group with a wide range of skills and experience to ensure that the Leweko Group will remain to be competitive with a strong reputation for professional competence. The Executive Directors with their intimate knowledge of the business take on the primary responsibility for leadership of the Leweko Group whilst the Non-Executive Directors bring independent judgement and a broader view of the Leweko Group's business on issues of strategy, business performance, resources and standards of conduct.

During the financial year ended 31 December 2005 ["FY2005"], the Board had held 5 meetings and all the Directors have attended at least 50% of the meetings held. The record of attendance of each Director is set out below:

Name of Director	No. of meetings attended/ No. of meetings held
Dato' Seri Haji Mohamed Pakri @ Mohamed Nazri bin Haji Abdul Rahim	5/5
Dato' Leong Wei Kong	5/5
Tuan Haji Othman bin Haji Sulaiman	5/5
Abd Aziz bin Jantan	4/5
Tan Cheong Yeow	4/5
Leong Chee Nang	4/5
Chung Wai Choong	5/5

Statement on Corporate Governance (continued)

All members of the Board complied with the limitation of directorship requirement pursuant to the Listing Requirements of Bursa Securities ["Listing Requirements"].

The Board acknowledged the importance of continuous education and training for the Directors to enable them to discharge their duties and responsibilities effectively. In this respect, it will on a continuous basis, evaluate and determine the training needs of the Directors based on the respective Directors' area of responsibility. In order to achieve its objective and ensure compliance with the Listing Requirements of Bursa Securities on Directors' training, the Board has adopted a set of guidelines to address the training needs of the Directors.

These guidelines stipulate that all Directors must attend training programmes prescribed by Bursa Securities from time to time and all newly appointed Directors must attend a comprehensive induction programme to assist them in building a detailed understanding of the Leweko Group's operations, the challenges it faces, the longer term direction, the risk management strategy and statutory obligations.

Apart from attending the appropriate conferences, courses and seminars, both locally and regionally, conducted by external experts to equip themselves with the knowledge, keep abreast on changes in legislations, regulations, industry and technologies affecting the Leweko Group, the Directors are encouraged to attend appropriate training programmes as well as briefings conducted by internal management from time to time.

In addition, all Directors are also encouraged to present papers at external as well as internal conferences, courses and seminars.

The Company Secretaries are responsible in overseeing the training needs of the Directors. In addition, they also have to provide updates on all legislative as well as regulatory issues affecting the Leweko Group to the Directors and to report to the Board on the Directors' training activities.

The formal Board Committees established by the Board in accordance with the Code to assist the Board in the execution of its duties were the Audit Committee, the Nomination Committee and the Remuneration Committee. These Committees operate under clearly defined terms of reference and the deliberations and outcome of their meetings were reported by the respective chairman to the Board. In addition, all resolutions and minute of meetings of

these committees are also incorporated in the Board meetings' papers.

Audit Committee

The Audit Committee ["AC"] is chaired by Y.Bhg. Dato' Seri Haji Mohamed Pakri @ Mohamed Nazri bin Haji Abdul Rahim. The other members of the AC are Tuan Haji Othman bin Haji Sulaiman and Mr. Tan Cheong Yeow. The terms of reference and summary of activities of the AC are set out on pages 19 to 21.

Nomination Committee

The Nomination Committee ["NC"] is also chaired by Y.Bhg. Dato' Seri Haji Mohamed Pakri @ Mohamed Nazri bin Haji Abdul Rahim. The other member of the NC is Tuan Haji Othman bin Haji Sulaiman. The duties of the NC are as follows:

- To annually review the Board's required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board for it to function efficiently and effectively
- To annually review and assess the effectiveness of the Board as a whole
- To annually review and assess the contribution of each individual Director
- To recommend to the Board potential candidates for appointment as Directors if there is a need for additional Board members
- To consider, in making its recommendations, candidates for directorships proposed by the Managing Director and within the boundaries of practicability, by any senior executive or any Director or any shareholder
- To recommend to the Board, Directors to sit on Board Committees
- To annually review and assess the effectiveness of other Board Committees

As the NC consists of only two members, both members felt that it was not necessary to for them to meet formally during FY2005. The two members did however, met on the sidelines on those days when Board meetings were held to discuss the above issues (except for matters affecting their own appointment).

Remuneration Committee

The Remuneration Committee ["RC"] is also chaired by Y.Bhg. Dato' Seri Haji Mohamed Pakri @ Mohamed Nazri bin Haji Abdul Rahim. The other members of the RC are Tuan Haji Othman bin Haji Sulaiman and Y.Bhg. Dato' Leong Wei Kong. The duties of the

RC are to establish and recommend a formal and transparent procedure for developing policies for the terms of employment and remuneration of the Executive Directors and senior management in all its forms so as to link rewards to corporate and individual performance.

During FY2005, the RC held 4 meetings which were attended by all its members with the exception of Y. Bhg. Dato' Leong Wei Kong who was absent from a meeting.

Supply of Information

The Board is supplied with information on a timely basis to enable it to effectively discharge its duties and responsibilities. As a general rule, all Board meetings' papers are distributed at least a week before the respective Board meeting so that the Directors would have adequate time to read and understand the matters that will be discussed and deliberated on at the meeting concerned. Additional information on the Leweko Group is also supplied to Directors upon specific requests.

In addition to the quarterly Board meetings to discuss and review the quarterly results of the Leweko Group for announcement to Bursa Securities, Board meetings were also held as and when necessary to discuss business, corporate and regulatory matters that affect the Leweko Group. The Board also intends to hold some of its future meetings at the Leweko Group's operating locations so as to enable the Directors to obtain a better understanding and perspective of the Leweko Group's businesses and operations.

The Board has constant access to and interaction with senior management. It also has access to the advice and services of the Company Secretaries.

Appointments to the Board

The NC as part of its terms of reference is responsible for making recommendations on any new appointments to the Board and its various committees. In making these recommendations, the NC will give due consideration to the composition of the Board and its various committees and the mix of skill, expertise, knowledge and experience that is required for the effective management of the Leweko Group.

Re-election to the Board

The Articles of Association of Leweko require all Directors, including the Managing Director, to retire from office and submit themselves for re-election at least once in three years in compliance with the Listing Requirements.

Directors' Remuneration

The Level and Make-Up of Remuneration and Procedure

The level of remuneration of each Director must reflect the level of responsibility and commitment that goes with Board membership. The remuneration of the Executive Directors has been structured to link rewards to corporate and individual performance. It is reflective of the respective Executive Director's level of responsibility, contribution and commitment to the Leweko Group. The level of remuneration of the Executive Directors has to be considered by the RC as part of its terms of reference.

Non-Executive Directors are paid fees based on their experience, skills, level of responsibilities and duties.

The Company also reimburses all reasonable expenses incurred by the Directors in the course of carrying out their duties as Directors.

Disclosure

The aggregate directors' remuneration paid or payable or otherwise made available to all Directors of Leweko during FY2005 are disclosed in Note 7 to the financial statements.

The Board has considered the requirement of Principle B III of the Code on the disclosure of the details of the remuneration of each Director against the backdrop of compliance as required under the Listing Requirements, that is, the disclosure of an analysis of directors' remuneration by applicable bands of RM50,000.

The Board is of the view that the transparency and accountability aspects of corporate governance as applicable for directors' remuneration are adequately served by the manner of disclosure in Note 7 to the financial statements.

Shareholders

Dialogue between Leweko and Investors

The Board recognises the importance of shareholders and investors communications and as a matter of policy, reports on a timely basis all material information in relation to the Leweko Group. The Leweko Group also communicate with the general public through its annual reports, quarterly and other corporate announcements to Bursa Securities as well as press

Statement on Corporate Governance (continued)

interviews and conferences. In addition, briefings for and dialogues with institutional shareholders and financial analysts have been conducted from time to time to discuss the Leweko Group's past performance and the general market conditions for businesses in which the Leweko Group is involved.

In this respect, the Board and Leweko have ensured that all information sought was disseminated in strict adherence with the Listing Requirements.

The Annual General Meeting

The Annual General Meeting ["AGM"] provides the Board with an important forum for it to meet and communicate with Leweko shareholders. It is the Board's policy to invite shareholders to participate actively on the deliberations regarding the resolutions to be tabled at the AGM as well as to seek further details and clarifications on all aspects of the Leweko Group and its businesses. To enable shareholders to fully understand certain special businesses tabled at the AGM, full explanations of the effects of the proposed resolutions are included in the AGM notice and/or accompanying circulars.

The Chairman and all the other Directors will be present to provide the explanations to all queries of the shareholders.

Accountability and Audit

Financial Reporting

In presenting the annual financial statements and all quarterly results and announcements, the Board has taken reasonable steps to ensure the financial statements are true and give a fair reflection of the Leweko Group's position and prospects. This principle is also applied by the Board on all circulars issued to shareholders and other documents including other price-sensitive public reports and reports that were submitted to the authorities and regulators.

Internal Control

The Board recognises its responsibility for the Leweko Group's system of internal control covering not only financial controls but also operational and compliance controls as well as risk management. The internal control system involves each business and key management from each business, including the Board itself, and is designed to meet the Leweko Group's particular needs and to manage risks exposure. Although the

best endeavours are made to provide the best possible system of internal control and risk management, the system can only provide reasonable but not absolute assurance against misstatement or loss. The Statement on Internal Control set out on pages 17 to 18 provides an overview of the state of internal controls within the Leweko Group.

Relationship with the Auditors

The Board and the AC have established a formal and transparent relationship with the external auditors and internal auditors of the Leweko Group. Continuous communications are held with the external auditors throughout the financial year and the external auditors were invited to attend the AC meeting where the Leweko Group's annual financial statements were considered, as well as at meetings to review and discuss the Leweko Group's audit findings, internal controls and accounting issues. As for the internal auditors they were present at all AC meetings where their findings and recommendations as well as management responses are tabled and discussed.

Directors' Responsibility Statement in respect of the Preparation of the Annual Audited Financial Statements

The Board is responsible for ensuring that Leweko and its subsidiary companies keep accounting records which disclose with reasonable accuracy at any time the financial position of the Leweko Group and Leweko which enable them to ensure that the financial statements comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

In preparing the annual audited financial statements for FY2005, the Board has ensured that:

- the said financial statements have been prepared on a going-concern basis
- applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been followed and complied with
- appropriate accounting policies have been used and applied consistently
- estimates and assumptions made are reasonable and prudent

Additional Compliance Information

Family Relationship

Save as disclosed in "Analysis of Shareholdings"

on page 63, none of the Directors have any family relationship with any director and/or major shareholder of Leweko.

Conflict of Interest

Except for the conflict of interest arising as a result of the related party transactions disclosed in Note 16 to the financial statements set out on page 49, none of the Directors have any conflict of interest with the Leweko Group during FY2005.

Convictions for Offences

The Directors have no conviction for any offences within the past ten years.

Utilisation of Proceeds Raised from any Corporate Proposal

No fund raising corporate proposal was carried out by the Leweko Group during FY2005.

Share Buybacks

There were no share buybacks by Leweko during FY2005.

Options, Warrants or Convertible Securities

Leweko did not issue any options, warrants or convertible securities during FY2005.

American Depository Receipt ["ADR"] or Global Depository Receipt ["GDR"] Programme

During FY2005, Leweko did not sponsor any ADR or GDR programme.

Imposition of Sanctions and/or Penalties

There were no sanctions and/or penalties imposed

on Leweko and its subsidiary companies, Directors or management by the relevant regulatory bodies during FY2005.

Non-Audit Fees

No non-audit fees were paid and payable to the external auditors by the Leweko Group for FY2005.

Variation in Profit Estimate, Forecast or Projection or Unaudited Results

There was no significant variance between the audited results for FY2005 from the unaudited results announced previously. The Company did not release any profit estimate, forecast or projections for the financial year.

Profit Guarantee

During FY2005, the Leweko Group did not undertake any corporate proposal which involves a profit guarantee.

Material Contracts

Save for the related party transactions as disclosed in Note 16 to the financial statements, neither Leweko Resources Berhad nor any of its subsidiary companies has entered into any material contracts which involved the directors' and/or major shareholders' interests since the end of the financial year ended 31 December 2004 and no such similar material contracts entered into prior to 31 December 2004 were still subsisting as at 31 December 2005.

Revaluation of Landed Properties

The Leweko Group does not have a policy of revaluing its landed properties.

This Statement on Corporate Governance is made in accordance with a resolution of the Board of Directors dated 30 May 2006.

Statement on Internal Control

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal control so as to safeguard their respective assets and shareholders' interests. The Listing Requirements of Bursa Malaysia Securities Berhad ["Bursa Securities"] also require directors of listed companies to include a statement in their respective annual reports on the state of their internal controls. In pursuance thereof, the Board of Directors ["Board"] of Leweko Resources Berhad ["Leweko"] is pleased to set out below its Statement of Internal Control for Leweko and its subsidiary companies ["Leweko Group"] which was prepared in accordance with the Statement on Internal Control: Guidance for Directors of Public Companies issued by the Bursa Securities Task Force on Internal Control.

Board of Directors' Responsibility

The Board recognises the importance of a sound system of internal control and risk management practices for good corporate governance. The Board affirms its overall responsibility for the Leweko Group's system of internal control and risk management, and for reviewing the adequacy and integrity of the same. Nevertheless, it is imperative to note that any system of internal control can only provide reasonable, and not absolute, assurance against material misstatement or loss. Hence, the objective of the Leweko Group's system of internal control is not to eliminate risk completely, but to enable the Leweko Group to achieve its corporate objectives within a managed risk profile. The effectiveness of the Leweko Group's system of internal control should therefore be assessed in this context.

Risk Management Framework and Policy

The Board firmly believes that risk management must be embedded within the daily operations of the Leweko Group, that is, from strategy formulation through to business planning and processes. The Board is of the opinion that only by understanding risks, can the decision makers be able to evaluate the impact of a particular action or decision on the achievement of corporate objectives.

The Board has adopted an Enterprise Risk Management Framework ["ERMF"] across the Leweko Group and has directed management to implement all aspects of this framework so that a risk adverse culture and risk management awareness can be instilled at all operational levels. The Board acknowledges that the implementation of the framework in an on-going process and considerable effort and commitment are required of management to do so as management has the responsibility to manage risks, implement effective internal controls and ensure compliance with the relevant laws and regulations without impeding the achievement of business objectives.

The Executive Directors of Finance and Corporate Affairs are responsible for coordinating the implementation

of the ERMF and reporting to the Board, the principal risks faced by the operating units and the status of the various risk action plans being implemented.

Based on their feedback, the Board recognised that it was not cost-effective for the Leweko Group to implement all aspects of the ERMF using its internal human resources and as such, it has directed the aspects concerned be outsourced. The identification of external consultants for this outsourcing is still ongoing and, in the meantime, the Board manages these risks by placing importance on representations by management on the existing system of internal control and the close monitoring of the implementation of action plans by management on a quarterly basis. It must be noted that certain risks are inherent to the industry in which the Leweko Group operates and hence beyond the direct control of the Board. Thus the controls implemented by the Leweko Group are limited to those risks that the Leweko Group is able to minimise and manage. The Board also acknowledges that it has a general responsibility for taking such steps as are reasonable to safeguard the assets of the Leweko Group and to prevent and detect fraud and other irregularities.

Other Key Elements of Internal Control

The Leweko Group's system of internal control is based on a clear definition of responsibilities and the delegation of authority to the various Board and Management Committees, all of which act in accordance with their respective formal terms of reference. Policies and procedures for virtually all operating units are constantly updated to reflect current practices. Monitoring processes are instituted to ensure that policies and procedures are strictly adhered to and any deviations are addressed accordingly. The Board has also taken all possible measures to ensure that its operations are in compliance with regulations imposed by authorities.

The Leweko Group's system of internal control is also based on a framework of regular management information and administrative procedures, the most pertinent of which are described below:

Statement on Internal Control (continued)

- The Board reviews the operational and financial performance of the Leweko Group every quarter and management meetings are conducted at operational level on a monthly basis.
- Budgets prepared annually by the operational units are reviewed and approved by their respective Management Committees. Budget variances are monitored and reported to the Management Committees on a monthly basis.
- Operating units are given objectives which are in line with the Leweko Group's overall objectives. Pre-set Key Performance Indicators are used to measure the achievement of objectives.
- Major capital expenditure budgets are prepared annually for review and approval by the Board. Budget variances are reported and explained to the Board on a timely basis.
- Operating expenditure is approved in accordance with formal limits of authority.
- All legal contracts and documents are vetted by reputable firms of solicitors.
- The compensation and remuneration packages of Executive Directors and senior management are reviewed by the Remuneration Committee.
- The findings and recommendations for improvement in the Leweko Group's system of internal control are reported to the Audit Committee by both the external and internal auditors. All minutes of the proceedings of the Audit Committee are tabled to the Board for review.

In order to ensure that the Leweko Group's system of internal control is operating as envisaged, BDO

Governance Advisory Sdn. Bhd. was engaged as the Leweko Group's internal auditors to provide independent assurance to the Board on the effectiveness of the Leweko Group's system of internal control.

Conclusion

The Board's approach to risks does not focus on risk avoidance but on the identification and management of an acceptable level of risk. There were some internal control weaknesses identified by the external and internal auditors during their audits of Leweko and its subsidiary companies for the financial year ended 31 December 2005. All of these weaknesses have been reported to the Audit Committee and have been or are in the process of being addressed by management. None of these weaknesses has resulted in any material losses, contingencies and/or uncertainties that would warrant disclosure in this Annual Report. The Board is of the opinion that the existing system of internal control in the Leweko Group is satisfactory. Nonetheless, the Board intends to comply with the best corporate governance practices possible and as such, continuous efforts are being taken by the Board to enhance the Leweko Group's system of internal control. In this manner, the Board can then give reasonable assurance to the Leweko Group's stakeholders that the internal controls in place are sufficient to ensure that the level of risk to which the Leweko Group is exposed to, is acceptable. Nevertheless, such arrangements do not eliminate the possibility of human error or the deliberate circumvention of control procedures by employees and/or third parties, or the occurrence of unforeseen circumstances.

This Statement on Internal Control is made in accordance with a resolution of the Board of Directors dated 30 May 2006

Audit Committee Report

The Audit Committee ["AC"] was established to act as a committee of the Board of Directors ["Board"] of Leweko Resources Berhad ["Leweko"], with the terms of reference as set out herein. Its primary function is to assist the Board in fulfilling the following oversight objectives on Leweko and its subsidiary companies' ["Leweko Group"] operations and business activities:

- To assess the processes in relation to the risk and control environment
- To oversee the financial reporting function
- To evaluate the internal and external audit processes

Members

The present members of the AC are:

Dato' Seri Haji Mohamed Pakri

@ Mohamed Nazri bin Haji Abdul Rahim

Chairman of AC - Independent Non-Executive Chairman

Tuan Haji Othman bin Haji Sulaiman

Independent Non-Executive Director

Tan Cheong Yeow

Executive Director (Finance)

Meetings

The AC convened five meetings during the financial year ended 31 December 2005 ["FY2005"] which were attended by all its members with the exception of Mr. Tan Cheong Yeow who was absent from a meeting. These meetings were appropriately structured through the usage of agendas, which were distributed to all members with sufficient notice. The representatives of the external auditors, Messrs Deloitte KassimChan ["DKC"], and the internal auditors, BDO Governance Advisory Sdn. Bhd. ["BDO"] as well as certain senior managers and Executive Directors also attended these meetings upon invitation.

Summary of AC's Activities

The activities of the AC during FY2005 include, inter-alia, the following:

- Reviewed with the DKC on the nature and scope of their audit for FY2005, audit report, management letter and assistance given by the Leweko Group's management and officers. DKC has intimated that it was not necessary for them to meet with the AC without the presence of the Executive Board members during FY2005.
- Reviewed the independence and objectivity of the DKC and the services provided, and considered and recommended their audit fees to the Board
- Reviewed the Statement on Corporate Governance and the Statement on Internal Control for compliance with the Malaysian Code on Corporate Governance and the Listing Requirements respectively recommending the same to the Board for approval prior to their inclusion in the 2004 Annual Report.
- Reviewed other pertinent issues and matters that had a significant impact on the financial performance and results of the Leweko Group.

for approval. The AC also recommended the re-appointment of DKC as external auditors and this recommendation would be tabled to the shareholders for approval at the Fourth Annual General Meeting.

- Considered the Enterprise Risk Management Framework report and monitored the implementation status of the same by management.
- Reappointed BDO as the internal auditors of the Leweko Group for FY2005/06 to FY2007/08 and reviewed their audit plan for FY2005/06, findings and recommendations as well as management corrective action plans and implementation. BDO has intimated that it was not necessary for them to meet with the AC without the presence of the Executive Board members during FY2005.
- Reviewed the related party transactions entered into by the Leweko Group and the circular to shareholders in relation to the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature.
- Revised the terms of reference of the AC and recommending it to the Board for approval.
- Reviewed the Leweko Group's quarterly and year-end financial statements for compliance with the Listing Requirements of Bursa Malaysia Securities Berhad ["Listing Requirements"], applicable approved accounting standards in Malaysia and other relevant legal and regulatory requirements, and recommending the same to the Board for approval.

Terms of Reference of the AC

1. Membership

The AC shall be appointed by the Board from amongst the Directors of Leweko and shall consist of not less than three members with a majority of Independent Non-Executive Directors.

A member shall not have family relationship with any Executive Director of Leweko or of any related company or relationship which would interfere with independent judgment.

A quorum shall be three members, a majority of which shall be Independent Non-Executive Directors.

The Chairman of the AC shall be elected by the members of the AC and shall be an Independent Non-Executive Director.

2. Attendance at Meetings

The head of finance and a representative each of the external auditors and the internal auditors shall normally attend the meetings.

The AC may, as and when deemed necessary, invite other Board members and senior members of management to attend the meetings.

The Company Secretary shall act as the secretary of the AC and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to the AC members prior to each meeting.

The secretary shall be responsible for keeping the minutes of meetings of the AC, and circulating them to the AC members.

3. Frequency of Meetings

The AC shall hold at least four meetings during each financial year.

The AC shall meet at least once during the financial year with the external auditors and the internal auditors without the presence of the Executive Board members.

4. Proceedings of Meetings

In the absence of the Chairman, the AC shall appoint one of the Independent Non-Executive members present to chair that meeting.

Decisions on matters raised at any meeting shall

be decided by a majority of votes of the members present.

5. Authority

The AC is authorised by the Board to investigate any activity within these terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the AC.

The AC is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The AC shall have direct communication channels with the external auditors and internal auditors, and they shall be able to convene meetings with the external auditors and internal auditors whenever deemed necessary.

Where the AC is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Audit Committee shall promptly report such matter to Bursa Malaysia Securities Berhad.

6. Duties

The duties of the AC shall be:

- To recommend the appointment of the external auditors, the audit fee and any other terms of engagement.
- To discuss with the external auditors on the audit plan before the commencement of the annual audit and ensure co-ordination where more than one audit firm is involved.
- To review the quarterly and annual financial statements before submission to the Board, focusing particularly on:
 - Any changes in accounting policies and practice;
 - Significant adjustments arising from the audit;
 - The going concern assumption; and
 - Compliance with applicable approved accounting standards and other legal requirements.
- To discuss with the external auditors on any major audit findings and the management's response, and problems and reservations arising from the annual audits (in the absence of the management where necessary).
- Review and approve the Internal Audit Charter, which defines the independent purpose, authority, scope and responsibility of the internal audit function in the Leweko Group.
- To review the internal audit programme, consider

Audit Committee Report (continued)

major findings of internal audit investigations and management's response and review the level of co-ordination between the internal auditors and the external auditors.

- Direct and where appropriate supervise any special projects or investigation considered necessary, and review investigation reports on any major defalcations, frauds and thefts.
- To consider any related party transactions that may arise within Leweko or the Leweko Group.
- To keep under review the effectiveness of internal control systems, and in particular, review the external auditors' management letter and management's response.
- To consider other related matters, as defined by the Board.

Internal Audit Function

The Leweko Group has outsourced its internal audit function to BDO, which reports to the AC, during FY2005/06.

BDO provides the AC with the assurance it required regarding the adequacy and integrity of the system of internal controls of the Leweko Group. Independent reviews of the system of internal controls are carried out by BDO and reported by them to the AC on a quarterly basis. BDO's reviews of the internal controls

in the key activities of the Leweko Group's businesses are based on an internal audit strategy and a detailed annual audit plan presented to the AC for approval. A risk-based approach is adopted and the audit strategy and audit plan are developed based on the risk profiles of the major business units of the Leweko Group.

During FY2005/06, BDO reviewed the high risk areas identified with management and based on this review, an audit plan was developed by BDO to support the execution of internal control reviews. The internal audit review of the plantation operations, the downstream operations' production and marketing departments and, finance and accounts department at Head Office was completed by BDO and the initial as well as the follow-up reports concerned had been presented to the AC for its review in FY2005/06.

Dato' Seri Haji Mohamed Pakri
@ Mohamed Nazri bin Haji Abdul Rahim
Chairman of Audit Committee

30 May 2006