



LION FOREST INDUSTRIES BERHAD

A Member of The Lion Group

(8205670)

Laporan Tahunan
2004
Annual Report



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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Second Annual General Meeting of Lion Forest Industries Berhad will be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 22 November 2004 at 2.30 pm for the following purposes:

AGENDA

1. To receive and adopt the Directors' Report and Audited Financial Statements for the financial year ended 30 June 2004. **Resolution 1**
2. To approve the payment of a final dividend of 10 sen per ordinary share tax exempt. **Resolution 2**
3. To approve the payment of Directors' fees amounting to RM158,000 (2003 : RM124,000). **Resolution 3**
4. To re-elect Director:
 - (i) In accordance with Article 99 of the Company's Articles of Association, Y. Bhg. Dato' Kalsom binti Abd. Rahman who was appointed during the year retires and, being eligible, offers herself for re-election. **Resolution 4**
 - (ii) In accordance with Article 98 of the Company's Articles of Association, the following Directors retire by rotation and, being eligible, offer themselves for re-election:

Y. Bhg. Tan Sri William H.J. Cheng	Resolution 5
Y. Bhg. Dato' Mohamad bin Haji Ahmad	Resolution 6
Cik Zainab binti Dato' Hj. Mohamed	Resolution 7
5. To consider and if thought fit, pass the following resolution pursuant to Section 129(6) of the Companies Act, 1965 as an ordinary resolution:

"THAT Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim who retires pursuant to Section 129(2) of the Companies Act, 1965 be and is hereby re-appointed a Director of the Company to hold office until the next annual general meeting."	Resolution 8
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6. To re-appoint Auditors to hold office until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration. **Resolution 9**
7. Special Business

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

 - 7.1 Authority to Directors to issue shares

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

"THAT approval be given for the Company and its subsidiary companies to enter into the recurrent related party transactions of a revenue or trading nature which are necessary for its day-to-day operations as detailed in paragraph 3.3 ("Recurrent Transactions") and with those related parties as detailed in paragraph 3.2 of the Circular to Shareholders of the Company dated 30 October 2004 subject to the following:

Resolution 11

- (i) the transactions are in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
- (ii) disclosure is made in the annual report of the breakdown of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year, amongst others, based on the following information:
 - a) the type of Recurrent Transactions made; and
 - b) the names of the related parties involved in each type of Recurrent Transactions made and their relationship with the Company;

AND THAT authority conferred by this Ordinary Resolution shall continue to be in force until:

- (i) the conclusion of the next annual general meeting of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;
 - (ii) the expiration of the period within which the next annual general meeting after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
 - (iii) revoked or varied by resolution passed by the shareholders in general meeting;
- whichever is the earlier,

AND THAT the Directors be authorised to complete and do all such acts and things (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."

7.3 Proposed Grant of Options to Mr Ngan Yow Chong, the Executive Director of the Company

"THAT the Company be authorised to offer and grant to Mr Ngan Yow Chong, the Executive Director of the Company, up to 350,000 options to subscribe for up to 350,000 new ordinary shares of RM1.00 each in the Company pursuant to the Executive Share Option Scheme ("ESOS"), subject always to such terms and conditions and/or any adjustments which may be made in accordance with the provisions of the Bye-Laws of the ESOS."

Resolution 12

DIVIDEND ENTITLEMENT

NOTICE IS ALSO HEREBY GIVEN that a depositor shall qualify for entitlement to the dividend only in respect of:

- a) shares transferred into the depositor's securities account before 4.00 pm on 23 November 2004 in respect of transfers; and
- b) shares bought on the Exchange on a cum entitlement basis according to the Rules of the Exchange.

The dividend, if approved, will be paid on 15 December 2004 to shareholders on the Record of Depositors of the Company at the close of business on 23 November 2004.

By Order of the Board

WONG YOKE LIN
YASMIN WEILI TAN BINTI ABDULLAH
Secretaries

Kuala Lumpur
30 October 2004

Notes:

1. Proxy

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

2. Resolution 3

It is proposed that the Directors fees be increased so as to be in line with the industrial practice to reflect the duties and responsibilities of the Directors.

3. Resolution 10

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

4. Resolution 11

This approval will allow the Company and its subsidiary companies to enter into recurrent related party transactions of a revenue or trading nature with those related parties as set out in paragraph 3.2 of the Circular to Shareholders dated 30 October 2004, which are necessary for the Group's day-to-day operations and are in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Details on the proposal are set out in the Circular to Shareholders dated 30 October 2004 enclosed together with this Annual Report.

5. Resolution 12

This authorisation will empower the ESOS Committee to offer and grant to Mr Ngan Yow Chong, the Executive Director of the Company, up to 350,000 options to subscribe for shares in the Company pursuant to the ESOS of the Company.

Details on the proposal are set out in the Circular to Shareholders dated 30 October 2004 enclosed together with this Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

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

- Pursuant to Article 99 of the Company's Articles of Association
(Appointment during the year)

Y. Bhg. Dato' Kalsom binti Abd. Rahman

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

Y. Bhg. Tan Sri William H.J. Cheng
Y. Bhg. Dato' Mohamad bin Haji Ahmad
Cik Zainab binti Dato' HJ. Mohamed

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

Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim

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

II. Details of attendance of Directors at Board Meetings

There were six (6) Board Meetings held during the financial year ended 30 June 2004. Details of attendance of the Directors are set out in the Directors' Profile on pages 6 to 8 of this Annual Report.

III. Place, date and time of the Twenty-Second Annual General Meeting

The Twenty-Second Annual General Meeting of the Company will be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 22 November 2004 at 2.30 pm.

CORPORATE INFORMATION

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

DIRECTORS' PROFILE

Tan Sri William H.J. Cheng

Chairman, Non-Independent Non-Executive Director

Y. Bhg. Tan Sri William H.J. Cheng, a Malaysian, aged 61, was appointed to the Board on 15 January 1991 and has been the Chairman of the Company since 27 August 1997.

Tan Sri William Cheng has more than 30 years of experience in the business operations of the Lion Group encompassing steel, motor, tyre and chemical, computer and communications, retail, distribution and trading, agricultural products and property and community development.

He is the President of The Associated Chinese Chamber of Commerce and Industry of Malaysia and The Chinese Chambers of Commerce and Industry of Kuala Lumpur and Selangor.

His other directorships in public companies are as follows :

- Chairman of Silvestone Corporation Berhad and Lion Diversified Holdings Berhad, both public listed companies
- Chairman and Managing Director of Lion Corporation Berhad, a public listed company
- Managing Director of Amalgamated Containers Berhad, a public listed company
- Director of Amsteel Corporation Berhad, a public listed company
- Chairman and Managing Director of Silverstone Berhad, a public company

His shareholdings in the Company and the subsidiary companies of the Company are disclosed in page 75 of this Annual Report.

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

Tan Sri William Cheng attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2004.

Chang Chee Seng

Managing Director, Non-Independent Executive Director

Mr Chang Chee Seng, a Malaysian, aged 54, was appointed the Managing Director of the Company on 27 June 2003.

Mr Chang obtained his Bachelor of Engineering (First Class Honours) degree in Mechanical Engineering from the University of Westminster, London and Masters degree in Management Science from the University of London Imperial College.

Mr Chang started his career in 1977 with the MBf Holdings Group of Companies and subsequently with TDM Bhd in the corporate planning field.

Mr Chang joined the Lion Group in 1981 and had since held various positions in the Lion Group including Materials Manager for Amsteel Corporation Berhad, Head of the cement marketing company, Simen Dagangan Sdn Bhd, General Manager of Bright Steel Sdn Bhd, a producer of cold finished steel bars and steel coil center, Head of Commercial and Administration Divisions of Amsteel Mills Sdn Bhd, Executive Director and Chief Executive Officer of Sabah Forest Industries Sdn Bhd, Sales Director for Amsteel Mills Sdn Bhd and is now the Marketing Director of Megasteel Sdn Bhd.

He is also a Director of CMS Steel Berhad, a public company.

Mr Chang attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2004.

Ngan Yow Chong

Executive Director, Non-Independent

Mr Ngan Yow Chong, a Malaysian, aged 47, was appointed the Executive Director of the Company on 22 August 2001. He is also the Chairman of the Company's Risk Management Committee and a member of the Company's Remuneration Committee and Executive Share Option Scheme Committee.

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

Mr Ngan has about 20 years of experience in manufacturing, trading, industries and commerce. He was appointed the Group Director - Brewery Division in the People's Republic of China under the Lion Group to supervise the Brewery Division in the People's Republic of China from February 2001 to January 2004. He has served the Hong Leong Group in various positions ranging from Project/Maintenance Manager, Operation Manager, Sales Manager (Import/Export) and General Manager of a number of subsidiaries within the Hong Leong Group during the period from March 1981 to March 1996. He was the Group Executive Director of Mah Sing Group Berhad and the Chief Executive Officer of Berger International Ltd, a company listed on the Stock Exchange of Singapore, before joining the Lion Group.

He is also the Executive Director of Silverstone Corporation Berhad, a public listed company.

Mr Ngan attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2004.

Jen (B) Tan Sri Dato' Zain Mahmud Hashim

Non-Independent Non-Executive Director

Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim, a Malaysian, aged 74, was appointed to the Board on 15 January 1991. He is also the Chairman of the Company's Nomination Committee and Executive Share Option Scheme Committee.

Tan Sri Dato' Zain is a graduate of the Royal Military Academy, Sandhurst, United Kingdom and Harvard University's Advanced Management Programme. He is a retired Chief of Army in the Malaysian Armed Forces with 35 years of experience in the military and has more than 20 years of experience in the private sector.

Tan Sri Dato' Zain's other directorships in public companies are as follows:

- Chairman of Amsteel Corporation Berhad and Amalgamated Containers Berhad, both public listed companies
- Director of Hy-Line Berhad and Silverstone Berhad, both public companies

Tan Sri Dato' Zain is the half brother of Y. Bhg. Dato' Dali Mahmud Hahsim, a Director of the Company.

Tan Sri Dato' Zain attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2004.

Dato' Mohamad bin Haji Ahmad

Independent Non-Executive Director

Y. Bhg. Dato' Mohamad bin Haji Ahmad, a Malaysian, aged 60, was appointed to the Board on 28 March 1991. He is also a member of the Company's Audit Committee.

Dato' Mohamad obtained his Certificate in Business Feasibility Studies and Management Practice from Japan. He is a businessman and served as Chairman and Director of his private companies which are involved in building and construction, property development and agriculture.

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

Dato' Mohamad attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2004.

Dato' Dali Mahmud Hashim

Independent Non-Executive Director

Y. Bhg. Dato' Dali Mahmud Hashim, a Malaysian, aged 63, was appointed to the Board on 22 August 2001 as an Independent Non-Executive Director of the Company. He is also the Chairman of the Company's Audit Committee and Remuneration Committee and a member of the Company's Nomination Committee.

Dato' Dali obtained his Bachelor of Arts (Honours) degree in Economics from the University of Malaya. He joined the Ministry of External Affairs in August 1963 and served as the Malaysian Ambassador to Pakistan, the Soviet Union, Sweden, Belgium, the European Communities, Indonesia and the United States of America. In December 1998, he retired from the administrative and diplomatic service.

He is the half brother of Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim, a Director of the Company.

Dato' Dali attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2004.

Zainab binti Dato' Hj. Mohamed

Independent Non-Executive Director

Cik Zainab binti Dato' Hj. Mohamed, a Malaysian, aged 47, was appointed to the Board on 10 December 2001 as an Independent Non-Executive Director of the Company. She is also a member of the Company's Audit Committee, Remuneration Committee and Nomination Committee.

Cik Zainab obtained her Diploma in Accountancy from the Universiti Teknologi MARA (UiTM) in 1978 and she studied at the London School of Accountancy, England for the Association of Chartered Certified Accountants qualification from 1979 to 1981. She is a Fellow Member of the Association of Chartered Certified Accountants and a Chartered Accountant with the Malaysian Institute of Accountants.

Cik Zainab has more than 20 years' experience in the audit and finance fields holding various positions in an audit firm, commercial bank, investment and holding company, petroleum multinational company, general insurance company and solid waste management concessionaire.

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

Cik Zainab attended all six (6) Board Meetings of the Company held during the financial year ended 30 June 2004.

Dato' Kalsom binti Abd. Rahman

Independent Non-Executive Director

Y. Bhg. Dato' Kalsom binti Abd. Rahman, a Malaysian, aged 56, was appointed to the Board on 23 August 2004. She is a member of the Audit Committee of the Company.

Dato' Kalsom received her Bachelor of Economics (Honours) degree from the University of Malaya, Malaysia and Masters degree in Business Administration (Finance) from the University of Oregon, the United States of America. She served in various capacities in the Ministry of International Trade and Industry including as a Director of Industrial Development and Deputy Secretary General. She also served as the Minister Counsellor (Economics Affairs) Mission of Malaysia to European Union Brussels, Belgium and as the Chief Executive Officer of Small and Medium Industries Development Corporation ("SMIDEC"). Currently, Dato' Kalsom is the Chairman of SMIDEC.

Dato' Kalsom is also a Director of Malaysian Industrial Development Finance Berhad and Chemical Company of Malaysia Berhad, both public listed companies.

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

CORPORATE GOVERNANCE STATEMENT

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

The Board is pleased to present below a description of how the Group has applied the principles of good governance and the extent to which it has complied with the best practices set out in the Malaysian Code on Corporate Governance (“Code”). These principles and best practices have been applied consistently throughout the financial year ended 30 June 2004 except where otherwise stated herein.

1. DIRECTORS

The Board

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

The Board meets on a quarterly basis, with additional meetings convened as and when necessary. During the financial year ended 30 June 2004, six (6) board meetings were held and each Director has attended all board meetings held during the financial year. Details of attendance and the profile of each member of the Board are set out in the Directors’ Profile section of this Annual Report.

Board Balance

The Board comprises eight (8) Directors, six (6) of whom are non-executive. The current Board composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”). The broad range of experience, skills and knowledge of the Directors facilitate the discharge of the Board’s stewardship effectively.

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

There is a clear division of responsibilities between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Managing Director is responsible for the overall operations of the Group and the implementation of the Board’s strategies and policies.

Board Committees

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

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

Supply of Information

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

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

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

Appointments to the Board

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

All members of the Board have attended Bursa Securities' Mandatory Accreditation Programme and are subsequently required to attend training courses and seminars under the Continuous Education Programme.

Re-election

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

2. DIRECTORS' REMUNERATION

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

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

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

The aggregate remuneration of Directors who served during the financial year ended 30 June 2004 are categorised as follows:

	Fees RM	Salaries & Other Emoluments RM	Total RM
Executive Directors	36,000	460,000	496,000
Non-Executive Directors	134,000	24,000	158,000
	170,000	484,000	654,000

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

Range of Remuneration (RM)	Number of Directors *	
	Executive	Non-Executive
25,000 & below	-	1
25,001 - 50,000	-	3
50,001 - 100,000	-	1
100,001 - 200,000	-	-
150,001 - 200,000	-	-
200,001 - 250,000	1	-
250,001 - 300,000	1	-

* Excluding a Director who was appointed subsequent to the financial year ended 30 June 2004.

3. SHAREHOLDERS

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

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

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

4. ACCOUNTABILITY AND AUDIT

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

Directors' Responsibility in Financial Reporting

The Directors are satisfied that for the financial year ended 30 June 2004, the financial statements presented give a true and fair view of the state of affairs of the Group and of the Company and of the results and cash flows of the Group and of the Company. In preparing the financial statements, the Group has applied, on a consistent basis, the applicable approved accounting standards and the provisions of the Companies Act, 1965.

Financial Reporting

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

Internal Control

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

Relationship with the Auditors

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

STATEMENT ON INTERNAL CONTROL

Introduction

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

Board Responsibility

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

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

Risk Management

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

Control and Monitoring Process

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

- An operational structure with defined lines of responsibility and delegation of authority together with a hierarchical structure of reporting and accountability
- Internal policies and procedures that are regularly updated to reflect changing risks or resolve operational deficiencies including defined limits of authority
- A detailed budgeting process which requires all business units to prepare budget and business plan on an annual basis
- Review of key business variables and the monitoring of the achievements of the Group’s performance on a quarterly basis by the Board and the Audit Committee
- Confirmation of the effectiveness of internal control and risk assessment process by the chief executive officer or general manager of key operating companies by way of completion of the Internal Control – Self-Assessment Questionnaire on an annual basis
- Periodic examination of business processes and systems of internal control by the internal audit function which regularly submits its reports to the Audit Committee.

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

AUDIT COMMITTEE REPORT

COMPOSITION

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

- **Members**

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

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

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

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

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

- **Secretaries**

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

TERMS OF REFERENCE

- **Membership**

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

- **Meetings and Minutes**

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

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

- **Authority**

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

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

- **Duties**

The duties of the Audit Committee are:

- (i) To consider the appointment, resignation and dismissal of external auditors and the audit fee.
- (ii) To discuss with the external auditors, prior to the commencement of audit, the nature and scope of audit and to ensure co-ordination of audit where more than one audit firm is involved.
- (iii) To review and assess the annual and quarterly financial statements prior to the approval of the board of directors, focusing on:
 - going concern assumption
 - compliance with accounting standards and regulatory requirements
 - changes in accounting policies and practices
 - significant issues arising from audit
- (iv) To discuss problems and reservations arising from the interim and final external audits, and any matter the external auditors may wish to discuss (in the absence of management, where necessary).
- (v) To review the external auditors' management letter and management's response thereto.
- (vi) To establish the following with the internal audit function:
 - review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work
 - review internal audit programme
 - ensure co-ordination of external audit with internal audit
 - consider the major findings of internal audit investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function
- (vii) To review any related party transaction and conflict of interest situation that may arise within the Company and the Group.
- (viii) To consider the appointment of independent advisers for corporate proposals involving related parties.
- (ix) To assess the quality and effectiveness of the system of internal control and efficiency of operations and to review the risk policy and implementation of the risk management framework.
- (x) To promptly report to Bursa Securities on any matter where the Audit Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Securities.
- (xi) To review any appraisal or assessment of the performance of the members of the internal audit function, approve any appointment or termination of senior staff members of the internal audit function and be informed of any resignation of internal audit staff members and reasons thereof.
- (xii) To perform any other such function as may be agreed to by the Audit Committee and the Board.

ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year under review, six (6) Audit Committee Meetings were held for which full attendance was recorded for all the members of the Audit Committee.

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

The main activities undertaken by the Audit Committee during the year were as follows:

- **Financial Results**

- (a) Reviewed the interim unaudited financial statements of the Group prior to recommending them for approval by the Board.
- (b) Reviewed the annual financial statements of the Group prior to submission to the Board for their consideration and approval focusing particularly on changes of accounting policy, significant and unusual event and compliance with applicable accounting standards approved by the Malaysian Accounting Standards Board (“MASB”) and other legal requirements.

- **Internal Audit**

- (a) Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Group, taking into consideration the assessment of key risk areas.
- (b) Reviewed the audit programmes, resource requirements and skill levels of the internal auditors for the year and assessed the performance of the internal audit function.
- (c) Reviewed the internal audit reports, audit recommendations made and management response to these recommendations and actions taken to improve the system of internal control and procedures.
- (d) Monitored the implementation of the audit recommendations to ensure that all key risks and controls have been addressed.
- (e) Reviewed the Internal Control – Self-Assessment ratings submitted by the respective operations management.

- **External Audit**

- (a) Reviewed with external auditors the audit planning memorandum covering the audit objectives and approach, audit plan, key audit areas and relevant technical pronouncements and accounting standards issued by MASB.
- (b) Reviewed with external auditors the results of the audit and the audit report in particular, reviewed accounting issues and significant audit adjustments arising from the external audit.
- (c) Reviewed with external auditors the memorandum of comments and recommendations arising from their study and evaluation of the system of internal and accounting controls together with management’s response to the findings of the external auditors.
- (d) Evaluated the performance of the external auditors and made recommendations to the Board on their appointment and remuneration.
- (e) Convened a meeting with the external auditors without the non-independent directors being present to discuss issues arising from their review.

- **Risk Management**

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

- **Related Party Transactions**

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

- **Material Transactions**

Reviewed material transactions entered into by the Group.

NOMINATION COMMITTEE

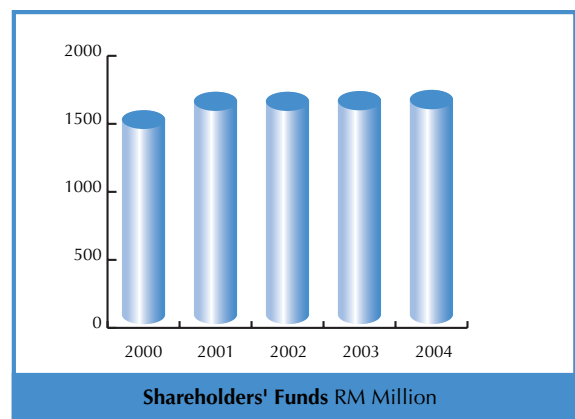
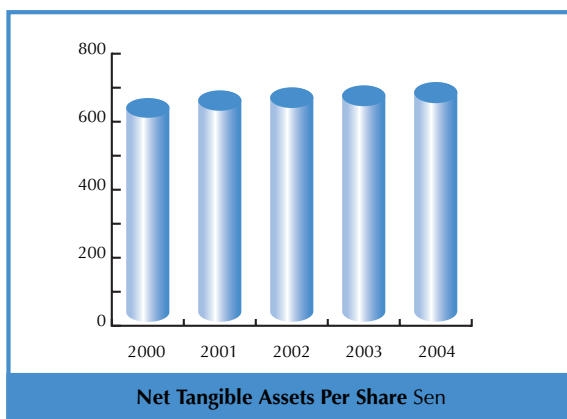
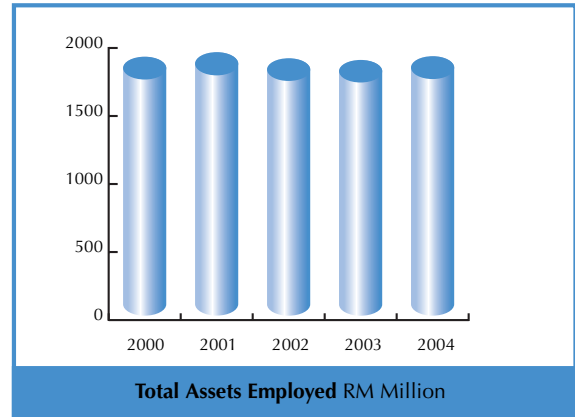
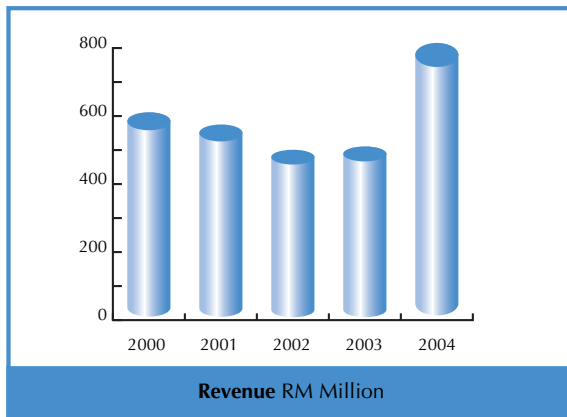
- CHAIRMAN : Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim
(Non-Independent Non-Executive Director)
- MEMBERS : Y. Bhg. Dato' Dali Mahmud Hashim
(Independent Non-Executive Director)
- Cik Zainab binti Dato' Hj. Mohamed
(Independent Non-Executive Director)
- TERMS OF REFERENCE : 1) To recommend to the Board, candidates for directorships in Lion Forest Industries Berhad
- 2) To consider, in making its recommendations, candidates for directorships proposed by the Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any director or shareholder
- 3) To recommend to the Board, directors to fill the seats on Board Committees
- 4) To assist the Board in reviewing on an annual basis, the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board
- 5) To assess, on an annual basis, the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual director, based on the process and procedure laid out by the Board

REMUNERATION COMMITTEE

- CHAIRMAN : Y. Bhg. Dato' Dali Mahmud Hashim
(Independent Non-Executive Director)
- MEMBERS : Cik Zainab binti Dato' Hj. Mohamed
(Independent Non-Executive Director)
- Mr Ngan Yow Chong
(Executive Director, Non-Independent)
- TERMS OF REFERENCE 1) To recommend to the Board the remuneration of the Executive Directors in all its forms, drawing from outside advice as necessary
- 2) To carry out other responsibilities, functions or assignments as may be defined by the Board from time to time

5 YEARS' GROUP FINANCIAL HIGHLIGHTS

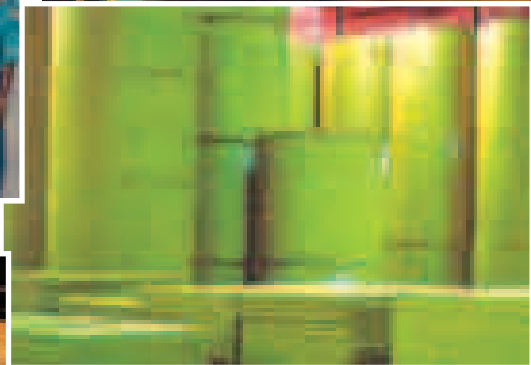
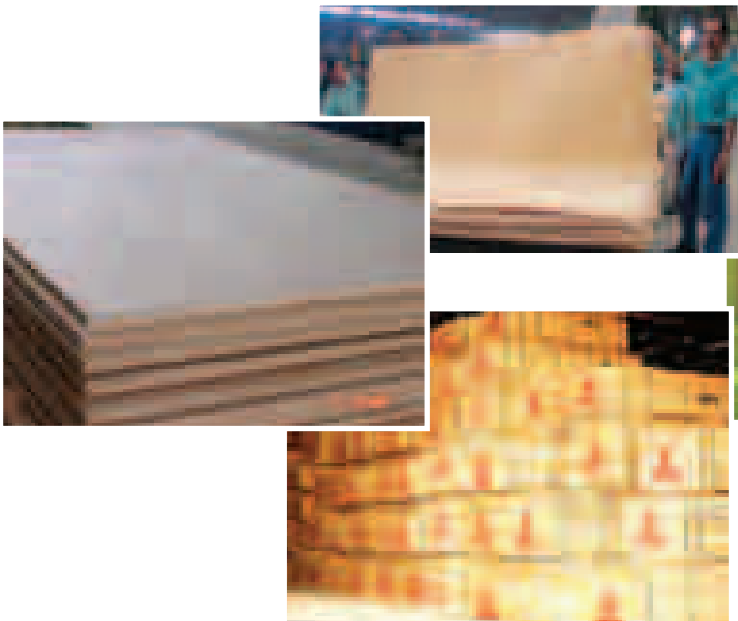
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	573,412	539,505	468,074	475,150	765,096
Profit before taxation	67,550	34,440	1,556	10,368	39,351
Profit/(loss) after taxation	65,560	31,990	(33)	7,386	34,312
Dividends:					
Rate (%)	1.0	0.1	0.1	8.0	17.5
Amount (net of tax)	1,463	146	146	12,104	35,563
Total assets employed	1,815,411	1,846,711	1,804,562	1,792,951	1,818,872
Shareholders' funds	1,495,530	1,526,881	1,526,655	1,531,593	1,539,606
Net tangible assets	1,273,327	1,314,824	1,324,744	1,339,828	1,357,987
	Sen	Sen	Sen	Sen	Sen
Net tangible assets per share	627	647	652	659	668
Earnings/(Loss) per share	31.4	15.2	(0.1)	3.4	16.5



THE GROUP'S BUSINESSES



- The only integrated pulp and paper mill in the country, operated by Sabah Forest Industries Sdn Bhd (SFI) in Sipitang, Sabah.
- *Satu-satunya kilang palpa dan kertas bersepadu di negara ini, dikendalikan oleh Sabah Forest Industries Sdn Bhd (SFI) di Sipitang, Sabah.*



- SFI produces (from right, clockwise) quality printing and writing paper, sawn timber, plywood and veneer for the domestic and export markets.
- *SFI mengeluarkan (dari kanan, arah jam) kertas cetak dan tulis berkualiti, balak bergergaji, papan lapis dan venir untuk pasaran tempatan dan eksport.*



- A wide range of motor oil and lubricants under the 'HI-REV' and 'RACETECH' brands, and automotive products by Posim for the four-wheelers and two-wheelers markets.
- *Rangkaian minyak motor dan minyak pelincir di bawah jenama 'HI-REV' dan 'RACETECH' serta produk automotif edaran Posim untuk pengguna kereta dan motosikal.*



PENYATA PENERUS

Bagi pihak Lembaga Pengarah, saya dengan sukacitanya membentangkan Laporan Tahunan dan Penyata Kewangan Beraudit Lion Forest Industries Berhad bagi tahun kewangan berakhir pada 30 Jun 2004.

PRESTASI KEWANGAN

Ekonomi Malaysia mengekalkan momentum pertumbuhannya dalam tahun kewangan semasa dengan hasil sumbangan positif yang diraih daripada semua sektor industri berikutan keteguhan permintaan domestik dan eksport yang tinggi. Peningkatan keyakinan para pengguna dan peniaga terhadap ekonomi serta permintaan luar negara yang bertambah baik dari pasaran eksport menyebabkan pertumbuhan Keluaran Dalam Negara Kasar yang sihat.

Permintaan terhadap komoditi yang mendadak dari Republik Rakyat China ("China") dalam tahun kewangan akibat lonjakan tinggi ekonominya telah menyebabkan kekurangan bekalan dalam pasaran dunia. Kayu balak dan produk berasaskan kayu tidak terkecuali apabila permintaannya bertambah kukuh terutama dari China dan juga negara-negara Asia. Permintaan pasaran yang berkembang di sebalik bekalan yang sukar, telah menyebabkan harga komoditi di pasaran dunia meningkat tinggi termasuk harga palpa dan kertas, penyumbang utama kepada pendapatan Kumpulan.

Bagi tahun dalam kajian, Kumpulan telah meraih faedah daripada permintaan pasaran yang melambung dan mencatatkan hasil kewangan yang membanggakan. Perolehan meningkat sebanyak 61% kepada RM765 juta daripada RM475 juta dalam tahun sebelumnya manakala keuntungan sebelum cukai meningkat secara ketara kepada RM39.4 juta berbanding RM10.4 juta pada tahun lalu. Pengeluaran palpa dan kertas terus menjadi penyumbang utama kepada keuntungan Kumpulan manakala perniagaan bahan binaan dan pengedaran produk petroleum terus menguntungkan dalam tahun kewangan semasa.

KAJIAN OPERASI

Pengestrakan Kayu Balak, serta Palpa dan Kertas

Bahagian Pengestrakan Kayu Balak, serta Palpa dan Kertas Kumpulan di bawah kendalian Sabah Forest Industries Sdn Bhd ("SFI") telah mencatatkan peningkatan perolehan sebanyak 18% kepada RM398 juta, sekaligus meningkatkan keuntungan kepada RM39.5 juta daripada RM18.9 juta setahun sebelumnya. Peningkatan itu disebabkan oleh harga produk kertas yang menggalakkan serta jumlah jualan yang tinggi dalam tahun tinjauan.

Bahagian ini telah meraih faedah daripada kenaikan harga kertas dalam pasaran sejagat apabila harga jualan kertas SFI meningkat dengan stabil daripada AS\$600 setan metrik kepada AS\$650 setan metrik sepanjang tahun kewangan. Peningkatan harga pasaran

dijangka akan berterusan dalam masa terdekat kerana pengeluaran palpa dan kertas sejagat belum dapat memenuhi permintaan pasaran yang berkembang pesat.

Sejumlah 143,700 tan metrik produk kertas dijual dalam tahun kewangan, meningkat sebanyak 20% berbanding 119,400 tan metrik pada tahun lalu. Peningkatan itu disebabkan oleh pengeluaran dan catatan jualan di pasaran domestik dan eksport yang tinggi. SFI, pengendali tunggal kilang palpa dan kertas yang bersepadu di Malaysia, menguasai 32% pasaran di negara ini pada tahun ini.

Usaha bersepadu terus dilaksanakan untuk meningkatkan kecekapan operasi dan kualiti produk bagi memenuhi kepuasan pengguna dan juga meningkatkan keuntungannya. Kecekapan operasi pada tahun ini telah diperbaiki lagi dengan menaikkan taraf 'Distributed Control System' ("DCS") untuk dandang kuasa dan pemulihan yang berfungsi baik dalam membekalkan tenaga elektrik dan juga wap untuk kegunaan operasi. Gabungan sistem yang dibuat dalam loji penjana elektrik ke DCS yang baru akan meningkatkan lagi keupayaan dan kecekapan operasi kilang kertas serta membolehkan kapasiti pengeluaran ditingkatkan melepasi kadar keupayaan 150,000 tan metrik setahun.

Daripada segi peningkatan kualiti kertas, penggunaan 'precipitated' kalsium karbonat untuk menggantikan 'ground' kalsium karbonat dalam pembuatan kertas telah memperbaiki ketebalannya dan ketelusan kertas berkenaan. Kualiti kertas yang bertambah baik telah mendapat reaksi yang positif daripada para pengguna terutamanya dalam percetakan ofset.

Dalam penyelenggaraan berjadual tahunannya pada bulan September 2004, SFI telah menaikkan taraf Mesin Kertas 1 ("PM1") dengan teknologi pencairan yang telah memperbaiki ukuran berat dan lembapan mengikut profil kertas. Peningkatan kualiti ini terus meningkatkan lagi kecekapan penggunaan kertas. Pelaburan lain juga melibatkan pemasangan sistem pemeriksaan lingkaran bagi PM1. Sistem ini membuat pengawasan secara dalam talian dan mengenal pasti sama ada terdapat lubang, titik-titik hitam dan rekahan tepi pada lingkaran kertas untuk mengelakkan kertas yang rosak tersebut daripada dijual kepada pengguna.

Seiring dengan negara-negara ASEAN yang lain, kerajaan Malaysia, baru-baru ini mengenakan import duti sebanyak 7% ke atas barangan kertas dari negara-negara bukan ASEAN. Langkah yang diambil oleh Kerajaan dijangka akan menstabil dan mengukuhkan harga produk kertas di pasaran serantau dalam tahun-tahun akan datang.

Bahan Binaan dan Lain-lain

Bahagian Bahan Binaan telah mencatatkan peningkatan yang tinggi dalam jumlah dagangan dengan jualan yang diperluaskan untuk meliputi produk besi keluli

seperti gegelung wayar dan lingkaran gegelung besi panas dalam tahun kewangan yang ditinjau. Jumlah perolehan dalam tahun kewangan semasa melonjak dari RM94 juta kepada RM315 juta bersandarkan jualan produk besi keluli berjumlah RM183 juta. Produk bahan binaan lain turut mencatatkan kenaikan jumlah dagangan yang tinggi sebanyak 40% hasil daripada permintaan yang bertambah dari sektor hartanah dan pembinaan ekoran langkah-langkah rangsangan ekonomi oleh Kerajaan dan penyelesaian terhadap masalah kekurangan buruh. Minat belian yang kukuh dalam hartanah kediaman akan terus menjana pertumbuhan sektor hartanah dan pembinaan akan membolehkan Bahagian ini untuk meningkatkan prestasinya.

Bahagian Minyak Pelincir Automotif dan Aksesori Motor telah mencapai prestasi yang membanggakan dengan mencatat kenaikan perolehan sebanyak 16% dalam tahun tinjauan. Prestasi yang baik disumbangkan oleh Bahagian Minyak Pelincir Kenderaan yang meraih keuntungan operasi yang tinggi walaupun berlaku kenaikan kos asas minyak.

Sebahagian daripada usaha meluaskan asas pendapatannya, Bahagian ini juga mengedarkan rangkaian bateri kenderaan berjenama "Hi-Rev". Ia telah memperkenalkan bateri generasi baru tanpa penyelenggaraan dikenali sebagai Hi-Rev Calcium:Calcium Battery, yang mempunyai tahap pengaliran elektrik yang lebih tinggi berbanding bateri biasa. Sambutan pasaran yang menggalakkan terhadap rangkaian produk baru yang dilancarkan membuktikan keupayaan Bahagian ini meluaskan pasaran produk automotifnya melalui jaringan rangkaian pengedaran yang meluas di seluruh negara. Bahagian perkilangannya juga telah berjaya dianugerahi sijil ISO9001:2000 yang dipertingkatkan dan Bahagian berkomited untuk terus membekalkan produk-produknya yang berkualiti tinggi kepada para pelanggannya. Bahagian ini juga terus mengambil pendirian yang agresif untuk menguasai pasaran yang lebih meluas dengan mengembangkan asas pelanggan sedia ada dan secara progresif memperkenalkan produk baru dalam pasaran.

DIVIDEN

Lembaga Pengarah telah mengumumkan dividen interim sebanyak 7.5 sen sesaham, dikecualikan cukai bagi tahun kewangan berakhir pada 30 Jun 2004. Dividen interim telah dibayar pada 28 Julai 2004 melibatkan pembayaran berjumlah RM15.2 juta.

Lembaga Pengarah juga dengan sukacitanya mencadangkan dividen akhir sebanyak 10 sen sesaham, dikecualikan cukai untuk diluluskan oleh para pemegang saham di Mesyuarat Agung Tahunan

yang akan datang. Pembayaran dividen akhir akan berjumlah RM20.3 juta.

Sekiranya mendapat kelulusan para pemegang saham, jumlah dividen yang akan dibayar bagi tahun kewangan berakhir pada 30 Jun 2004 adalah sebanyak 17.5 sen sesaham berjumlah RM35.5 juta berbanding 8 sen sesaham berjumlah RM12.1 juta pada tahun lalu.

PROSPEK

Tinjauan masa depan ekonomi sejagat kekal positif meskipun pertumbuhannya dijangka sederhana berikutan harga minyak yang tinggi, ancaman keganasan dan ketidakstabilan politik di sesetengah kawasan di dunia. Bagaimanapun, ekonomi Malaysia dijangka akan terus berkembang bersandarkan dasaran yang kukuh.

Dalam melangkah ke hadapan, Kumpulan akan terus mengukuhkan operasi terasnya dan meningkatkan kecekapan untuk menghadapi cabaran yang mendatang dan mencapai pertumbuhan tinggi dalam tahun-tahun yang akan datang. Dengan harga kertas dijangka kekal kukuh, para Pengarah meramalkan Kumpulan akan dapat memperbaiki lagi prestasinya dalam tahun kewangan yang akan datang.

LEMBAGA PENGARAH

Bagi pihak Lembaga Pengarah, saya mengalu-alukan kehadiran Dato' Kalsom binti Abdul Rahman yang baru dilantik sebagai Pengarah.

PENGHARGAAN

Prestasi Kumpulan yang bertambah baik dalam tahun kewangan semasa tidak akan menjadi kenyataan tanpa komitmen dan kegigihan yang tinggi pihak pengurusan dan pekerja-pekerja Kumpulan. Bagi pihak Lembaga Pengarah, saya ingin mengucapkan terima kasih kepada kesemua mereka dan ingin juga merakamkan penghargaan para Pengarah kepada para pelanggan yang amat dihargai, pihak bank, rakan perniagaan, pihak Kerajaan dan para pemegang saham di atas sokongan dan keyakinan mereka kepada Kumpulan.

TAN SRI WILLIAM H.J. CHENG

Pengerusi

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report and Audited Financial Statements of Lion Forest Industries Berhad for the financial year ended 30 June 2004.

FINANCIAL PERFORMANCE

The Malaysian economy sustained its growth momentum in the current financial year with positive contributions across all industries driven by strong domestic demand and higher exports. Rising consumer and business confidence in the economy as well as improved external demand from export markets have resulted in a healthy gross domestic product growth being reported.

An upsurge in demand for commodities from the People's Republic of China ("China") during the financial year due to its booming economy has caused a shortage in the world market. Timber and wood-based products are no exception as demand became stronger particularly from China and other Asian countries. The demand growth, along side the tight supply, have driven up the global market prices for commodities including the prices of pulp and paper, the Group's main earnings generator.

For the year under review, the Group was able to benefit from the buoyant market demand and chalked up a commendable set of results. Revenue rose by 61% to RM765 million from RM475 million in the previous year whilst the pre-tax profit was significantly higher at RM39.4 million as against RM10.4 million last year. Pulp and paper manufacturing remains the main contributor to the Group's profit while the trading of building materials, and manufacturing and distribution of petroleum products continue to be profitable in the current financial year.

REVIEW OF OPERATIONS

Timber Extraction and Pulp and Paper

The Group's Timber Extraction and Pulp and Paper Division under Sabah Forest Industries Sdn Bhd ("SFI") achieved an 18% increase in revenue to RM398 million, lifting profit to RM39.5 million from RM18.9 million a year earlier. This improvement was attributed to favourable prices for paper products along with higher sales volume achieved during the year under review.

The Division has benefited from the rising prices of paper products in the global market as SFI's selling prices increased steadily from USD600 per metric tonne ("MT") to USD650 per MT throughout the financial year. The current uptrend in paper prices is expected to prevail in the foreseeable future as the global pulp and paper production is unable to meet the robust market demand.

A total of 143,700 MT of paper products was sold during the financial year, representing a 20% increase in sales volume from 119,400 MT achieved last year. The increase was due to higher production and sales recorded for the domestic as well as the export markets. SFI which operates the only fully integrated pulp and paper mill in Malaysia, has captured 32% of the local market share this year.

Concerted efforts are continuously being made to upgrade its operational efficiency and product quality in order to meet customers' satisfaction and further enhance its profitable position. The operational efficiency for this year had improved with the upgrading of the Distributed Control System ("DCS") for the Power and Recovery boilers which ensures a steady supply of power and steam for the operations. Further systems integration in the Power Plant to the new DCS will better enhance uptime availability and operational efficiency of the paper mill and enable production to move beyond its rated capacity of 150,000 MT per annum.

In terms of paper quality improvement, the use of precipitated calcium carbonate to replace the ground calcium carbonate in the paper making process had improved the caliper (thickness) and opacity of the paper. The improved paper quality has received positive response from the end users especially for offset printings.

During its scheduled annual maintenance in September 2004, SFI had upgraded its Paper Machine 1 ("PM1") with dilution technology, which had improved the grammage and moisture cross direction profile of the paper. This quality improvement had further enhanced the paper usage efficiency. Another investment was the installation of a web inspection system for PM1. This on-line monitoring system detects the presence of holes, edge cracks and dark spots in the paper web to prevent paper with such defects from leaving the factory.

In line with other Asean countries, our Government has recently imposed a 7% import duty on paper products imported from non-Asean countries. This measure taken by the Government is expected to stabilise and strengthen regional market prices of paper products in the coming years.

Building Materials and Others

Our Building Materials Division recorded a significant increase in turnover with its sales extended to steel products such as wire rods and hot rolled coils during the year under review. Turnover for the year surged from RM94 million to RM315 million on the back of sales of RM183 million of steel products. Other building material products also registered a substantial increase of 40% in turnover with our efforts to intensify sales revenue in view of the improved demand from the property market as a result of the Government's

stimulus measures and the resolution of the labour shortage problem. The strong buying interest in residential properties will continue to fuel growth in the property sector and augur well for the Division to improve on its performance.

The Group's Automotive Lubricant and Motor Accessories Division reported another commendable performance by registering a 16% increase in its revenue for the year under review. The better performance was contributed by the Automotive Lubricant Division which achieved a higher operating profit despite the rise in base oil costs.

As part of its continuing efforts to broaden its earnings base, the Division also distribute a wide range of "Hi-Rev" automotive batteries. The Division introduced the latest generation of the maintenance-free battery, Hi-Rev Calcium: Calcium Battery, which has a higher electrical conductivity compared to conventional batteries. The encouraging market response to the new range of products launched has demonstrated the Division's ability to tap the automotive products market through its extensive distribution network spread throughout the country. The Division's manufacturing arm was also successful in obtaining the upgraded ISO 9001:2000 certification and is committed to continue to provide customers with the highest quality products. The Division will continue to pursue an aggressive stance to secure a bigger market share by expanding its existing quality customer base and progressively introducing new products to the market.

DIVIDENDS

The Board of Directors has declared an interim dividend of 7.5 sen per share, tax exempt, in respect of the financial year ended 30 June 2004. The dividend amounting to RM15.2 million was paid on 28 July 2004.

The Board of Directors is pleased to recommend a final dividend of 10 sen per share, tax exempt, for the approval of the shareholders at the forthcoming Annual General meeting. Dividend payable will amount to RM20.3 million.

Upon approval by the shareholders, total dividend in respect of the financial year ended 30 June 2004 will be 17.5 sen per share amounting to RM35.5 million as compared to 8 sen per share amounting to RM12.1 million last year.

PROSPECTS

The outlook for the global economy remains positive although growth is expected to moderate in view of the prevailing high energy prices, terrorism threats and political instability in certain parts of the world. Nonetheless, the Malaysian economy is anticipated to expand further on the back of its strong underlying fundamentals.

Moving forward, the Group will continue to strengthen its core operations and increase its efficiency to meet the coming challenges and achieve higher growth in the coming year. With the market prices of paper expected to remain firm, the Board expects the Group to improve its performance in the next financial year.

BOARD OF DIRECTORS

On behalf of the Board, I would like to extend a warm welcome to the newly appointed director, Y. Bhg. Dato' Kalsom binti Abd. Rahman, to the Board.

ACKNOWLEDGEMENT

The Group's improved performance in the current financial year would not have been possible without the untiring efforts and commitment of the management team and employees of the Group. Therefore, on behalf of the Board, I sincerely thank each and everyone of them. I also wish to extend the Board's appreciation to our valued customers, bankers, business associates, the Government and shareholders for their continued support and confidence in the Group.

TAN SRI WILLIAM H.J. CHENG
Chairman

主席报告

我谨代表董事部，欣然提呈截至2004年6月30日，金狮森林工业有限公司的常年报告和经审核财务报告。

财务表现

在本会计年度，马来西亚经济持续增长，由於强劲的国内需求以及更高的出口，各行业都对经济作出积极贡献。消费者和商界对经济越来越有信心，以及来自出口市场的外来需求改善，导致国内总生产取得健全的成长。

在本会计年度内，由於中国经济蓬勃发展以致对原产品的需求也相继增加，导致世界市场出现短缺。木材和木基产品也不例外，因为需求尤其是来自中国和其他亚洲国家的需求增加。需求增加而供应短缺，导致原产品的市场价格上涨，包括本集团的主要收入来源纸浆和纸张的价格也上涨。

在这一年内，本集团在蓬勃的市场需求中受惠，取得可观的业绩。营业额达到7亿5千300万令吉，比去年同期的4亿7千500万令吉，上升了58%。税前利润激增，达到3千840万令吉，上一年的税前利润是1千40万令吉。纸浆和造纸业仍然是本集团利润的主要来源，而在本年度内，从事建筑材料的经销以及制造和分销石油产品仍然有盈利。

业务检讨

伐木和纸浆及造纸组

比起上一年，本集团属下沙巴林业私人有限公司负责的伐木、纸浆及造纸组的营业额增长18%，达到3亿9千800万令吉，利润从1千890万令吉增加到3千950万令吉。这是由於纸产品的价格上涨以及销售量增加。

这个组从纸产品在全球市场的价格上涨中受惠，因为在本会计年度内，沙巴林业私人有限公司出产的纸产品的价格不断上涨，每公吨从600美元上涨到650美元。在可预见的将来，目前的上涨趋势预料将会持续，因为全球的纸浆和纸的产量无法应付蓬勃市场的需求。

在本会计年度内，沙巴林业总共售出143,700公吨的纸产品，较上一年的119,400公吨增长了20%。这项增长是由於产量增加，以及在国内市场和出口市场的销售量都增加。这家公司拥有全马唯一的一间全面性综合纸浆及造纸厂，本会计年度它占了国内市场的32%。

有关部门不断采取配合性努力，以提升其营运效率和产品品质，好让顾客满意及进一步提高盈利。随着提升动力及回收锅炉（它们不断为运作提供动力和蒸汽功用）的分配控制系统（DCS）获得提升，本会计年度的运作效率有所改善。电力厂与新的DCS进行进一步的系统结合，将使纸厂具有更佳的正常运作时间和提高运作效能，使到其产量能够比每年15万公吨的额定产能更多。

改善纸张的素质方面，在造纸过程中用沉淀碳酸钙取代ground碳酸钙，改善了纸张的厚度和不透明度。纸质改善获得直接用户的欢迎，尤其是平版印刷方面。

在2004年9月的预定常年维修期间，沙巴林业用稀释工艺提升其第一号造纸机的性能，改善纸张的重量和纸张表面湿度。这种品质上的改善进一步提高了纸张的使用效能。另一项投资是为第一号造纸机装置纸网状组织（Web）检查系统。这项系统进行在线检查，以侦查纸张网状组织是否出现小洞、边缘裂缝、黑点，有效的防止这类有缺陷的纸张出厂。

我国政府最近联同其他东盟国家的政府，对来自非东盟国家的入口纸张征收7%入口稅。预料政府的这项措施将在未来几年使纸产品的区域市场价格稳定下来和获得加强。

建筑材料及其他

我们的建筑材料组营业额显著增加。在本会计年度内，其销售范围扩大至钢铁产品，诸如钢线和热轧钢。本集团的营业额从上一年度的9千400万令吉激增到本年度的3亿1千500万令吉，其中钢铁产品的销售额占1亿8千300万令吉。本集团致力于配合政府激励性措施和解决劳工短缺问题以增进房地产与建筑业领域的成长的方针，促使本集团在其他建筑材料产品的营业额也激增达40%。市场对住宅业的强烈购兴，将使到房地产及建筑业持续成长，从而改善本组的表现。

本集团的汽车滑机油及汽车零件组在本会计年度内再创佳绩，营业额增长16%。尽管基础油成本提高，本集团仍然能够从其汽车滑机油部获得营业利润上涨的良好表现。

这个组也继续致力於巩固其盈利基础，包括分销一系列“Hi-Rev”品牌的汽车电池，并推介最新一代免维修电池，Hi-Rev Calcium：钙电池，相比于传统电池，这种电池拥有更强的导电率。市场对一系列新产品的有利反应，反映出这个组通过分布在全国各地的分销网，有能力开拓汽车产品市场。这个组的制造部成功获得经提升的ISO9001:2000证书提升，肯定我们对高素质管理的承诺。本集团也致力於扩大分销容量，通过扩大现有的优质客户基础和逐步推介新产品到市场以争取更大的市场份额。

股息

董事部已宣布，在截至2004年6月30日的会计年度，派发每股7.5仙、免交稅的中期股息。股息在2004年7月28日派发，总额1千520万令吉。

董事部也欣然建议，派发每股10仙、免交稅的终期股息，这有待行将召开的常年大会批准。股息将等於2千30万令吉。

如果获得股东批准，截至2004年6月30日的会计年度的股息将是每股17.5仙，总额3千550万令吉。上一年度的股息则是每股8仙，总额1千210万令吉。

展望

全球经济展望佳，虽则由於能源价格高涨、恐怖主义威胁以及世界某些地区政治动荡，使到经济成长率预料将趋向温和。无论如何，由於基础扎实，预料马来西亚经济将进一步扩展。

展望未来，本集团将继续加强其核心业务和提高效能，以便应付来年的挑战和取得更高的成长。由於纸张的价格预料将保持坚挺，董事部预期，本集团在下一个年度将有更好的表现。

董事部

我仅代表董事部，热烈欢迎我们新委任的董事，Dato' Kalsom binti Adb. Rahman 的加入。

鸣谢

若不是本集团的管理团队和雇员不懈的努力和作出贡献，本集团是不可能在本会计年度取得更好的表现。因此，我谨代表董事部，感谢他们每一个人。我也要代表董事部，感谢我们尊贵的客户、银行家、商业伙伴、政府以及股东，继续支持本集团和对本集团具有信心。

主席
丹斯里钟廷森

FINANCIAL STATEMENTS

2004

For The Year Ended 30 June 2004

DIRECTORS' REPORT

The directors of **LION FOREST INDUSTRIES BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding, trading and distribution of building materials and consumer goods. During the financial year, the Company is also involved in the trading of steel products.

The principal activities of the subsidiary companies and of the associated company are as listed in Notes 13 and 14 to the Financial Statements, respectively.

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

SIGNIFICANT CORPORATE EVENTS

- (a) On 11 December 2003, the Company announced that Lion Industries Corporation Berhad ("LICB") had accepted the Company's offer to lend up to RM100 million, a sum of which was to be advanced by Sabah Forest Industries Sdn Bhd ("SFI"), a subsidiary of the Company. LICB would in turn advance the same to Amsteel Mills Sdn Bhd ("AMSB"), a subsidiary of LICB, to enable AMSB to complete and run its meltshop facility located in Banting, Selangor Darul Ehsan ("Offer of Financing").

The Offer of Financing superseded the earlier proposal as reported in the previous financial statements, wherein SFI was to lend up to RM100 million directly to AMSB.

The Offer of Financing involved AMSB assigning the exercise of part of its voting rights in the Company amounting to 6.56% to LICB and 28.7% to LLB Nominees Sdn Bhd, a wholly-owned subsidiary of LICB ("Assignment"). Resulting from the Assignment, AMSB's voting rights in the Company was reduced from 60.26% to 25% and LICB, together with LLB Nominees Sdn Bhd, collectively hold 58.7% of the voting rights in the Company. Consequent thereto, the directors regard LICB as its immediate holding company.

The shareholders' approval in relation to the Offer of Financing was obtained at the Extraordinary General Meeting of the Company held on 18 June 2004. The Offer of Financing was implemented on 6 August 2004.

- (b) On 5 July 2004, a total of 8.877 million options at subscription price of RM2.13 per ordinary share, were granted to the eligible employees of the Group pursuant to the Executive Share Option Scheme ("ESOS") of the Company.

Subsequent to the end of the financial year, the issued and paid-up share capital of the Company was increased from RM203,218,571 comprising 203,218,571 ordinary shares RM1.00 each to RM203,278,571 comprising 203,278,571 ordinary shares of RM1.00 each following the issuance of 60,000 ordinary shares of RM1.00 each upon the exercise of the options under to the ESOS.

RESULTS OF OPERATIONS

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

	The Group RM'000	The Company RM'000
Profit before tax	39,351	43,893
Income tax expense	(5,039)	(1,552)
Profit after tax	34,312	42,341
Minority interests	(806)	-
Net profit for the year	<u>33,506</u>	<u>42,341</u>

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than the impairment loss on property, plant and equipment as disclosed in Note 5 to the Financial Statements.

DIVIDENDS

A final dividend of 7%, less 28% tax, amounting to RM10,242,216 proposed in respect of the previous financial year and dealt with in the previous directors' report was paid by the Company during the current financial year.

An interim dividend of 7.5%, tax exempt, amounting to RM15,241,393 declared in respect of the current financial year, was paid on 28 July 2004.

The directors propose a final dividend of 10%, tax exempt, amounting to RM20,321,857 in respect of the current financial year. The proposed dividend, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company, has not been included as a liability in the Financial Statements.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the Financial Statements.

ISSUE OF SHARES AND DEBENTURES

The Company has not issued any new shares or debentures during the financial year.

EXECUTIVE SHARE OPTION SCHEME

The ESOS implemented for the benefit of eligible executive employees and executive directors of the Group became effective on 31 May 2000 and will expire on 30 May 2005.

The main features of the ESOS are as follows:

- (a) Executive directors and confirmed executive employees of the Group who have been employed for a period of at least one year shall be eligible to participate in the ESOS.
- (b) The maximum number of new shares in the Company which may be issued and allotted pursuant to the exercise of options granted under the ESOS shall not exceed 10% of the issued and paid-up share capital of the Company at any point in time during the existence of the ESOS.

- (c) No options shall be granted for less than 1,000 ordinary shares nor more than the maximum allowable allotment and shall be in multiples of 1,000 ordinary shares.
- (d) The option price of each ordinary share under the ESOS shall be determined by the Board upon the recommendation of the option committee which is at a discount of not more than 10% on the weighted average market price of the shares for the five market days immediately preceding the date of offer, or the par value of each ordinary share, whichever is higher.
- (e) The ESOS shall continue to be in force for a period of 5 years and the Company may, if the Board deems fit upon the recommendation of the option committee, renew the ESOS for a further 5 years, without further approval of the relevant authorities.

The persons to whom the options have been granted have no right to participate, by virtue of the options, in any share issue of any other company.

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

Exercisable From	Subscription Price Per Share	Balance as of 1.7.2003	Granted	Exercised	Lapsed	Unissued Shares as of 30.6.2004
21 June 2000	RM2.40	1,967,000	-	-	(173,000)	1,794,000

OTHER FINANCIAL INFORMATION

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

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

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

- (a) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

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

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

DIRECTORS

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

Tan Sri William H.J. Cheng
Chang Chee Seng
Ngan Yow Chong
Jen (B) Tan Sri Dato' Zain Mahmud Hashim
Dato' Mohamad bin Haji Ahmad
Dato' Dali Mahmud Hashim
Zainab binti Dato' Hj. Mohamed
Dato' Kalsom binti Abd. Rahman (appointed on 23.8.2004)

In accordance with Article 98 of the Company's Articles of Association, Y. Bhg. Tan Sri William H.J. Cheng, Y. Bhg. Dato' Mohamad bin Haji Ahmad and Cik Zainab binti Dato' Hj. Mohamed retire by rotation and, being eligible, offer themselves for re-election.

Y. Bhg. Dato' Kalsom binti Abd. Rahman, who was appointed to the Board subsequent to the end of the financial year, retires under Article 99 of the Company's Articles of Association and, being eligible, offers herself for re-election.

Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim, being over the age of seventy years, retires pursuant to Section 129(2) of the Companies Act, 1965 and seeks re-appointment as director under the provisions of Section 129(6) of the said Act to hold office until the next Annual General Meeting.

DIRECTORS' INTERESTS

The shareholdings in the Company of those who were directors at the end of the financial year are as follows:

	Number of Ordinary Shares of RM1.00 each			Balance as of 30.6.2004
	Balance as of 1.7.2003	Bought	Sold	
Shares in the Company				
Direct Interest				
Dato' Mohamad bin Haji Ahmad	12,000	-	-	12,000
Indirect Interest				
Tan Sri William H.J. Cheng	177,030,171	-	(5,124,379)	171,905,792

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

	Nominal Value Per Ordinary Share	Balance as of 1.7.2003	Number of Shares		Balance as of 30.6.2004
			Bought	Sold	
Direct Interest					
Dato' Mohamad bin Haji Ahmad					
Lion Industries Corporation Berhad	RM1.00	3,276	-	-	3,276
Chang Chee Seng					
Lion Industries Corporation Berhad	RM1.00	7,517	-	-	7,517
Indirect Interest					
Tan Sri William H.J. Cheng					
Lion Industries Corporation Berhad	RM1.00	324,653,692	-	(24,435,067)	300,218,625
LLB Enterprise Sdn Bhd	RM1.00	690,000	-	-	690,000
LLB Strategic Holdings Berhad	RM1.00	4,050,000	-	-	4,050,000
Marvenel Sdn Bhd	RM1.00	100	-	-	100
Ototek Sdn Bhd	RM1.00	1,050,000	-	-	1,050,000
Sabah Forest Industries Sdn Bhd - ordinary shares Class 'A'	RM1.00	752,532,412	-	-	752,532,412
- ordinary shares Class 'B'	RM0.10	7,525,324,120	-	-	7,525,324,120
Soga Sdn Bhd	RM1.00	4,332,078	-	-	4,332,078
Steelcorp Sdn Bhd	RM1.00	99,750	-	-	99,750
Holdsworth Investment Pte Ltd	SGD1.00	4,500,000	-	-	4,500,000
Lion Biotech Pte Ltd	SGD1.00	1,000,000	-	-	1,000,000
	Nominal Value Per Deferred Share	Balance as of 1.7.2003	Number of Shares		Balance as of 30.6.2004
			Bought	Sold	
Sabah Forest Industries Sdn Bhd	RM1.00	146,000,000	-	-	146,000,000
Investments in the People's Republic of China					
	Currency	Balance as of 1.7.2003	Bought	Sold	Balance as of 30.6.2004
Beijing Trostel Property Development Co Ltd	USD	6,650,000	-	-	6,650,000
Hebei Weiyuan Heilen Bio-Chemical Co Ltd	USD	2,313,982	-	-	2,313,982
Huangshi Heilen Pharmaceutical Co Ltd (In liquidation)	Rmb	45,416,040	-	-	45,416,040
Shanghai Lion Plastic Industrial Co Ltd	USD	3,690,000	-	-	3,690,000
Tianjin Baden Real Estate Development Co Ltd	USD	5,000,000	-	-	5,000,000
Tianjin Hua Shi Auto Meter Co Ltd	USD	10,878,944	-	-	10,878,944

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit, other than those disclosed as directors' remuneration in the financial statements, by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except for any benefit which may be deemed to have arisen by virtue of the transactions between the Company and its related companies and certain companies in which certain directors of the Company and/or its subsidiary companies or persons connected to such directors and/or substantial shareholders have interest as disclosed in Note 20 to the Financial Statements.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

HOLDING COMPANIES

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

During the current financial year, AMSB ceased to be the immediate holding company pursuant to the Assignment as disclosed in Note 33 to the Financial Statements.

AUDITORS

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

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

TAN SRI WILLIAM H.J. CHENG

NGAN YOW CHONG

Kuala Lumpur,
15 September 2004

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

We have audited the accompanying balance sheets as of 30 June 2004, the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion:

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 ("Act") and the applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Group and of the Company as of 30 June 2004 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiary companies have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' report of the subsidiary company, of which we have not acted as auditors, as mentioned in Note 13 to the Financial Statements, being financial statements that have been included in the consolidated financial statements.

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

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

DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants

LAI CAN YIEW
2179/09/05 (J)
Partner

Petaling Jaya,
15 September 2004

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Note	The Group		The Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Revenue	4	765,096	475,150	349,940	104,281
Changes in inventories of finished goods, trading merchandise and work-in-progress		14,736	(3,793)	22,254	(128)
Raw materials and consumables used		(210,683)	(164,141)	-	-
Purchase of trading merchandise		(341,279)	(103,072)	(321,588)	(87,735)
Staff costs		(42,987)	(40,711)	(3,953)	(3,902)
Extraction fees		(8,710)	(14,838)	-	-
Timber royalties		(3,886)	(7,596)	-	-
Other production expenses		(53,141)	(53,776)	-	-
Depreciation of property, plant and equipment	10	(44,383)	(41,887)	(138)	(164)
Amortisation of:					
Forest concessions	11	(10,796)	(10,796)	-	-
Goodwill on consolidation	16	(10,146)	(10,146)	-	-
Other operating expenses		(23,006)	(15,809)	(2,687)	(2,137)
Other operating income		10,946	7,038	6,147	1,801
Profit from operations	5	41,761	15,623	49,975	12,016
Finance costs	6	(1,499)	(2,105)	(6,082)	(1,419)
Share in results of associated company		(911)	(3,150)	-	-
Profit before tax		39,351	10,368	43,893	10,597
Income tax expense	7	(5,039)	(2,982)	(1,552)	(371)
Profit after tax		34,312	7,386	42,341	10,226
Minority interests		(806)	(439)	-	-
Net profit for the year		33,506	6,947	42,341	10,226
Earnings per ordinary share	8	16.5 sen	3.4 sen		

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



BALANCE SHEETS

AS OF 30 JUNE 2004

	Note	The Group		The Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
ASSETS (Note 24)					
Property, plant and equipment	10	704,274	740,402	7,485	7,462
Forest concessions	11	311,728	322,524	-	-
Plantation development expenditure	12	140,824	133,061	-	-
Investment in subsidiary companies	13	-	-	1,232,075	1,232,075
Investment in associated company	14	3,042	3,947	4,684	4,684
Other investments	15	251	230	243	222
Goodwill on consolidation	16	181,619	191,765	-	-
Deferred tax assets	17	457	185	193	101
Amount owing by holding company – non-current	20	70,000	-	70,000	-
Current Assets					
Inventories	18	107,332	100,148	22,285	25
Trade receivables	19	69,649	67,007	24,106	36,353
Other receivables and prepaid expenses	19	21,897	6,875	17,185	1,357
Amount owing by holding company	20	10,102	-	10,102	-
Amount owing by subsidiary companies	13	-	-	19,986	5,412
Amount owing by former immediate holding company	20	-	326	-	-
Amount owing by other related companies	20	101,575	93,701	101,201	93,565
Fixed deposits with licensed banks	21	61,300	126,800	-	-
Cash and bank balances	22	34,822	5,980	26,974	1,801
		406,677	400,837	221,839	138,513
Current Liabilities					
Trade payables	23	23,001	22,402	12,485	14,571
Other payables and accrued expenses	23	43,956	36,423	2,210	1,300
Amount owing to holding company	20	-	64	-	64
Amount owing to subsidiary companies	13	-	-	76,728	19,875
Amount owing to other related companies	20	934	1,631	894	1,597
Bank borrowings	24	15,885	22,497	13,358	17,323
Tax liabilities		5,755	3,747	1,894	1,476
Dividend payable		15,241	-	15,241	-
		104,772	86,764	122,810	56,206
Net Current Assets		301,905	314,073	99,029	82,307
Non-Current and Deferred Liabilities					
Hire-purchase payables	25	(242)	(302)	-	-
Deferred tax liabilities	17	(265)	(239)	-	-
Amount owing to subsidiary company – non-current	13	-	-	(70,000)	-
		(507)	(541)	(70,000)	-
		1,713,593	1,705,646	1,343,709	1,326,851
Represented by:					
Issued capital	26	203,219	203,219	203,219	203,219
Reserves	27	1,336,387	1,328,374	1,140,490	1,123,632
Shareholders' Equity		1,539,606	1,531,593	1,343,709	1,326,851
Minority interests	20	173,987	174,053	-	-
		1,713,593	1,705,646	1,343,709	1,326,851

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2004

The Group	Note	Issued capital RM'000	Share premium RM'000	Translation adjustment account RM'000	Capital reserve RM'000	Capital redemption reserve RM'000	Unappropriated profit RM'000	Total shareholders' equity RM'000
Balance as of 1 July 2002		203,219	1,100,200	(35)	49,189	-	174,082	1,526,655
Net profit for the year		-	-	-	-	-	6,947	6,947
Redemption of preference shares	27	-	-	-	-	9	(9)	-
Dividends	9	-	-	-	-	-	(2,008)	(2,008)
Translation adjustment for the year		-	-	(1)	-	-	-	(1)
Balance as of 30 June 2003		203,219	1,100,200	(36)	49,189	9	179,012	1,531,593
Net profit for the year		-	-	-	-	-	33,506	33,506
Dividends	9	-	-	-	-	-	(25,483)	(25,483)
Translation adjustment for the year		-	-	(10)	-	-	-	(10)
Balance as of 30 June 2004		203,219	1,100,200	(46)	49,189	9	187,035	1,539,606

The Company	Note	Issued capital RM'000	Share premium RM'000	Unappropriated profit RM'000	Total shareholders' equity RM'000
Balance as of 1 July 2002		203,219	1,100,200	15,214	1,318,633
Net profit for the year		-	-	10,226	10,226
Dividends	9	-	-	(2,008)	(2,008)
Balance as of 30 June 2003		203,219	1,100,200	23,432	1,326,851
Net profit for the year		-	-	42,341	42,341
Dividends	9	-	-	(25,483)	(25,483)
Balance as of 30 June 2004		203,219	1,100,200	40,290	1,343,709

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

The Group	2004 RM'000	2003 RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Profit before tax	39,351	10,368
Adjustments for:		
Depreciation of property, plant and equipment	44,383	41,887
Amortisation of:		
Forest concessions	10,796	10,796
Goodwill on consolidation	10,146	10,146
Impairment loss of property, plant and equipment	3,448	-
Finance costs	1,499	2,105
Allowance for doubtful debts	1,275	1,008
Share in results of associated company	911	3,150
Property, plant and equipment written off	408	-
Allowance for slow-moving and obsolete inventories	116	169
Inventories written down	101	49
Bad debts written off	6	134
Inventories written off	-	877
Dividend income	-	(2)
Allowance for slow-moving and obsolete inventories no longer required	(74)	-
Gain on disposal of:		
Other investments	(42)	(35)
Property, plant and equipment	(139)	(152)
Allowance for doubtful debts no longer required	(187)	(322)
Interest income	(8,586)	(4,309)
Operating Profit Before Working Capital Changes	103,412	75,869
(Increase)/Decrease in:		
Inventories; adjusted for depreciation of property, plant and equipment of RM2,178,000 (RM2,307,000 in 2003) and amortisation of plantation development expenditure of RM81,000 (RMNil in 2003)	(5,068)	(1,320)
Trade receivables	(3,671)	12,373
Other receivables and prepaid expenses	(15,087)	104,444
Increase/(Decrease) in:		
Trade payables	599	(4,236)
Other payables and accrued expenses; excluding hire-purchase payables	7,515	(1,822)
Cash Generated From Operations	87,700	185,308
Interest received	3,198	3,038
Income tax paid	(3,283)	(2,823)
Net Cash From Operating Activities	87,615	185,523

(Forward)

The Group	Note	2004 RM'000	2003 RM'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment (Note)		(14,648)	(24,387)
Addition to other investments		(34)	(183)
Proceeds from disposal of:			
Property, plant and equipment		236	213
Other investments		55	175
(Increase)/Decrease in:			
Amount owing by holding company		(79,918)	-
Amount owing by former immediate holding company		326	87
Amount owing by other related companies		(7,874)	(92,248)
Plantation development expenditure; adjusted for depreciation of property, plant and equipment of RM433,000 (RM446,000 in 2003)		(7,411)	(5,032)
Cash at banks held under Escrow Account		(31)	(48)
Interest received from other related companies		5,204	1,271
Dividend received from quoted investments		-	2
Net Cash Used In Investing Activities		(104,095)	(120,150)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts		(3,772)	(10,930)
Amount owing to holding company		(64)	(23)
Amount owing to other related companies		(697)	1,038
Payment of hire-purchase payables		(223)	(162)
Dividend paid		(10,242)	(2,008)
Dividends paid to minority shareholder of subsidiary company		(872)	(233)
Finance costs paid		(1,499)	(2,105)
Net Cash Used In Financing Activities		(17,369)	(14,423)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(33,849)	50,950
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		127,496	76,546
CASH AND CASH EQUIVALENTS AT END OF YEAR	32	93,647	127,496

Note: During the financial year, the Group acquired property, plant and equipment at an aggregate cost of RM14,819,000 (RM24,755,000 in 2003) of which RM171,000 (RM368,000 in 2003) was acquired under hire-purchase arrangements. Cash payments for the acquisition of property, plant and equipment amounted to RM14,648,000 (RM24,387,000 in 2003).

(Forward)

The Company	2004	2003
	RM'000	RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Profit before tax	43,893	10,597
Adjustments for:		
Finance costs	6,082	1,419
Allowance for doubtful debts	956	813
Depreciation of property, plant and equipment	138	164
Property, plant and equipment written off	1	-
Inventories written off	-	7
Gain on disposal of:		
Property, plant and equipment	-	(33)
Other investments	(42)	(35)
Allowance for doubtful debts no longer required	(129)	(313)
Interest income	(6,037)	(1,612)
Dividend income	(38,591)	(10,577)
	<hr/>	<hr/>
Operating Profit Before Working Capital Changes	6,271	430
(Increase)/Decrease in:		
Inventories	(22,260)	114
Trade receivables	11,485	(45)
Other receivables and prepaid expenses	(15,893)	76,619
Increase/(Decrease) in:		
Trade payables	(2,086)	985
Other payables and accrued expenses	910	(2,252)
	<hr/>	<hr/>
Cash (Used In)/Generated From Operations	(21,573)	75,851
Interest received	555	247
Income tax paid	(1,152)	(604)
	<hr/>	<hr/>
Net Cash (Used In)/From Operating Activities	(22,170)	75,494
	<hr/>	<hr/>

(Forward)

The Company	Note	2004 RM'000	2003 RM'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(162)	(153)
Proceeds from disposal of:			
Other investments		55	175
Property, plant and equipment		-	33
Addition to other investments		(34)	(183)
(Increase)/Decrease in:			
Amount owing by holding company		(79,918)	-
Amount owing by subsidiary companies		(14,574)	2,846
Amount owing by other related companies		(7,636)	(92,203)
Cash at banks held under Escrow Account		(31)	(48)
Interest received from:			
Subsidiary companies		94	94
Other related companies		5,204	1,271
Dividend received from:			
Subsidiary companies		38,517	10,575
Quoted investments		-	2
Net Cash Used In Investing Activities		<u>(58,485)</u>	<u>(77,591)</u>
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts		(3,146)	(12,271)
Amount owing to holding company		(64)	(19)
Amount owing to subsidiary companies		126,853	17,975
Amount owing to other related companies		(703)	1,042
Dividends paid		(10,242)	(2,008)
Finance costs paid		(6,082)	(1,419)
Net Cash From Financing Activities		<u>106,616</u>	<u>3,300</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,961	1,203
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		(964)	(2,167)
CASH AND CASH EQUIVALENTS AT END OF YEAR	32	<u>24,997</u>	<u>(964)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The Company is principally involved in investment holding, trading and distribution of building materials and consumer goods. During the financial year, the Company is also involved in the trading of steel products.

The principal activities of the subsidiary companies and of the associated company are as listed in Notes 13 and 14, respectively.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year other than those disclosed in Note 13.

The total number of employees of the Group and of the Company at the end of the financial year was 2,264 (2,372 in 2003) and 83 (81 in 2003), respectively.

The Company's registered office is located at Level 46, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur.

The Company's principal place of business is located at Wisma Posim, Lot 72, Persiaran Jubli Perak, 40000 Shah Alam, Selangor Darul Ehsan.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been approved by the Board of Directors for issuance on 15 September 2004.

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards of the Malaysian Accounting Standards Board.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

Basis of Consolidation

The Group financial statements incorporate the financial statements of the Company and of all the subsidiary companies made up to the end of the financial year as listed in Note 13. Subsidiary companies are consolidated using the acquisition method of accounting.

Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

The interest of minority shareholders is stated at the minority's proportion of the assets and liabilities recognised.

All significant intercompany transactions and balances are eliminated on consolidation.

Goodwill on consolidation, which represents the excess of the cost of investment over the fair values attributable to the related net assets of the subsidiary companies at the effective date of acquisition, is amortised evenly over 25 years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Revenue Recognition

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

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

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

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

Revenue from servicing of industrial machine and equipment is recognised upon rendering of services.

Revenue from hiring of industrial machine and equipment is recognised on a time basis, by reference to the agreement entered into.

Income Tax

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

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

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

Foreign Currency Conversion

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates prevailing at the transaction dates or, where settlement has not been made at the end of the financial year, at the approximate exchange rates prevailing at that date. Gains and losses arising from conversion of foreign currency amounts are reflected in the income statements.

For the purpose of consolidation, the financial statements of the foreign incorporated subsidiary company have been translated into Ringgit Malaysia as follows:

Assets and liabilities	-	at year-end rate
Share capital	-	at historical rate
Revenue and expenses	-	at average rate for the year

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

<u>Foreign currency</u>	30.6.2004	30.6.2003
	RM	RM
1 United States Dollar	3.80	3.80
1 Singapore Dollar	2.21	2.15

All translation gains or losses are taken up and reflected in translation adjustment account under shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associated Company

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

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

Impairment of Assets

The carrying amounts of property, plant and equipment, forest concessions, plantation development expenditure, investment in subsidiary companies, investment in associated company and goodwill on consolidation are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statements.

An impairment loss in respect of goodwill is not reversed unless the loss is 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 the event. In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment loss are recognised in the income statements.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

Freehold land and capital work-in-progress are not depreciated.

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

Buildings	2%	-	5%
Leasehold land	1.65%	-	2%
Pulp and paper mill	2.85%	-	10%
Plant and machinery	3.70%	-	25%
Office equipment			20%
Furniture and fittings	10%	-	20%
Motor vehicles	20%	-	25%
Office renovation			20%
Computer equipment			20%
Housing colony and infrastructures	2%	-	4%
Jetty and access roads	2%	-	4.17%

Assets Acquired Under Hire-Purchase Arrangements

Assets acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalisation of Borrowing Cost

Borrowing cost incurred on the construction of property, plant and equipment which require a period of time to get them ready for their intended use is capitalised and included as part of the cost of the related property, plant and equipment.

Forest Concessions

Forest concessions, which consist of two forest areas of 158,623 hectares and 118,000 hectares, are stated at cost less accumulated amortisation and any impairment losses. The said concessions are amortised evenly over their estimated useful lives of 16 years and 99 years, respectively.

Plantation Development Expenditure

Development and planting expenditure incurred in the establishment and development of tree plantations, including a proportion of the Group's forestry division general charges incurred in relation to the planting of trees, are deferred and capitalised to plantation development expenditure. This expenditure is charged to the income statements when the trees are harvested upon maturity.

Investments

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

Other investments in quoted and unquoted corporations are stated at cost.

Allowance for diminution in value of other investment is made to recognise any decline, other than temporary decline, in the value of the investments.

Inventories

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

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

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

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

Receivables

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

Defined Contribution Plan

The Company, its subsidiary companies incorporated in Malaysia and its eligible employees are required by law to make monthly contributions to the Employees Provident Fund ("EPF"), a statutory defined contribution plan, at certain prescribed rates based on the employees' salaries. The Company's and the said subsidiary companies' contributions to EPF are disclosed separately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are made when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Cash Flow Statements

The Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

4. REVENUE

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Sales of goods	763,924	473,659	311,349	93,704
Servicing income	732	942	-	-
Hiring income	440	547	-	-
Gross dividend income from investments quoted in Malaysia	-	2	-	2
Gross dividend income from subsidiary companies	-	-	38,591	10,575
	765,096	475,150	349,940	104,281

5. PROFIT FROM OPERATIONS

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

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Interest income on:				
Fixed deposits with licensed banks	2,585	2,752	-	-
Advances to other related companies	5,204	1,271	5,204	1,271
Advances to holding company	184	-	184	-
Advances to subsidiary companies	-	-	94	94
Others	613	286	555	247
Rental income	419	597	3	23
Allowance for doubtful debts no longer required	187	322	129	313
Gain on disposal of property, plant and equipment	139	152	-	33
Allowance for slow-moving and obsolete inventories no longer required	74	-	-	-

5. PROFIT FROM OPERATIONS (continued)

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Gain on disposal of other investments	42	35	42	35
Bad debts recovered	16	30	16	30
Bad debts written off	(6)	(134)	-	-
Realised loss on foreign exchange	(7)	(183)	-	-
Hire of plant and machinery	(1,539)	(1,195)	-	-
Inventories written down	(101)	(49)	-	-
Allowance for slow-moving and obsolete inventories	(116)	(169)	-	-
Auditors' remuneration:				
Current year	(155)	(151)	(26)	(23)
Underprovision in prior year	(2)	-	(3)	-
Lease rental	(302)	-	-	-
Property, plant and equipment written off	(408)	-	(1)	-
Directors' remuneration (Note 20)	(654)	(498)	(594)	(468)
Inventories written off	-	(877)	-	(7)
Rental of premises payable to:				
Subsidiary company	-	-	(49)	(8)
Others	(874)	(1,345)	(150)	(300)
Allowance for doubtful debts	(1,275)	(1,008)	(956)	(813)
Impairment loss on property, plant and equipment (Note 10)	(3,448)	-	-	-

Staff costs include salaries, bonuses, contributions to the EPF and all other staff related expenses. Contributions to EPF of the Group and of the Company amounted to RM4,290,000 and RM365,000 (RM4,408,000 and RM390,000 in 2003), respectively.

6. FINANCE COSTS

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Interest expense on:				
Bank overdrafts and other borrowings	1,455	2,052	815	1,335
Advances from holding company	9	19	9	19
Advances from subsidiary companies	-	-	5,258	51
Advances from related parties	-	14	-	14
Hire-purchase	35	20	-	-
	1,499	2,105	6,082	1,419

7. INCOME TAX EXPENSE

Income tax expense consists of the following:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Current taxation:				
Estimated tax payable	5,338	2,617	1,695	251
(Over)/Underprovision in prior years	(47)	240	(51)	124
	5,291	2,857	1,644	375
Deferred tax (Note 17)	(246)	125	(92)	(4)
Share in income tax expense of associated company	(6)	-	-	-
	5,039	2,982	1,552	371

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

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Profit before tax	39,351	10,368	43,893	10,597
Tax at applicable tax rate of 28% (28% in 2003)	11,018	2,903	12,290	2,967
Tax effects of (non-taxable)/non-deductible items:				
Dividend income	-	-	(10,731)	(2,875)
Entertainment	8	62	7	27
Advertising expenses	-	145	-	-
Depreciation of non-qualifying capital expenditure	54	57	23	29
Interest restriction	2	73	2	73
Utilisation of:				
Unabsorbed tax losses	(43)	(147)	-	-
Reinvestment allowances	(46)	(90)	-	-
Investment tax credits	(21,767)	(15,507)	-	-
Other non-deductible items	3,293	15,246	106	26
Other non-taxable items	(95)	-	(94)	-
Double deduction of expenses	(2,421)	-	-	-
Realisation of deferred tax assets not previously recognised	(399)	-	-	-
Deferred tax assets not recognised	15,482	-	-	-
(Over)/Underprovision in prior years	(47)	240	(51)	124
	5,039	2,982	1,552	371

7. INCOME TAX EXPENSE (continued)

As of 30 June 2004, the balances in the tax-exempt accounts of the Company are as follows:

	The Company	
	2004	2003
	RM'000	RM'000
Tax-exempt accounts in respect of:		
Income tax waived in accordance with the Income Tax (Amendment) Act, 1999	6,157	6,157
Tax-exempt dividend received	48,770	11,866
	54,927	18,023

The above balances in the tax-exempt accounts, if agreed with the tax authorities, will enable the Company to distribute tax-exempt dividends up to the same amounts.

8. EARNINGS PER ORDINARY SHARE

Basic

The basic earnings per ordinary share of the Group has been calculated based on the Group's net profit of RM33,506,000 (RM6,947,000 in 2003) and on the number of ordinary shares in issue and ranking for dividend of 203,218,571 during the year (203,218,571 in 2003).

Fully diluted

Under MASB Standard No. 13, Earnings Per Share, the options over 1,794,000 unissued ordinary shares granted to confirmed executive employees pursuant to the Company's ESOS have no dilutive effect as the exercise price is above the average market value of the Company's shares during the financial year ended 30 June 2004. The terms of the unexercised options are set out in Note 26.

9. DIVIDENDS

	The Group and The Company	
	2004	2003
	RM'000	RM'000
Interim dividend – 7.5%, tax exempt, in 2004; 1% (0.7% tax exempt and 0.3%, less 28% tax) in 2003	15,241	1,862
Final dividend - 7%, less 28% tax, in 2003; 0.1%, less 28% tax, in 2002	10,242	146
	25,483	2,008

A final dividend of 7% (0.1% in 2002), less 28% tax, amounting to RM10,242,216 (RM146,317 in 2002) proposed in respect of the previous financial year and dealt with in the previous directors' report was paid by the Company during the current financial year. Gross dividend per share is 7 sen (0.1 sen in 2002).

An interim dividend of 7.5%, tax exempt (1%, consisting of 0.7%, tax exempt and 0.3%, less 28% tax, in 2003), amounting to RM15,241,393 (RM1,861,482 in 2003) declared in respect of the current financial year, was paid on 28 July 2004. Gross dividend per share is 7.5 sen (1 sen in 2003).

The directors propose a final dividend of 10%, tax exempt, amounting to RM20,321,857 in respect of the current financial year. Gross dividend per share is 10 sen (7 sen in 2003). The proposed dividend, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company, has not been included as a liability in the Financial Statements.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

2004 The Group	COST					At end of year RM'000
	At beginning of year RM'000	Additions RM'000	Disposals RM'000	Write-offs RM'000	Reclassifications RM'000	
Freehold land	5,227	-	-	-	-	5,227
Freehold buildings	6,175	1,489	-	-	-	7,664
Long leasehold land and buildings	4,207	-	-	-	-	4,207
Short leasehold land and buildings	74,718	73	-	(134)	290	74,947
Pulp and paper mill	781,266	-	-	-	(12,802)	768,464
Plant and machinery	236,352	4,531	(88)	(476)	16,604	256,923
Office equipment	829	139	(93)	(107)	-	768
Furniture and fittings	18,592	584	(281)	(104)	369	19,160
Motor vehicles	8,897	553	(568)	-	-	8,882
Motor vehicles under hire-purchase	682	171	(82)	-	-	771
Office renovation	770	31	-	(12)	-	789
Computer equipment	1,130	57	(10)	-	-	1,177
Housing colony and infrastructures	115,091	-	-	-	-	115,091
Jetty and access roads	99,041	606	-	-	733	100,380
Capital work-in-progress	4,114	6,585	-	-	(5,194)	5,505
	<u>1,357,091</u>	<u>14,819</u>	<u>(1,122)</u>	<u>(833)</u>	<u>-</u>	<u>1,369,955</u>

	ACCUMULATED DEPRECIATION					At end of year RM'000
	At beginning of year RM'000	Charge for the year RM'000	Disposals RM'000	Write-offs RM'000	Reclassifications RM'000	
Freehold land	-	-	-	-	-	-
Freehold buildings	1,053	145	-	-	-	1,198
Long leasehold land and buildings	664	7	-	-	-	671
Short leasehold land and buildings	26,697	3,326	-	(70)	-	29,953
Pulp and paper mill	370,646	16,605	-	-	(1,393)	385,858
Plant and machinery	88,494	16,556	(76)	(134)	1,393	106,233
Office equipment	775	33	(92)	(106)	-	610
Furniture and fittings	16,224	1,035	(275)	(103)	-	16,881
Motor vehicles	8,412	328	(568)	-	-	8,172
Motor vehicles under hire-purchase	193	163	(10)	-	-	346
Office renovation	687	42	-	(12)	-	717
Computer equipment	956	65	(4)	-	-	1,017
Housing colony and infrastructures	51,347	4,591	-	-	-	55,938
Jetty and access roads	50,541	4,098	-	-	-	54,639
Capital work-in-progress	-	-	-	-	-	-
	<u>616,689</u>	<u>46,994</u>	<u>(1,025)</u>	<u>(425)</u>	<u>-</u>	<u>662,233</u>

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	ACCUMULATED IMPAIRMENT LOSS			NET BOOK VALUE	
	At beginning of year RM'000	Charge for the year RM'000	At end of year RM'000	At end of year RM'000	At beginning of year RM'000
2004					
The Group					
Freehold land	-	-	-	5,227	5,227
Freehold buildings	-	-	-	6,466	5,122
Long leasehold land and buildings	-	-	-	3,536	3,543
Short leasehold land and buildings	-	-	-	44,994	48,021
Pulp and paper mill	-	3,448	3,448	379,158	410,620
Plant and machinery	-	-	-	150,690	147,858
Office equipment	-	-	-	158	54
Furniture and fittings	-	-	-	2,279	2,368
Motor vehicles	-	-	-	710	485
Motor vehicles under hire-purchase	-	-	-	425	489
Office renovation	-	-	-	72	83
Computer equipment	-	-	-	160	174
Housing colony and infrastructures	-	-	-	59,153	63,744
Jetty and access roads	-	-	-	45,741	48,500
Capital work-in-progress	-	-	-	5,505	4,114
	-	3,448	3,448	704,274	740,402

	COST				At end of year RM'000
	At beginning of year RM'000	Additions RM'000	Disposals RM'000	Write-offs RM'000	
2004					
The Company					
Freehold land	5,227	-	-	-	5,227
Freehold buildings	1,898	-	-	-	1,898
Long leasehold land and building	383	-	-	-	383
Office equipment	511	5	(92)	(105)	319
Furniture and fittings	515	6	-	(103)	418
Motor vehicles	412	142	-	-	554
Office renovation	268	-	-	(12)	256
Computer equipment	661	9	-	-	670
	9,875	162	(92)	(220)	9,725

	ACCUMULATED DEPRECIATION				NET BOOK VALUE	
	At beginning of year RM'000	Charge for the year RM'000	Disposals RM'000	Write-offs RM'000	At end of year RM'000	At beginning of year RM'000
Freehold land	-	-	-	-	-	5,227
Freehold buildings	252	38	-	-	290	1,646
Long leasehold land and building	37	7	-	-	44	346
Office equipment	505	3	(92)	(104)	312	6
Furniture and fittings	503	10	-	(103)	410	12
Motor vehicles	278	30	-	-	308	134
Office renovation	242	26	-	(12)	256	26
Computer equipment	596	24	-	-	620	65
	2,413	138	(92)	(219)	2,240	7,462

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Current depreciation has been charged to the following accounts:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Income statements	44,383	41,887	138	164
Inventories	2,178	2,307	-	-
Plantation development expenditure (Note 12)	433	446	-	-
	46,994	44,640	138	164

The directors of a subsidiary company have reviewed the carrying amount of certain plant and equipment and have determined that there is an indication of impairment as the carrying amount exceeds the recoverable amount. The recoverable amount is estimated based on the expected net selling price that could be obtained from the disposal of the said plant and equipment. Consequently, an impairment loss of RM3,448,000 (Note 5) has been charged to the income statement of the Group.

As of 30 June 2004, certain freehold land and buildings and long leasehold land and buildings of the Group and the Company with net book values totalling RM7,174,000 (RM7,219,000 in 2003) have been pledged as collaterals to certain local banks for bank overdraft and other credit facilities granted to the Company as mentioned in Note 24.

As of 30 June 2004, the titles to certain parcels of leasehold land of a subsidiary company with net book values totalling RM1,550,000 (RM1,583,000 in 2003) have not been registered in the name of the said subsidiary company.

11. FOREST CONCESSIONS

	The Group	
	2004 RM'000	2003 RM'000
Forest concessions - at cost	388,200	388,200
Cumulative amortisation:		
At beginning of year	65,676	54,880
Amortisation for the year	10,796	10,796
At end of year	76,472	65,676
Net	311,728	322,524

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

12. PLANTATION DEVELOPMENT EXPENDITURE

	The Group	
	2004 RM'000	2003 RM'000
At cost:		
At beginning of year	137,377	131,899
Additions for the year	7,844	5,478
At end of year	145,221	137,377
Cumulative amortisation:		
At beginning of year	4,316	4,316
Amortisation for the year	81	-
At end of year	4,397	4,316
Net	<u>140,824</u>	<u>133,061</u>

Charges to plantation development expenditure during the year include depreciation of property, plant and equipment amounting to RM433,000 (RM446,000 in 2003).

Current amortisation of RM81,000 (RM Nil in 2003) has been charged to inventories.

13. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2004 RM'000	2003 RM'000
Unquoted shares - at cost	<u>1,232,075</u>	<u>1,232,075</u>

Amount owing by subsidiary companies arose mainly from expenses paid on behalf and unsecured advances with no fixed repayment terms.

The advances bear interest at rates ranging from 1.00% to 5.50% (1.00% to 5.40% in 2003) per annum.

Amount owing to subsidiary companies consist of:

	The Company	
	2004 RM'000	2003 RM'000
Advances	19,544	19,875
Revolving credit	47,000	-
Term loan	80,184	-
	<u>146,728</u>	<u>19,875</u>
Less: Amount due within 12 months (shown under current liabilities)	<u>(76,728)</u>	<u>(19,875)</u>
Non-current portion	<u>70,000</u>	<u>-</u>

The non-current portion is repayable as follows:

Financial years ending 30 June:		
2006	20,000	-
2007	20,000	-
2008	25,000	-
2009	5,000	-
	<u>70,000</u>	<u>-</u>

The advances bear interest at Nil (1.00% in 2003) per annum and has no fixed repayment terms.

13. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The average effective interest rates per annum of the revolving credit and the term loan are as follows:

	The Company	
	2004	2003
	%	%
Revolving credit	8.00	-
Term loan	12.00	-

The term loan arose as a result of the Offer of Financing as disclosed in Note 33.

The directors of the Company are of the opinion that the transactions undertaken with subsidiary companies have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

The subsidiary companies are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2004	2003	
		%	%	
Direct				
Posim Petroleum Marketing Sdn Bhd	Malaysia	100.00	100.00	Trading and distribution of petroleum products
Posim Marketing Sdn Bhd	Malaysia	100.00	100.00	Ceased operations in the trading, servicing, hiring and distribution of industrial machines and equipment during the year and commenced operations in the trading of building materials and consumer products
Ototek Sdn Bhd	Malaysia	70.00	70.00	Trading and distribution of lubricants, spark plugs and automotive components
Posim Petroleum Products Sdn Bhd	Malaysia	100.00	100.00	Manufacturing of petroleum products
Stoller Chemical Company (M) Sdn Bhd (In liquidation - voluntary)	Malaysia	100.00	100.00	Dormant
Lion Rubber Industries Sdn Bhd (formerly known as Fabulous Contour Sdn Bhd)	Malaysia	100.00	100.00	Dormant
Posim Agricultural Products Sdn Bhd	Malaysia	100.00	100.00	Dormant
SC Nominees Sdn Bhd	Malaysia	100.00	100.00	Investment holding, inactive during the year
Sabah Forest Industries Sdn Bhd	Malaysia	97.78	97.78	Integrated wood-based activities and pulp and paper mill operations

13. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2004 %	2003 %	
Indirect				
Sabah Pulp & Paper Mill Sdn Bhd	Malaysia	97.78	97.78	Dormant
* SFI Paper Pte Ltd	Republic of Singapore	97.78	97.78	Dormant

* The financial statements of this company are audited by Deloitte & Touche, a member firm of the auditors of the Company.

The Company's investment in Ototek Sdn Bhd with carrying value amounting to RM1,175,000 (RM1,175,000 in 2003) has been pledged as collateral to certain local banks for bank overdraft and other credit facilities granted to the Company as mentioned in Note 24.

14. INVESTMENT IN ASSOCIATED COMPANY

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Unquoted shares - at cost	4,684	4,684	4,684	4,684
Share in post - acquisition loss	(1,642)	(737)	-	-
	3,042	3,947	4,684	4,684

The associated company is as follows:

Name of Company	Country of Incorporation	Effective Equity Interest		Principal Activities
		2004 %	2003 %	
# Kinabalu Motor Assembly Sendirian Berhad	Malaysia	20.00	20.00	Assembly of Isuzu range of motor vehicles

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

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

	The Group	
	2004 RM'000	2003 RM'000
Share of net tangible assets	2,518	3,423
Premium on acquisition	524	524
	3,042	3,947

15. OTHER INVESTMENTS

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
At cost:				
Quoted shares	217	230	209	222
Quoted securities	34	-	34	-
	<u>251</u>	<u>230</u>	<u>243</u>	<u>222</u>
Market value of quoted shares and securities	<u>89</u>	<u>130</u>	<u>75</u>	<u>118</u>

16. GOODWILL ON CONSOLIDATION

	The Group	
	2004 RM'000	2003 RM'000
Goodwill on consolidation	253,646	253,646
Cumulative amortisation:		
At beginning of year	61,881	51,735
Amortisation for the year	10,146	10,146
At end of year	<u>72,027</u>	<u>61,881</u>
Net	<u>181,619</u>	<u>191,765</u>

17. DEFERRED TAX ASSETS/(LIABILITIES)

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Deferred Tax Assets				
At beginning of year	185	309	101	97
Net transfer from/(to) income statements (Note 7)	272	(124)	92	4
At end of year	<u>457</u>	<u>185</u>	<u>193</u>	<u>101</u>

	The Group	
	2004 RM'000	2003 RM'000
Deferred Tax Liabilities		
At beginning of year	239	238
Net transfer from income statements (Note 7)	26	1
At end of year	<u>265</u>	<u>239</u>

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

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

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Temporary differences arising from:				
Property, plant and equipment	(141,984)	(148,684)	(25)	42
Plantation development expenditure	(39,268)	(37,117)	-	-
Inventories	64	229	-	-
Other payables and accrued expenses	326	-	218	-
Others	25	42	-	-
Unabsorbed tax losses	139,317	139,544	-	-
Unabsorbed capital allowances	358,362	350,795	-	59
	316,842	304,809	193	101
Less: Deferred tax asset not recognised	(316,385)	(304,624)	-	-
Net	457	185	193	101

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

	The Group	
	2004 RM'000	2003 RM'000
Temporary differences arising from:		
Property, plant and equipment	326	391
Other payables and accrued expenses	(61)	(152)
	265	239

The unabsorbed tax losses and capital allowances are subject to agreement with the tax authorities.

As of 30 June 2004, the Group has reinvestment allowances and investment tax credits totalling RM68,225,000 and RM147,676,000 (RM68,225,000 and RM224,380,000 in 2003), respectively which, if agreed by the tax authorities, are available for set-off against taxable income in future years.

18. INVENTORIES

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
At cost:				
Finished goods				
- Paper	4,458	9,650	-	-
- Veneer	2,245	4,955	-	-
- Sawn timber	1,518	3,492	-	-
- Plywood	55	1,070	-	-
- Others	167	38	-	-
Commercial timber logs	769	112	-	-
Work-in-progress				
- Paper	6,573	2,045	-	-
- Veneer	563	1,954	-	-
- Sawn timber	1,602	2,244	-	-
- Plywood	235	351	-	-
Raw materials	14,063	14,712	-	-
Pulp and fuel logs	5,668	16,072	-	-
Engineering spares	35,352	34,410	-	-
Fuel and lubricants	3,328	1,959	-	-
Trading merchandise	28,954	5,781	22,285	31
Goods-in-transit	27	-	-	-
Others	2,330	1,965	-	-
	107,907	100,810	22,285	31
Less: Allowance for obsolete and slow-moving inventories	(576)	(732)	-	(6)
	107,331	100,078	22,285	25
At net realisable value:				
Trading merchandise	1	55	-	-
Others	-	15	-	-
	107,332	100,148	22,285	25

19. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables are as follows:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Trade receivables	75,959	72,478	27,806	39,329
Allowance for doubtful debts	(6,310)	(5,471)	(3,700)	(2,976)
	69,649	67,007	24,106	36,353

Trade receivables comprise amounts outstanding for sale of goods, rendering of services, hiring of industrial machines and equipment. The credit period ranges from 30 to 60 days (30 to 60 days in 2003).

The currency exposure profile of trade receivables is as follows:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
US Dollar	13,587	7,196	-	-
Singapore Dollar	349	969	-	-
Ringgit Malaysia	62,023	64,313	27,806	39,329
	75,959	72,478	27,806	39,329

Other receivables and prepaid expenses consist of:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Other receivables	19,617	4,906	16,543	872
Allowance for doubtful debts	(1,548)	(1,483)	(195)	(130)
	18,069	3,423	16,348	742
Prepaid expenses	3,446	3,114	704	399
Deposits	382	338	133	216
	21,897	6,875	17,185	1,357

20. HOLDING COMPANIES AND RELATED PARTY TRANSACTIONS

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

During the current financial year, Amsteel Mills Sdn Bhd ceased to be the immediate holding company pursuant to the Assignment as disclosed in Note 33.

Amount owing by/(to) holding company consist of:

	The Group and The Company	
	2004 RM'000	2003 RM'000
Advances	(82)	(64)
Term loan receivable	80,184	-
	80,102	(64)
Less: Amount due within 12 months (shown under current liabilities)	(10,102)	64
Non-current portion	70,000	-

The advances bear interest at 8.00% (8.00% in 2003) per annum and has no fixed repayment terms.

The term loan receivable, which arose as a result of the Offer of Financing as disclosed in Note 33, bears interest at an average effective rate of 12.00% per annum, and has the same repayment schedule as the non-current portion of the amount owing to subsidiary company as disclosed in Note 13.

Amount owing by former immediate holding company is interest-free and has no fixed repayment terms.

Amount owing by other related companies bears interest at rates ranging from 5.40% to 5.50% (5.20% to 5.40% in 2003) per annum and has no fixed repayment terms.

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

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

Name of Company	Nature	The Group		The Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
With holding company:					
Lion Industries Corporation Berhad	Interest income on advances	184	-	184	-
	Interest expense on advances	9	19	9	19
With former immediate holding company:					
Amsteel Mills Sdn Bhd	Trade sales	1,998	1,407	-	-
	Trade purchases	2,654	-	2,654	-
	Transport service charges payable	675	347	-	-

20. HOLDING COMPANIES AND RELATED PARTY TRANSACTIONS (continued)

Name of Company	Nature	The Group		The Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
With other related companies					
JOPP Builders Sdn Bhd	Interest income on advances	40	40	40	40
LLB Harta (M) Sdn Bhd	Interest income on advances	5,164	1,231	5,164	1,231
Antara Steel Mills Sdn Bhd	Trade sales	11,454	87	11,394	-
Amsteel Mills Marketing Sdn Bhd	Trade purchases	74,872	19,206	74,872	19,206
With related parties:					
Parkson Corporation Sdn Bhd	Trade sales	1,344	409	1,231	293
Silverstone Berhad	Trade sales	2,235	2,974	-	-
Lion Suzuki Motor Sdn Bhd	Rental payable	142	546	50	188
	Trade sales	130	182	-	-
	Interest expense on advances	-	14	-	14
Singa Logistics Sdn Bhd	Trade sales	12	34	-	-
Megasteel Sdn Bhd	Trade sales	919	547	-	-
	Trade purchases	144,504	-	144,504	-
	Purchase of spares	632	-	-	-
Bright Steel Sdn Bhd	Trade sales	314	342	-	-
	Purchase of spares	92	-	-	-
Lion Trading & Marketing Sdn Bhd	Purchase of equipment	1	420	-	-

Other related companies refer to subsidiary companies of LICB, the holding company.

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

20. HOLDING COMPANIES AND RELATED PARTY TRANSACTIONS (continued)

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

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Receivables:				
Included in trade receivables	1,300	1,317	-	232
Included in other receivables	71	101	66	101
Payables:				
Included in trade payables	-	900	-	900
Included in other payables	2	340	-	275

Forms of directors' remuneration charged to the income statements for the financial year are as follows:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Fees				
Executive directors	36	21	30	21
Non-executive directors	134	109	128	103
	170	130	158	124
Salary and other emoluments				
Executive directors	427	310	404	310
Non-executive director	23	23	-	-
	450	333	404	310
Contribution to Employees Provident Fund				
Executive directors	33	34	32	34
Non-executive director	1	1	-	-
	34	35	32	34
Total	654	498	594	468

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

As of 30 June 2004, Sabah Forest Industries Sdn Bhd, a subsidiary company, has in issue 146,000,000 deferred shares of RM1.00 each, held by Avenel Sdn Bhd. The said deferred shares, which do not carry any entitlement to dividend, voting rights and rights to receive notice of general meetings, are only entitled to a repayment of capital after the ordinary shares in the event of a winding-up. In addition, the said deferred shares are redeemable at any time at the option of the subsidiary company. As at the end of the financial year, the said deferred shares of RM146,000,000 (RM146,000,000 in 2003) have been included as part of the minority interests of the Group.

21. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits with licensed banks bear interest at an average rate of 2.30% (2.50% in 2003) per annum.

22. CASH AND BANK BALANCES

Included in cash and bank balances of the Group and the Company is an amount of RM987,301 (RM956,042 in 2003) representing cash held under Escrow Account as mentioned in Note 24. The said Escrow Account was created pursuant to the Master Restructuring Agreement entered into between the Company and certain local banks. In accordance with the said agreement, utilisation of cash held under the Escrow Account is restricted to repayment of bank borrowings and payment of interest, commission, fees and other charges to the banks.

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables comprise amounts outstanding for trade purchases. The average credit period ranges from 30 to 90 days (30 to 90 days in 2003).

The currency exposure profile of trade payables is as follows:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
US Dollar	1,244	1,942	21	48
Singapore Dollar	-	82	-	2
Ringgit Malaysia	21,757	20,378	12,464	14,521
	23,001	22,402	12,485	14,571

Other payables and accrued expenses consist of:

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Hire-purchase payables (Note 25)	126	118	-	-
Other payables	16,927	14,739	24	296
Accrued expenses	26,903	21,566	2,186	1,004
	43,956	36,423	2,210	1,300

24. BANK BORROWINGS

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Bank overdrafts (Note 32)	1,488	4,328	990	1,809
Bankers acceptances, trust receipts and bills payable	11,519	13,811	9,490	11,156
Revolving credits	2,878	4,358	2,878	4,358
Total	15,885	22,497	13,358	17,323

As of 30 June 2004, the Company has bank overdraft and other credit facilities totalling RM14,543,000 (RM20,254,000 in 2003) obtained from certain local banks, which bear interest at average rates ranging from 5.40% to 5.50% (5.20% to 5.40 in 2003) per annum.

The bank overdraft and other credit facilities of the Company are secured by:

- (a) A first fixed charge under the National Land Code 1965 and an absolute legal assignment over:
 - (i) freehold land and buildings of the Company with carrying value of RM6,835,000 (RM6,873,000 in 2003)
 - (ii) long leasehold land and building of the Company with carrying value of RM339,000 (RM346,000 in 2003)
- (b) An assignment of the sale and purchase agreements over other buildings of the Company
- (c) A debenture containing a floating charge over the current assets, both present and future, of the following subsidiary companies of the Company:
 - (i) Posim Petroleum Products Sdn Bhd
 - (ii) Posim Agricultural Products Sdn Bhd
- (d) An assignment over all insurance policies over certain assets of the Company and the abovementioned subsidiary companies
- (e) A debenture containing a first fixed charge over the property, plant and equipment of the Company and a floating charge over:
 - (i) the Escrow Account
 - (ii) all other assets of the Company (not subject to the first fixed charge), both present and future, including inter-company receivables but excluding inter-company receivables from SC Nominees Sdn Bhd and the Company's shareholdings in SC Nominees Sdn Bhd, Sabah Forest Industries Sdn Bhd, Posim Petroleum Marketing Sdn Bhd and Posim Marketing Sdn Bhd
- (f) A first party memorandum of deposit of shares on the pledge of the Company's entire shareholding in Ototek Sdn Bhd

24. BANK BORROWINGS (continued)

As of 30 June 2004, certain subsidiary companies have bank overdraft and other credit facilities totalling RM50,015,000 (RM83,015,000 in 2003) obtained from certain local banks. These facilities, which bear interest at rates ranging from 4.00% to 7.40% (4.10% to 8.10% in 2003) per annum, are secured by:

- (a) Corporate guarantee by the Company to the extent of RM13,875,000 (RM13,875,000 in 2003)
- (b) Corporate guarantee by the subsidiary company, SC Nominees Sdn Bhd to the extent of RM10,000,000 (RM10,000,000 in 2003)
- (c) Negative pledge on one of the subsidiary companies' assets to the extent of RM40,000,000 (RM73,000,000 in 2003)
- (d) Letter of awareness from Avenel Sdn Bhd, the former immediate holding company, general security agreement relating to goods and a general letter of pledge
- (e) Letter of awareness from Amsteel Corporation Berhad, the former ultimate holding company
- (f) Letter of undertaking from the Company to maintain an effective shareholding of not less than 51% of the issued share capital of the subsidiary company, Sabah Forest Industries Sdn Bhd

25. HIRE-PURCHASE PAYABLES

	The Group	
	2004	2003
	RM'000	RM'000
Total outstanding	454	533
Less: Interest-in-suspense	(86)	(113)
	<hr/>	<hr/>
Principal portion	368	420
	<hr/> <hr/>	<hr/> <hr/>
Payable as follows:		
Within the next 12 months (Note 23)	126	118
After the next 12 months	242	302
	<hr/>	<hr/>
	368	420
	<hr/> <hr/>	<hr/> <hr/>

The interest rates implicit in these hire-purchase obligations range from 5.00% to 7.50% (3.50% to 11.00% in 2003) per annum.

26. SHARE CAPITAL

	The Group and The Company	
	2004	2003
	RM'000	RM'000
Authorised:		
500,000,000 ordinary shares of RM1.00 each	500,000	500,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
203,218,571 ordinary shares of RM1.00 each	203,219	203,219
	<hr/> <hr/>	<hr/> <hr/>

26. SHARE CAPITAL (continued)

The ESOS implemented for the benefit of eligible executive employees and executive directors of the Group became effective on 31 May 2000 and will expire on 30 May 2005.

The main features of the ESOS are as follows:

- (a) Executive directors and confirmed executive employees of the Group who have been employed for a period of at least one year shall be eligible to participate in the ESOS.
- (b) The maximum number of new shares in the Company which may be issued and allotted pursuant to the exercise of options granted under the ESOS shall not exceed 10% of the issued and paid-up share capital of the Company at any point in time during the existence of the ESOS.
- (c) No options shall be granted for less than 1,000 ordinary shares nor more than the maximum allowable allotment and shall be in multiples of 1,000 ordinary shares.
- (d) The option price of each ordinary share under the ESOS shall be determined by the Board upon the recommendation of the option committee which is at a discount of not more than 10% on the weighted average market price of the shares for the five market days immediately preceding the date of offer, or the par value of each ordinary share, whichever is higher.
- (e) The ESOS shall continue to be in force for a period of 5 years and the Company may, if the Board deems fit upon the recommendation of the option committee, renew the ESOS for a further 5 years, without further approval of the relevant authorities.

The persons to whom the options have been granted have no right to participate, by virtue of the options, in any share issue of any other company.

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

Exercisable From	Subscription Price Per Share	Balance as of 1.7.2003	Granted	Exercised	Lapsed	Unissued Shares as of 30.6.2004
21 June 2000	RM2.40	1,967,000	-	-	(173,000)	1,794,000

27. RESERVES

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Non-distributable reserves:				
Share premium	1,100,200	1,100,200	1,100,200	1,100,200
Translation adjustment account	(46)	(36)	-	-
Capital reserve	49,189	49,189	-	-
Capital redemption reserve	9	9	-	-
	1,149,352	1,149,362	1,100,200	1,100,200
Distributable reserve:				
Unappropriated profit	187,035	179,012	40,290	23,432
	1,336,387	1,328,374	1,140,490	1,123,632

Translation adjustment account

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

27. RESERVES (continued)
Capital reserve

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

	The Group	
	2004	2003
	RM'000	RM'000
Shares issued by subsidiary company and paid by minority shareholder	5,998	5,998
Increase in reserve sharing resulting from additional shares issued by subsidiary company	43,191	43,191
	49,189	49,189

Capital redemption reserve

The capital redemption reserve, which is not available for the payment of dividends, arose from the redemption of redeemable preference shares by a subsidiary company.

Unappropriated profit

Distributable reserves are those available for distribution as dividend. Taking into consideration the tax-exempt accounts as mentioned in Note 7 and based on the estimated tax credits available and the prevailing tax rate applicable to dividends, the unappropriated profit of the Company as of 30 June 2004 is available for distribution by way of dividends without additional tax liability being incurred.

28. FINANCIAL INSTRUMENTS
Financial Risk Management Objectives and Policies

The operations of the Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The Group has taken measures to minimise the Group's exposure to risks and/or costs associated with the financing, investing and operating activities of the Group.

(i) Foreign currency risk

The Group undertakes transactions in United States Dollar ("USD") and Singapore Dollar with certain foreign entities and therefore is exposed to foreign currency risk. However, the imposition of currency controls via the pegging of Ringgit Malaysia ("RM") to USD at a fixed exchange rate of USD1.00 to RM3.80 by Bank Negara Malaysia since September 1998 has minimised the foreign currency risk.

(ii) Interest rate risk

The Group is exposed to interest rate risk through the impact rate changes on bank borrowings. The interest rates for the said bank borrowings are disclosed in Note 24.

(iii) Credit risk

The Group is exposed to credit risk mainly from trade and other receivables. The Group has no major concentration of credit risk and extends credit to its customers based upon careful evaluation of the customer's financial condition and credit history.

(iv) Liquidity risk

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

28. FINANCIAL INSTRUMENTS (continued)
(v) Cash flow risk

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Financial Assets

The Group's principal financial assets are cash and bank balances, trade and other receivables, other investments and amount owing by holding company and other related companies.

The Company's principal financial assets also include amount owing by subsidiary companies.

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

Financial Liabilities and Equity Instruments

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

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

Significant financial liabilities of the Company include trade and other payables and amount owing to subsidiary companies, holding company and other related companies, dividend payable and bank borrowings, which are stated at their nominal values.

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

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

Fair Value of Financial Assets and Liabilities

The carrying amounts and the estimated fair values of the Group's and the Company's financial instruments as of 30 June 2004 are as follows:

	The Group		The Company	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
2004				
Financial Assets				
Other investments - quoted shares	217	69	209	55
Other investments - quoted securities	34	20	34	20
Amount owing by holding company	70,000	88,887	70,000	88,887
Financial Liabilities				
Hire-purchase payables	368	272	-	-
Amount owing to subsidiary company	-	-	70,000	88,887
2003				
Financial Assets				
Other investments - quoted shares	230	130	222	118
Financial Liability				
Hire-purchase payables	420	410	-	-

28. **FINANCIAL INSTRUMENTS** (continued)

Quoted shares and securities

The market values of quoted shares and securities as at balance sheet date approximate their fair values.

Hire-purchase payables

The fair value of the hire-purchase payables of the Group is estimated using the discounted cash flow analysis based on current financing rate for hire-purchase payables.

Cash and cash equivalents, trade and other receivables, intercompany indebtedness, trade and other payables and bank borrowings

The carrying amounts approximate fair values because of the short maturity period for these instruments.

29. **CONTINGENT LIABILITIES - UNSECURED**

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Corporate guarantees given to financial institutions for the granting of credit facilities to certain subsidiary companies	-	-	585	1,437
Legal claims in respect of the termination of contracts for the extraction and sale of timber extraction and sale of timber	313,300	313,300	-	-

Indemnity contracts have been signed between the Company and Avenel Sdn Bhd, whereby Avenel Sdn Bhd, the former immediate holding company, agrees to indemnify the Company in full for all losses, damages, liabilities, claims, costs and expenses whatsoever which the Company may incur or sustain as a result of or arising from the litigation suits amounting to RM313,300,000 (RM313,300,000 in 2003) and any other claims brought by third parties against Sabah Forest Industries Sdn Bhd wherein the cause of action arises prior to the completion of the corporate exercise.

30. **CAPITAL COMMITMENTS**

As of 30 June 2004, the Group has the following capital commitments:

	The Group	
	2004 RM'000	2003 RM'000
Approved and contracted for:		
Purchase of property, plant and equipment	12,828	1,746
Approved but not contracted for:		
Purchase of property, plant and equipment	18,809	18,653
Plantation development expenditure	16,944	17,164
	35,753	35,817
	48,581	37,563

31. SEGMENT INFORMATION

For management purposes, the Group is organised into the following operating divisions:

- timber extraction and pulp and paper
- building materials and steel products
- others

Others include mainly lubricants and automotive products, industrial equipment and consumer goods, none of which are of sufficient size to be reported separately.

Information on the Group's operations by geographical segments has not been provided as the Group operated principally in Malaysia.

The inter-segment transactions were conducted at market value.

The Group 2004	Timber extraction and pulp and paper RM'000	Building materials and steel products RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Revenue					
External customers	398,441	314,640	52,015	-	765,096
Inter-segment sales	-	-	91	(91)	-
Total revenue	<u>398,441</u>	<u>314,640</u>	<u>52,106</u>	<u>(91)</u>	<u>765,096</u>
Results					
Segment results	30,105	41,780	6,419	(38,590)	39,714
Unallocated expenses					(3,341)
Unallocated income					5,388
Profit from operations					41,761
Finance costs					(1,499)
Share in results of associated company	-	-	(911)	-	(911)
Profit before tax					39,351
Income tax expense					(5,039)
Profit after tax					34,312
Minority interests					(806)
Net profit for the year					<u>33,506</u>
Consolidated Balance Sheet					
Assets					
Segment assets	1,486,342	118,831	28,522	-	1,633,695
Investment in associated company	-	-	3,042	-	3,042
Unallocated corporate assets					182,135
Consolidated total assets					<u>1,818,872</u>
Liabilities					
Segment liabilities	42,799	30,159	9,481	-	82,439
Unallocated corporate liabilities					22,840
Consolidated total liabilities					<u>105,279</u>

(Forward)

31. SEGMENT INFORMATION (continued)

	Timber extraction and pulp and paper RM'000	Building materials and steel products RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Other Information					
Capital expenditure	18,109	162	4,392	-	22,663
Depreciation	42,401	138	1,844	-	44,383
Amortisation	20,920	-	22	-	20,942
Impairment loss	3,448	-	-	-	3,448
The Group 2003					
Revenue					
External customers	336,910	93,706	44,534	-	475,150
Inter-segment sales	-	-	39	(39)	-
Total revenue	336,910	93,706	44,573	(39)	475,150
Results					
Segment results	9,285	11,070	5,971	(10,575)	15,751
Unallocated expenses					(1,399)
Unallocated income					1,271
Profit from operations					15,623
Finance costs					(2,105)
Share in results of associated company	-	-	(3,150)	-	(3,150)
Profit before tax					10,368
Income tax expense					(2,982)
Profit after tax					7,386
Minority interests					(439)
Net profit for the year					6,947
Consolidated Balance Sheet					
Assets					
Segment assets	1,619,174	47,220	28,098	-	1,694,492
Investment in associated company	-	-	3,947	-	3,947
Unallocated corporate assets					94,512
Consolidated total assets					1,792,951
Liabilities					
Segment liabilities	35,540	15,868	7,716	-	59,124
Unallocated corporate liabilities					28,181
Consolidated total liabilities					87,305
Other Information					
Capital expenditure	27,606	153	2,474	-	30,233
Depreciation	43,063	164	1,413	-	44,640
Amortisation	20,920	-	22	-	20,942

32. CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Fixed deposits with licensed banks	61,300	126,800	-	-
Cash and bank balances	34,822	5,980	26,974	1,801
Bank overdrafts (Note 24)	(1,488)	(4,328)	(990)	(1,809)
	94,634	128,452	25,984	(8)
Less: Non cash equivalents:				
Cash at banks held under Escrow Account (Note 22)	(987)	(956)	(987)	(956)
	93,647	127,496	24,997	(964)

33. SIGNIFICANT CORPORATE EVENTS

- (a) On 11 December 2003, the Company announced that pursuant to its letter of offer, Lion Industries Corporation Berhad ("LICB") had accepted the Company's offer to lend up to RM100 million, a sum of which was to be advanced by Sabah Forest Industries Sdn Bhd ("SFI"), a subsidiary of the Company. LICB would in turn advance the same to Amsteel Mills Sdn Bhd ("AMSB"), a subsidiary of LICB, to enable AMSB to complete and run the meltshop facility located in Banting, Selangor Darul Ehsan ("Offer of Financing").

The Offer of Financing superseded the earlier proposal as reported in the previous financial statements, wherein SFI was to lend up to RM100 million directly to AMSB.

The Offer of Financing involved AMSB assigning the exercise of part of its voting rights in the Company amounting to 6.56% to LICB and 28.7% to LLB Nominees Sdn Bhd, a wholly-owned subsidiary of LICB ("Assignment"). Resulting from the Assignment, AMSB's voting rights in the Company was reduced from 60.26% to 25% and LICB, together with LLB Nominees Sdn Bhd, collectively hold 58.7% of the voting rights in the Company. Consequent thereto, the directors regard LICB as its immediate holding company.

The shareholders' approval in relation to the Offer of Financing was obtained at the Extraordinary General Meeting of the Company held on 18 June 2004. The Offer of Financing was implemented on 6 August 2004.

- (b) On 5 July 2004, a total of 8.877 million options at a subscription price of RM2.13 per ordinary share, which will expire on 30 May 2005, was granted to the eligible employees of the Group pursuant to the ESOS.

Subsequent to the end of the financial year, the issued and paid-up share capital of the Company was increased from RM203,218,571 comprising 203,218,571 ordinary shares of RM1.00 each to RM203,278,571 comprising 203,278,571 ordinary shares of RM1.00 each following the issuance of 60,000 ordinary shares of RM1.00 each upon the exercise of the options under the ESOS.

STATEMENT BY DIRECTORS

The directors of **LION FOREST INDUSTRIES BERHAD** state that, in their opinion, the accompanying balance sheets and statements of income, cash flows and changes in equity are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 30 June 2004 and of the results of their businesses and the cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with
a resolution of the Directors,

TAN SRI WILLIAM H.J. CHENG

NGAN YOW CHONG

Kuala Lumpur,
15 September 2004

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

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

Subscribed and solemnly declared by the abovenamed
NGAN YOW CHONG at **KUALA LUMPUR** in the
FEDERAL TERRITORY this 15th day of September, 2004.

Before me,

W-217
P. SETHURAMAN
COMMISSIONER FOR OATHS
Kuala Lumpur



LIST OF GROUP PROPERTIES

AS AT 30 JUNE 2004

Address	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/ Age of Building (Year)	Net Book Value (RM million)	Date of Acquisition
3, Jalan SS 13/3B 47500 Petaling Jaya Selangor Darul Ehsan	Freehold	10,005 sq feet	Industrial land and building	Factory (15)	1.0	6.8.1992
Lot 72 Persiaran Jubli Perak 40000 Shah Alam Selangor Darul Ehsan	Freehold	5 acres	Industrial land and building	Factory (10)	9.6	30.12.1991
12 & 12/1 Jalan Nangka Tiga Taman Rumpun Bahagia 75300 Bacang, Melaka	Leasehold 21.7.2084	1,650 sq feet	Land and building	2-storey shop office (19)	0.1	13.4.1998
Centre Point Business Park Unit No. B-8-1 & B-8-2 5, Jalan Tanjung Karamat 26/35, Seksyen 26 40400 Shah Alam Selangor Darul Ehsan	Freehold	2,716 sq feet	Building	Office (6)	0.4	18.3.1999
50-2 & 50-3 Jalan Wangsa 2/5 Taman Wangsa Permai 52200 Kuala Lumpur	Leasehold 21.10.2087	1,400 sq feet	Land and building	2-storey shop office (6)	0.2	17.3.1999
15, Jalan Permatang Rawa 1 Kawasan Perniagaan Permatang Rawa 14000 Bukit Mertajam Pulau Pinang	Freehold	2,240 sq feet	Land and building	3-storey shop office (5)	0.7	9.2.1999
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	291.7 hectares	Land	Log pond and waste disposal area	1.6	1.1.1989
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2082	79.6 hectares	Land and building	Residential (16 - 19)	51.7	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2043	23.9 hectares	Land	Vacant	1.5	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2043	4.0 hectares	Land	Jetty	20.1	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2044	58.9 hectares	Land	Nursery site	0.1	1.1.1984



Address	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/ Age of Building (Year)	Net Book Value (RM million)	Date of Acquisition
Kampung Seboboh Mukim of Sipitang Sabah	Leasehold 31.12.2048	166.7 hectares	Land and building	Pulp and) paper mills) (16 - 19)		1.1.1988
Kampung Seboboh Mukim of Sipitang Sabah	Leasehold 31.12.2044	47.0 hectares	Land and building	Pulp and) paper mills) (16 - 19)	412.5	1.1.1983
Kampung Seboboh Mukim of Sipitang Sabah	Leasehold 31.12.2043	499.0 hectares	Land and building	Mills and) housing) (16 - 19)		1.1.1983
Kampung Seboboh Mukim of Sipitang Sabah	Leasehold 31.12.2087	1.5 hectares	Land and building	Pump house (16 - 19)	0.1	1.1.1989
Kampung Seboboh Mukim of Sipitang Sabah	Leasehold 31.12.2087	6,107 hectares	Land	Plantation	15.3	1.1.1989
Kampung Seboboh Mukim of Sipitang Sabah	Leasehold 31.12.2087	5,860 hectares	Land	Plantation	14.7	1.1.1989

ANALYSIS OF SHAREHOLDINGS

Share Capital as at 30 September 2004

Authorised Share Capital	:	RM500,000,000
Issued and Paid-up Capital	:	RM203,340,571
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One (1) vote per ordinary share

Distribution of Shareholdings as at 30 September 2004

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Less than 100	14	0.35	291	0.00
100 - 1,000	1,500	37.66	1,461,048	0.72
1,001 - 10,000	2,120	53.23	8,005,940	3.94
10,001 - 100,000	309	7.76	8,566,750	4.21
100,001 - less than 5% of issued shares	38	0.95	15,209,271	7.48
5% and above of issued shares	2	0.05	170,097,271	83.65
	3,983	100.00	203,340,571	100.00

Substantial Shareholders as at 30 September 2004

Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	% of Shares	No. of Shares	% of Shares
1. Tan Sri William H.J. Cheng	-	-	171,816,692	84.50
2. Datuk Cheng Yong Kim	-	-	171,816,692	84.50
3. Lion Realty Pte Ltd	-	-	171,816,692	84.50
4. Lion Development (Penang) Sdn Bhd	-	-	170,097,271	83.65
5. Horizon Towers Sdn Bhd	-	-	170,097,271	83.65
6. Lion Corporation Berhad	-	-	170,097,271	83.65
7. Lion Industries Corporation Berhad	47,627,236	23.42	122,470,035	60.23
8. Amsteel Mills Sdn Bhd	122,470,035	60.23	-	-
9. LLB Steel Industries Sdn Bhd	-	-	122,470,035	60.23
10. Steelcorp Sdn Bhd	-	-	122,470,035	60.23
11. Lion Diversified Holdings Berhad	-	-	170,097,271	83.65
12. LDH (S) Pte Ltd	-	-	170,097,271	83.65
13. Megasteel Sdn Bhd	-	-	170,097,271	83.65
14. Limpahjaya Sdn Bhd	-	-	170,097,271	83.65
15. LLB Nominees Sdn Bhd	-	-	58,323,730	28.68

Thirty Largest Registered Shareholders as at 30 September 2004

Registered Shareholders	No. of Shares	% of Shares
1. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for Amsteel Mills Sdn Bhd (7/974-1)	122,470,035	60.25
2. Lion Industries Corporation Berhad	47,627,236	23.43
3. Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustee Berhad for Balanced Returns Fund (N14011980060)	2,000,000	0.98
4. Amsteel Equity Capital Sdn Bhd	1,680,800	0.83
5. Employees Provident Fund Board	1,201,100	0.59
6. Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Hidden Treasures Fund (240218)	1,200,000	0.59
7. HLG Nominee (Tempatan) Sdn Bhd Pledged Securities Account for Kok Kim Swee	872,000	0.43
8. Wong Lok Jee @ Ong Lok Jee	760,000	0.37
9. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for HLG Penny Stock Fund (5/4-3)	659,200	0.32
10. Chua Ching Geh	526,000	0.26
11. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Panoron Sdn Bhd (41403980012B)	503,367	0.25
12. RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Susy Ding (CEB)	428,000	0.21
13. Southern Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Happyvest (M) Sdn Bhd	398,730	0.20
14. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Happyvest (M) Sdn Bhd (414039800123)	374,837	0.18
15. Quah Say Beng	321,700	0.16
16. CIMSEC Nominees (Tempatan) Sdn Bhd CIMB for Mohamed Tamrin Bin Munir (Retail Banking)	309,000	0.15
17. HLG Nominee (Tempatan) Sdn Bhd Pledged Securities Account for Ng Boon Bee	300,000	0.15
18. HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Chu Leong	288,200	0.14
19. Happyvest (M) Sdn Bhd	250,837	0.12
20. Affin Nominees (Tempatan) Sdn Bhd Lion Group Medical Assistance Fund	237,000	0.12
21. Ong Sai Hoon	217,400	0.11
22. Ng Teng Song	200,600	0.10
23. Na Chiang Seng	196,000	0.10
24. Ting Siew Pin	184,600	0.09
25. Citicorp Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Susy Ding (471873)	173,000	0.09
26. RHB Nominees (Asing) Sdn Bhd Kripalson International Ltd	171,000	0.08
27. Mayban Securities Nominees (Tempatan) Sdn Bhd Malayan Banking Berhad for Happyvest (M) Sdn Bhd (3GC Loan)	163,000	0.08
28. Tai Bok Kooi	160,000	0.08
29. Ong Eng Huat	151,000	0.07
30. Tan Goh Mee	149,000	0.07

Directors' Interests in Shares in the Company and its Related Companies as at 30 September 2004

The Directors' interests in shares in the Company and its related companies as at 30 September 2004 are the same as that shown in the Directors' Report for the financial year ended 30 June 2004 except for the following:

	Nominal Value Per Ordinary Share	Direct Interest		Indirect Interest	
		No. of Shares	% of Shares	No. of Shares	% of Shares
Tan Sri William H.J. Cheng					
The Company	RM1.00	-	-	171,816,692	84.50

MATERIAL CONTRACTS

INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

Letter of Offer dated 11 December 2003 made by the Company and Lion Industries Corporation Berhad ("LICB"), the holding company with the agreement of Sabah Forest Industries Sdn Bhd ("SFI"), a 97.78% owned subsidiary of the Company, and Amsteel Mills Sdn Bhd ("AMSB"), a 99% owned subsidiary of LICB (superseding the letter of offer dated 9 June 2003 made between SFI and AMSB), collectively companies wherein a Director and certain major shareholders of the Company have an interest, and Financing Agreement dated 23 June 2004 made between the Company, SFI, LICB and AMSB whereby the Company lends up to RM100 million at an interest rate of 12% per annum (the sum of which is advanced from SFI) to LICB which in turn advances to AMSB ("Facility") to facilitate the financing required by AMSB for the completion of a steel meltshop facility located in Banting, Selangor Darul Ehsan to be fully repaid by 30 June 2009.

The first interest payment shall be made 12 months from the date of first drawdown and thereafter it shall be payable semi-annually in arrears. The principal shall be repaid by annual instalments. The Facility is secured by the creation of the following:

- (a) Third party second charge over the non-vacant plot of land held under HS(D) 13425, PT 17216, Mukim Tanjung Dua Belas, District of Kuala Langat, Selangor Darul Ehsan ("Property") (including the building and meltshop but excluding the rolling mill) which ranks in priority to the first charge created in favour of the existing lenders of AMSB; and
- (b) Third party second debenture comprising a fixed charge over the non-vacant plot of the Property (excluding the rolling mill) which ranks in priority to the first debenture charge created in favour of the existing lenders of AMSB.

OTHER INFORMATION

NON-AUDIT FEES

The amount of non-audit fees paid to external auditors for the financial year was RM4,000.

RECURRENT RELATED PARTY TRANSACTIONS

The aggregate value of transactions conducted during the financial year ended 30 June 2004 were as follows:

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(a) Paper and integrated wood-based products		
(i) The sale of paper and integrated wood-based products	LDHB Group ^(b)	151
(ii) The purchase of machinery, spare parts, tools, dies and other related products and services for use in the operations and maintenance	ACB Group ^(c) Amsteel Group ^(c) LCB Group ^(b)	92 185 632 <u>909</u>
(iii) The provision of storage, leasing and rental of properties to SFI	Amsteel Group ^(c)	<u>15</u>
(iv) The provision of transportation services to SFI	LICB Group ^(a)	<u>675</u>
(b) Trading and distribution		
(i) The purchase of steels bars, wire rods, scrap iron, hot rolled coils and other related building materials	LICB Group ^(a) LCB Group ^(b)	77,526 144,504 <u>222,030</u>
(ii) The sale of steels bars, wire rods, scrap iron, hot rolled coils, billets and other related steel and building materials	Amsteel Group ^(c) LICB Group ^(a)	1,227 11,394 <u>12,621</u>

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(iii) The sale of lubricants, spark plugs, tools and other automotive and petroleum products	Amsteel Group ^(c)	20
	LICB Group ^(a)	1,896
	LCB Group ^(b)	921
	SCB Group ^(c)	2,350
	ACB Group ^(c)	315
	LDHB Group ^(b)	9
	SHSB Group ^(c)	103
		5,614
(iv) The sale of machinery, spare parts, and other related industrial equipment products and services	LICB Group ^(a)	162
	LCB Group ^(b)	81
		243
(v) The provision of storage, leasing and rental of properties to LFIB and subsidiary companies	SCB Group ^(c)	144
(c) Others		
(i) The provision of staff training and development, corporate office support and secretarial services to LFIB and subsidiary companies	LCB Group ^(b)	10
	SCB Group ^(c)	2
		12
(ii) The provision of security services and security communication equipment to LFIB and subsidiary companies	Amsteel Group ^(c)	16
(iii) The purchase of motor vehicles, component and spare parts for use in the services and maintenance of motor vehicles by LFIB and subsidiary companies	LCB Group ^(b)	34
	SCB Group ^(c)	2
		36
(iv) The purchase of office furniture and other equipment	LCB Group ^(b)	1

Notes:

Amalgamated Containers Berhad Group ("ACB Group")
Amsteel Corporation Berhad Group ("Amsteel Group")
Lion Corporation Berhad Group ("LCB Group")
Lion Forest Industries Berhad ("LFIB")
Lion Industries Corporation Berhad Group ("LICB Group")
Silverstone Corporation Berhad Group ("SCB Group")
Sabah Forest Industries Sdn Bhd ("SFI")
Sims Holdings Sdn Bhd Group ("SHSB Group")
Lion Diversified Holdings Berhad Group ("LDHB Group")

"Group" includes subsidiary and associated companies

- (a) Ultimate holding company in which a Director and certain major shareholders of the Company have an interest
(b) Major shareholders of the Company
(c) Companies in which a Director and certain major shareholders of the Company have an interest

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FORM OF PROXY

I/We

I.C. No./Company No.

of

being a member/members of LION FOREST INDUSTRIES BERHAD, hereby appoint

.....

I.C. No.

of

or failing whom

I.C. No.

of

as my/our proxy to vote for me/us and on my/our behalf at the Twenty-Second Annual General Meeting of the Company to be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 22 November 2004 at 2.30 pm and at any adjournment thereof.

RESOLUTIONS	FOR	AGAINST
1. To receive and adopt the Directors' Report and Audited Financial Statements		
2. To approve a final dividend		
3. To approve Directors' fees		
4. To re-elect as Director, Y. Bhg. Dato' Kalsom binti Abd. Rahman		
5. To re-elect as Director, Y. Bhg. Tan Sri William H.J. Cheng		
6. To re-elect as Director, Y. Bhg. Dato' Mohamad bin Haji Ahmad		
7. To re-elect as Director, Cik Zainab binti Dato' Hj. Mohamed		
8. To re-appoint as Director, Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim		
9. To re-appoint Auditors		
10. Authority to Directors to issue shares		
11. Proposed Shareholders' Mandate For Recurrent Related Party Transactions		
12. Proposed Grant of Options to Mr Ngan Yow Chong, the Executive Director		

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

As witness my/our hand this day of2004

Signed

No. of shares

In the presence of

Representation at Meeting:

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



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