



LION FOREST INDUSTRIES BERHAD

A Member of The Lion Group

(82056-X)

Laporan Tahunan
2005
Annual Report

CONTENTS

	Page
Notice of Meeting	1
Corporate Information	5
Directors' Profile	6
Corporate Governance Statement	9
Statement on Internal Control	13
Audit Committee Report	14
Nomination Committee	17
Remuneration Committee	17
5 Years' Group Financial Highlights	18
The Group's Businesses	19
Chairman's Statement	
Bahasa Malaysia	20
English	23
Chinese	26
Financial Statements:	
Directors' Report	28
Auditors' Report	36
Income Statements	37
Balance Sheets	38
Statements of Changes in Equity	39
Cash Flow Statements	40
Notes to the Financial Statements	44
Statement by the Directors	79
Statutory Declaration	79
List of Group Properties	80
Analysis of Shareholdings	82
Material Contracts	85
Other Information	86
Form of Proxy	Enclosed

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Third 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 14 November 2005 at 9.15 am for the following purposes:

AGENDA

1. To receive and adopt the Directors' Report and Audited Financial Statements for the financial year ended 30 June 2005. **Resolution 1**
2. To approve the payment of a final dividend of 11 sen per ordinary share tax exempt. **Resolution 2**
3. To approve the payment of Directors' fees amounting to RM184,000 (2004 : RM158,000). **Resolution 3**
4. To re-elect Directors:

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

Mr Ngan Yow Chong **Resolution 4**
Y. Bhg. Dato' Dali Mahmud Hashim **Resolution 5**
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 Director of the Company to hold office until the next annual general meeting." **Resolution 6**
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 7**
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 8**

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 20 October 2005 subject to the following:

Resolution 9

- (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."

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

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 18 November 2005 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 2005 to shareholders on the Record of Depositors of the Company at the close of business on 18 November 2005.

By Order of the Board

WONG YOKE LIN
YASMIN WEILI TAN BINTI ABDULLAH
Secretaries

Kuala Lumpur
20 October 2005

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 8

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

3. Resolution 9

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 20 October 2005, 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 20 October 2005 enclosed together with this Annual Report.

CORPORATE INFORMATION

Board of Directors	: Y. Bhg. Tan Sri William H.J. Cheng (<i>Chairman</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 Y. Bhg. Dato' Kalsom binti Abd. Rahman Cik Zainab binti Dato' Hj. Mohamed
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	: Bumiputra-Commerce 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 62, 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, computer, retail, trading, pulp and paper, plantation, and property and community development.

Tan Sri William Cheng is the President of The Associated Chinese Chambers of Commerce and Industry of Malaysia and The Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor.

Tan Sri William Cheng's other directorships in public companies are as follows:

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

Tan Sri William Cheng has an indirect shareholding of 170,488,512 ordinary shares of RM1.00 each in the Company. His shareholdings in the subsidiary companies of the Company are disclosed in page 84 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 six (6) of the seven (7) Board Meetings of the Company held during the financial year ended 30 June 2005.

Ngan Yow Chong

Executive Director, Non-Independent Director

Mr Ngan Yow Chong, a Malaysian, aged 48, was appointed the Executive Director of the Company on 22 August 2001. He is also a member of the Company's Remuneration Committee and Executive Share Option Scheme Committee.

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

Mr Ngan has 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 seven (7) Board Meetings of the Company held during the financial year ended 30 June 2005.

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 75, 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 Business School'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 Mobile Lifestyle Berhad, Hy-Line Berhad and Silverstone Berhad, all of which are public companies

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

Tan Sri Dato' Zain attended six (6) of the seven (7) Board Meetings of the Company held during the financial year ended 30 June 2005.

Dato' Mohamad bin Haji Ahmad

Independent Non-Executive Director

Y. Bhg. Dato' Mohamad bin Haji Ahmad, a Malaysian, aged 61, 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 seven (7) Board Meetings of the Company held during the financial year ended 30 June 2005.

Dato' Dali Mahmud Hashim

Independent Non-Executive Director

Y. Bhg. Dato' Dali Mahmud Hashim, a Malaysian, aged 64, was appointed to the Board on 22 August 2001. 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 seven (7) Board Meetings of the Company held during the financial year ended 30 June 2005.

Dato' Kalsom binti Abd. Rahman

Independent Non-Executive Director

Y. Bhg. Dato' Kalsom binti Abd. Rahman, a Malaysian, aged 57, was appointed to the Board on 23 August 2004. She is also a member of the Company's Audit Committee.

Dato' Kalsom received her Bachelor of Economics (Honours) degree from the University of Malaya, 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 both at headquarters and overseas offices. Currently, Dato' Kalsom is the Chairman of the Small and Medium Industries Development Corporation and the Chairman of the Executive Committee of Invest-In-Penang Berhad.

Dato' Kalsom is also a Director of Malaysian Industrial Development Finance Berhad, Chemical Company of Malaysia Berhad, MISC Berhad and Hyundai-Sime Darby Berhad, all public listed companies.

Dato' Kalsom attended five (5) of the six (6) Board Meetings of the Company held during the financial year ended 30 June 2005 subsequent to her appointment.

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. 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 seven (7) Board Meetings of the Company held during the financial year ended 30 June 2005.

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

CORPORATE GOVERNANCE STATEMENT

The Board of Directors (“Board”) recognises the importance of practising 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 2005 except where otherwise stated herein.

1. DIRECTORS

The Board

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

The Board meets on a quarterly basis, with additional meetings convened as and when necessary. During the financial year ended 30 June 2005, seven (7) board meetings were held and each Director has attended at least 50% of the total board meetings held during the financial year. Details of attendance and a brief profile of each member of the Board are set out in the Directors’ Profile section of this Annual Report.

Board Composition and Balance

The Board comprises seven (7) Directors, six (6) of whom are non-executive. The current Board composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”). The broad range of experience, skills and knowledge of the Directors facilitate the discharge of the Board’s stewardship effectively.

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

There is a clear division of responsibilities between the Chairman and the 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 Secretaries, who are responsible in ensuring that Board meeting procedures are followed and that applicable rules and regulations are complied with.

Appointments to the Board and Directors' Training

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 have subsequently attended the required training courses and seminars under the Continuing Education Programme.

The Directors will continue to attend relevant training programmes to further enhance their skills and knowledge as well as to keep abreast with new developments for the furtherance of their duties.

Re-election of Directors

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

2. DIRECTORS' REMUNERATION

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

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

For confidentiality, the details of the Directors' remuneration are not disclosed for each individual Director. The transparency and accountability aspects of corporate governance 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 2005 are categorised as follows:

	Fees RM	Salaries & Other Emoluments RM	Total RM
Executive Directors	36,000	516,783	552,783
Non-Executive Directors	160,000	24,104	184,104
	196,000	540,887	736,887

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	-	4
50,001 - 100,000	-	1
100,001 - 150,000	-	-
150,001 - 200,000	-	-
200,001 - 250,000	1	-
250,001 - 300,000	-	-
300,001 - 350,000	1	-

* Including a Director who resigned subsequent to the financial year ended 30 June 2005.

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

4. ACCOUNTABILITY AND AUDIT

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

Financial Reporting

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

Directors' Responsibility in Financial Reporting

The Board is satisfied that for the financial year ended 30 June 2005, 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.

Internal Control

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

Relationship with the Auditors

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

STATEMENT ON INTERNAL CONTROL

Introduction

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

Board Responsibility

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

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

Risk Management

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

Control and Monitoring Process

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

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

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

AUDIT COMMITTEE REPORT

COMPOSITION

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

- **Members**

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

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

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

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

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

- **Secretaries**

The Secretaries of Lion Forest Industries Berhad, Ms Wong 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, nine (9) Audit Committee Meetings were held for which full attendance were recorded for Y. Bhg. Dato' Dali Mahmud Hashim, Y. Bhg. Dato' Mohamad bin Haji Ahmad and Cik Zainab binti Dato' Hj. Mohamed whilst Y. Bhg. Dato' Kalsom binti Abd. Rahman who was appointed on 23 August 2004 attended six (6) of the remaining seven (7) Audit Committee Meetings held for the financial year ended 30 June 2005.

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

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

- **Financial Results**

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

- **Internal Audit**

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

- **External Audit**

- (a) Reviewed with external auditors the audit planning memorandum covering the audit objectives and approach, audit plan, key audit areas and relevant technical pronouncements and accounting standards issued by MASB.
- (b) Reviewed with external auditors the results of the audit and the audit report in particular, accounting issues and significant audit adjustments arising from the external audit.
- (c) Reviewed with external auditors the memorandum of comments and recommendations arising from their study and evaluation of the system of internal and accounting controls together with management’s response to the findings of the external auditors.
- (d) Evaluated the performance of the external auditors and made recommendations to the Board on their appointment and remuneration.
- (e) Convened a meeting with the external auditors without 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 related party transactions entered into by the Group. Reviewed recurrent related party transactions of a revenue or trading nature on a quarterly basis for compliance with the Shareholders’ Mandate.

- **Allocation of Share Options**

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

NOMINATION COMMITTEE

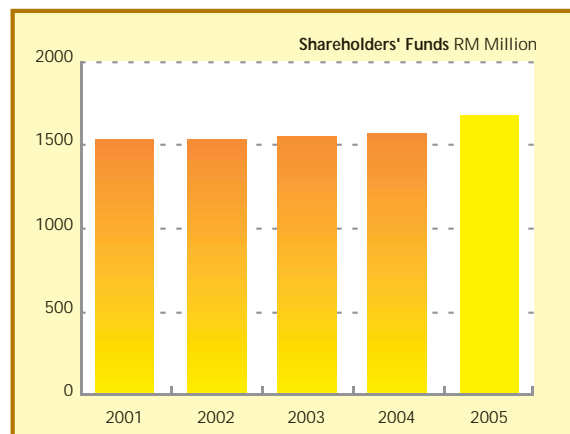
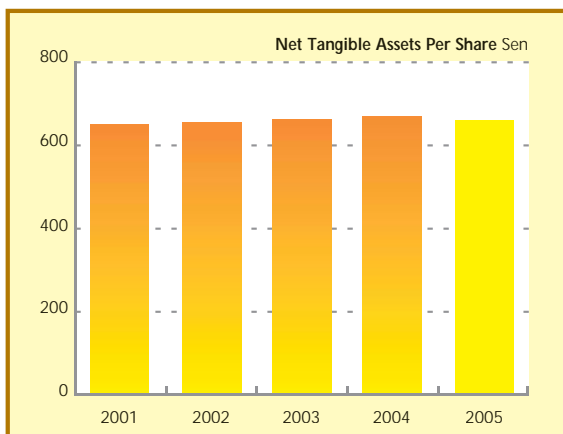
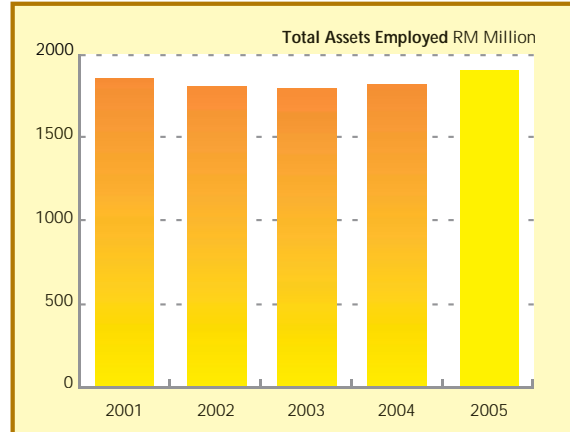
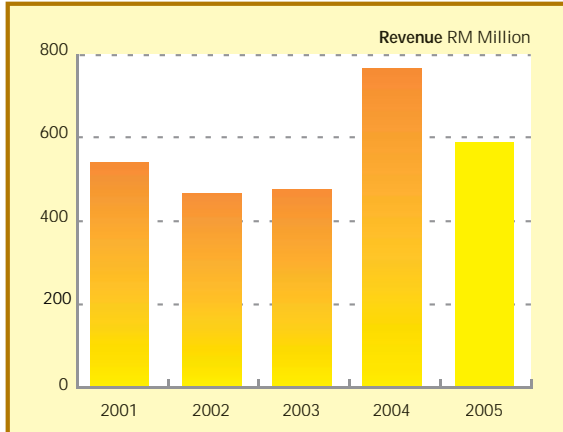
Chairman	:	Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim <i>(Non-Independent Non-Executive Director)</i>
Members	:	Y. Bhg. Dato' Dali Mahmud Hashim <i>(Independent Non-Executive Director)</i> Cik Zainab binti Dato' Hj. Mohamed <i>(Independent Non-Executive Director)</i>
Terms of Reference	:	<ul style="list-style-type: none"> • To recommend to the Board, candidates for directorships in Lion Forest Industries Berhad • To consider, in making its recommendations, candidates for directorships proposed by the Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any director or shareholder • To recommend to the Board, directors to fill the seats on Board Committees • To assist the Board in reviewing on an annual basis, the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board • To assess, on an annual basis, the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual director, based on the process and procedure laid out by the Board

REMUNERATION COMMITTEE

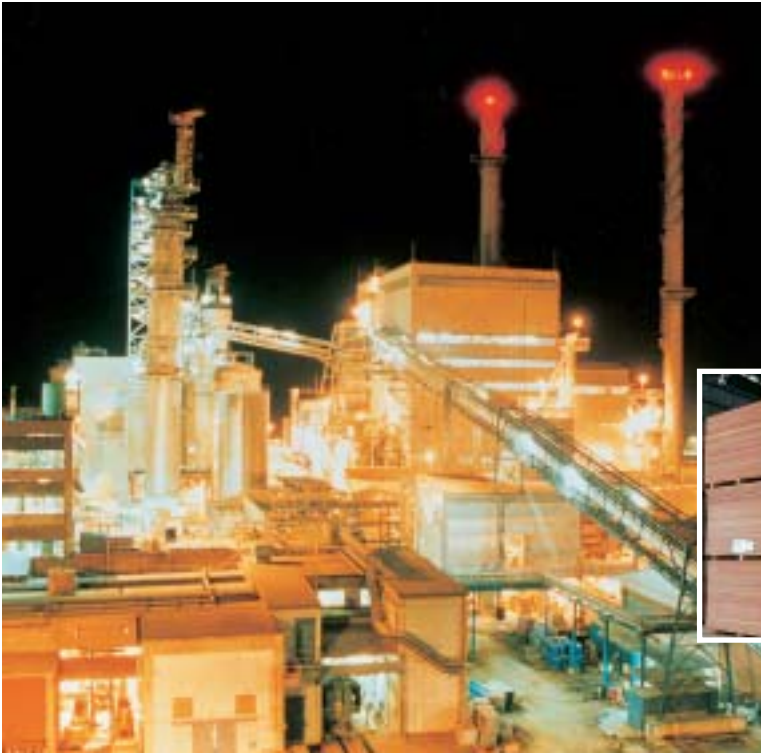
Chairman	:	Y. Bhg. Dato' Dali Mahmud Hashim <i>(Independent Non-Executive Director)</i>
Members	:	Mr Ngan Yow Chong <i>(Executive Director, Non-Independent Director)</i> Cik Zainab binti Dato' Hj. Mohamed <i>(Independent Non-Executive Director)</i>
Terms of Reference	:	<ul style="list-style-type: none"> • To recommend to the Board the remuneration of the Executive Directors in all its forms, drawing from outside advice as necessary • To carry out other responsibilities, functions or assignments as may be defined by the Board from time to time

5 YEARS' GROUP FINANCIAL HIGHLIGHTS

Financial years ended 30 June	2001	2002	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	539,505	468,074	475,150	765,096	590,388
Profit before taxation	34,440	1,556	10,368	39,351	36,071
Profit/(Loss) after taxation	31,990	(33)	7,386	34,312	29,744
Dividends:					
Rate (%)	0.1	0.1	8.0	17.5	16.0
Amount (net of tax)	146	146	12,104	35,563	33,586
Total assets employed	1,846,711	1,804,562	1,792,951	1,818,872	1,897,843
Shareholders' funds	1,526,881	1,526,655	1,531,593	1,539,606	1,552,019
Net tangible assets	1,314,824	1,324,744	1,339,828	1,357,987	1,380,546
	Sen	Sen	Sen	Sen	Sen
Net tangible assets per share	647	652	659	668	658
Earnings/(Loss) per share	15.2	(0.1)	3.4	16.5	14.0



THE GROUP'S BUSINESSES



- Sabah Forest Industries Sdn Bhd, our integrated pulp and paper mill in Sipitang, Sabah produces (from right, clockwise) quality printing and writing paper, sawn timber, veneer and plywood for local and overseas market.
- Sabah Forest Industries Sdn Bhd, kilang palpa dan kertas bersepadu di Sipitang, Sabah mengeluarkan (dari kanan, arah jam) kertas cetak dan tulis berkualiti, balak bergergaji, venir dan papan lapis untuk pasaran tempatan dan luar negara.



- The wide range of motor oil and lubricants under the 'HI-REV' brand and automotive products distributed by Posim.
- Rangkaian minyak motor dan minyak pelincir di bawah jenama 'HI-REV' serta produk automotif edaran Posim.



- The 'HI-REV EZ Menang' contest was part of HI-REV's 10th Anniversary celebration and attracted nearly 400,000 entries.
- Peraduaan 'HI-REV EZ Menang' merupakan sebahagian daripada aktiviti sempena perayaan ulang tahun, HI-REV ke 10 dan telah menarik hampir 400,000 penyertaan.

PENYATA PENGERUSI

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 2005.

PRESTASI KEWANGAN

Momentum pertumbuhan ekonomi Malaysia telah menurun sedikit berbanding tahun lalu disebabkan oleh kenaikan berterusan harga minyak mentah. Meskipun negara kita adalah pengeksport bersih minyak dan pada tahap tertentu, ia terlindung untuk sementara daripada kesan buruk akibat kenaikan harga minyak, namun demikian permintaan sejagat yang lemah akan menjurus kepada pertumbuhan pengeluaran yang rendah dan seterusnya menimbulkan tekanan inflasi. Selepas mencatat kadar pertumbuhan Keluaran Dalam Negara Kasar (KDNK) yang tinggi sebanyak 7.1% pada tahun 2004, negara telah mencatat pertumbuhan yang sederhana kira-kira 5% dalam setengah pertama tahun 2005.

Dalam tahun kewangan, perolehan jatuh dengan ketara kepada RM590 juta berbanding RM765 juta yang dicatatkan pada tahun lalu akibat pengurangan yang besar dalam jualan produk keluli oleh Bahagian Bahan Binaan selari dengan kelembapan sektor pembinaan berpunca daripada penangguhan sejumlah projek-projek infrastruktur utama. Bagaimanapun, pengurangan dalam jumlah jualan produk keluli hanya memberi kesan yang kecil kepada pendapatan Kumpulan kerana marginnya yang rendah berbanding bahan binaan yang lain. Bahagian Produk Petroleum kita juga telah menunjukkan prestasi yang baik dan mencatat perolehan yang tinggi meskipun terjejas akibat harga minyak asas yang tinggi.

Dengan perolehan yang menurun, Kumpulan telah mencatatkan keuntungan sebelum cukai yang rendah berjumlah RM36.1 juta berbanding RM39.4 juta pada tahun sebelumnya berpunca daripada kos pengeluaran yang tinggi akibat kenaikan harga minyak yang berlaku pada setengah kedua tahun kewangan dan juga pengeluaran kertas yang rendah susulan daripada penutupan berjadual kilang kertas kami pada bulan Oktober 2004.

PERKEMBANGAN KORPORAT

Sepanjang tahun kewangan dalam kajian, Kumpulan telah melaksana rancangan-rancangan korporat berikut dalam usaha meluaskan asas pendapatannya:

- (a) Kumpulan melalui anak syarikat milik penuhnya, Lion Rubber Industries Sdn Bhd ("LRISB") bersama-sama dengan Shandong LuHe Group Co Ltd telah menubuhkan sebuah anak syarikat di Wilayah Shandong, Republik Rakyat China

("China") dengan nisbah pegangan kepentingan ekuiti masing-masingnya pada 75:25. Anak syarikat tersebut, Shandong Silverstone LuHe Rubber & Tyre Co Ltd ("Shandong Silverstone") terbabit dalam pengeluaran tayar di China.

- (b) Kumpulan melalui anak-anak syarikat milik penuhnya, LRISB dan Quay Class Ltd ("QCL") telah memeterai perjanjian pengetahuan teknikal dan perkhidmatan dengan iMpression Worldwide Inc, anak syarikat milik penuh Silverstone Berhad ("SB"), bagi menyediakan pengetahuan teknologi dan membenarkan penggunaan jenama "Silverstone" dalam pengeluaran tayar di China;
- (c) Kumpulan melalui QCL bercadang membeli keseluruhan modal terbitan dan membayar SB daripada Silverstone Corporation Berhad ("SCB") dengan pertimbangan harga berjumlah RM225 juta ("Cadangan Pengambilalihan SB").

Cadangan Pengambilalihan SB akan mewujudkan peluang untuk memperkenalkan jenama "Silverstone" di pasaran antarabangsa terutamanya dalam menyokong kegiatan perniagaan tayar di China melalui Shandong Silverstone yang mula mengeluarkan tayar berjenama "Silverstone" pada bulan Julai 2005. Bagaimanapun, selepas akhir tahun kewangan, Suruhanjaya Sekuriti ("SC") mengumumkan bahawa SC tidak dapat mempertimbangkan permohonan Syarikat kerana SC tidak meluluskan cadangan SCB untuk melupuskan SB kepada QCL; dan

- (d) Kumpulan juga telah memeterai perjanjian dengan Pemerintah Kabupaten Malinau untuk cadangannya membangunkan 40,000 hektar perladangan kelapa sawit dan pembinaan dua buah kilang minyak kelapa sawit mentah di Wilayah Malinau, Kalimantan Timur, Indonesia.

Cadangan ini akan membuka jalan kepada Kumpulan untuk melibatkan diri dalam sektor perladangan terutamanya dalam pengeluaran minyak kelapa sawit yang berpotensi berikutan meningkatnya permintaan untuk minyak makan yang berkhasiat di pasaran luar negara.

KAJIAN OPERASI

Pengekstrakan Kayu Balak, serta Palpa dan Kertas

Bagi tahun kewangan dalam kajian, perolehan Sabah Forest Industries Sdn Bhd ("SFI") telah menyusut sebanyak 4% daripada RM398 juta pada tahun lalu kepada RM384 juta terutamanya disebabkan oleh jualan kertas yang rendah. Bagaimanapun, keuntungan hanya terjejas sedikit sahaja kerana ditampung oleh

pengukuhan harga jualan produk kertas yang meningkat stabil secara puratanya daripada AS\$670 setan metrik ("TM") kepada AS\$715 TM dalam tahun kewangan. Ini membolehkan SFI mencatatkan keuntungan sebelum cukai berjumlah RM38.1 juta pada tahun kewangan dalam kajian, biarpun jatuh 4% daripada RM39.5 juta pada tahun lalu.

Sejumlah 118,100 TM produk kertas telah berjaya dijual berbanding 143,700 TM pada tahun lalu. Walaupun permintaan pasaran terus kukuh, jumlah jualan berkurangan terutamanya disebabkan oleh pengeluaran yang rendah susulan daripada aktiviti tahunan menyelenggara dan meningkatkan taraf loji secara berjadual ("penutupan loji berjadual") pada bulan Oktober 2004 dan jumlah pesanan yang rendah menjelang akhir tahun kewangan berlaku kerana para pembeli menangguhkan pembelian baru ikutan jangkaan tabatan ringgit terhadap dolar AS yang akan disemak semula.

Usaha bersepadu akan diteruskan untuk meningkatkan kecekapan operasi dan kualiti produk dalam memenuhi kepuasan para pelanggan. Seperti mana yang dilaporkan pada tahun sebelumnya, ketika penutupan loji secara berjadual baru-baru ini, SFI telah menaikkan taraf Mesin Kertas 1 dengan teknologi pencairan yang membaiki ukuran berat, ketebalan dan kelembapan produk-produk kertasnya. Langkah menaikkan taraf yang sama akan dilakukan ke atas Mesin Kertas 2 semasa penutupan loji berjadual yang akan datang. Sistem integrasi perkakasan, konfigurasi dan peralatan aplikasi untuk menyatukan sistem individu dalam loji penjanaan kuasa ke sistem kawalan agihan sedia ada juga telah dipasang untuk meningkatkan kecekapan operasinya.

Bahan Binaan dan Lain-lain

Perolehan Bahagian Bahan Binaan kami telah merosot daripada RM315 juta kepada RM154 juta berikutan pengurangan ketara jualan produk keluli daripada RM183 juta kepada RM21 juta bagi tahun kewangan dalam kajian. Jualan produk bahan binaan lain berjaya dikekalkan disebalik sentimen yang lemah dalam sektor pembinaan. Dalam tahun kewangan ditinjau, sektor pembinaan menyusut terutamanya disebabkan oleh pengurangan bilangan projek-projek pembangunan infrastruktur. Bagaimanapun, pertumbuhan dalam sektor hartanah dijangka terus baik disokong oleh permintaan kukuh bagi hartanah kediaman yang akan merangsang aktiviti-aktiviti pembinaan. Dengan persekitaran operasi yang terus bersaing hebat, Bahagian akan meneruskan usaha-usaha pemasaran untuk mengukuhkan kedudukannya bagi menguasai pasaran yang lebih besar serta melaksanakan pelbagai strategi pengurusan barisan produk untuk memastikan keseluruhan margin dapat dikekalkan.

Bahagian Minyak Pelincir dan Aksesori Kenderaan terus mengekalkan rekod keuntungan apabila mencatat peningkatan dalam perolehannya. Perolehan meningkat sebanyak 11% dalam tahun tinjauan terutamanya disumbangkan oleh peningkatan jualan yang tinggi bagi produk-produk minyak pelincir. Produk-produk automatif yang lain seperti bateri, penapis minyak dan tayar motosikal juga telah menunjukkan pertumbuhan perolehan yang sihat dalam tahun kajian. Bagaimanapun, keuntungan Bahagian telah terjejas akibat peningkatan berterusan kos minyak asas berikutan daripada kenaikan mendadak harga minyak mentah antarabangsa pada tahun dalam kajian.

Bahagian berkenaan telah meraih pencapaian yang membanggakan dalam industri minyak pelincir kenderaan automotif tempatan apabila muncul sebagai peneraju di negara ini untuk memperkenalkan minyak pelincir terbaru gred SM yang diiktiraf oleh Institut Petroleum Amerika. Gred SM yang diluluskan dalam bulan November 2004 juga telah mendapat pengiktirafan daripada Persatuan Automotif Jepun. Melalui makmal dan kemudahan mengadakan yang dimiliki sendiri, Bahagian ini mampu untuk segera bertindak mempertingkatkan produk bagi memenuhi permintaan dan keperluan pasaran. Dalam tempoh kewangan, peraduan "HI-REV EZ Menang" telah dilancarkan sempena Sambutan Ulang Tahun ke 10 HI-REV dan usaha pemasaran ini disambut baik oleh para pelanggan kita. Selain itu, kegiatan sedemikian telah menyumbang kepada usaha meningkatkan lagi imej jenama dan menjadikan HI-REV, antara pemimpin pasaran dalam industri automotif. Pelbagai langkah sedang diambil untuk meluaskan keupayaan penyimpanan minyak asas yang diimport dalam usaha menampai kesan peningkatan mendadak harga minyak asas.

DIVIDEN

Dalam tahun kewangan, Lembaga Pengarah telah mengumumkan dividen interim sebanyak 5 sen sesaham, dikecualikan cukai berjumlah RM10.5 juta, bagi tahun kewangan berakhir pada 30 Jun 2005.

Lembaga Pengarah dengan sukacitanya mencadangkan dividen akhir sebanyak 11 sen sesaham, dikecualikan cukai, untuk kelulusan para pemegang saham dalam Mesyuarat Agung Tahunan yang akan datang. Dividen bersih yang harus dibayar akan berjumlah RM23.1 juta.

Sekiranya diluluskan, jumlah dividen bagi tahun kewangan berakhir pada 30 Jun 2005 adalah sebanyak 16 sen sesaham berjumlah RM33.6 juta berbanding 17.5 sen sesaham berjumlah RM35.5 juta pada tahun lalu.

PROSPEK

Di sebalik pertumbuhan ekonomi negara-negara serantau yang sederhana, Kumpulan akan terus memberikan tumpuan kepada kecekapan perniagaan terasnya dengan meningkatkan produktiviti dan paras kecekapannya sambil mengembangkan penguasaan pasarannya dalam persekitaran yang amat mencabar. Usaha yang dilaksanakan untuk meningkatkan asas pendapatan akan memberikan kesan yang baik kepada Kumpulan bagi menghadapi pelbagai cabaran masa depan.

LEMBAGA PENGARAH

Pada 10 September 2005, dipenghujung usia persaraannya, Encik Chang Chee Seng telah meletakkan jawatan dari Lembaga Pengarah sebagai Pengarah dan Pengarah Urusan Syarikat. Bagi pihak Lembaga Pengarah, saya ingin mengambil peluang ini untuk mengucapkan terima kasih kepadanya diatas sumbangan yang tidak ternilai kepada Syarikat.

PENGHARGAAN

Bagi pihak Lembaga Pengarah, saya mengambil peluang ini untuk merakamkan penghargaan saya kepada pihak pengurusan dan para pekerja Kumpulan diatas kesungguhan dan komitmen yang telah diberikan. Saya juga ingin merakamkan penghargaan Lembaga Pengarah kepada para pelanggan, pembiaya, sekutu perniagaan, Kerajaan dan para pemegang saham yang dihargai diatas sokongan dan keyakinan yang berterusan yang diberikan kepada Kumpulan.

TAN SRI WILLIAM H.J. CHENG
Pengerusi

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Lion Forest Industries Berhad for the financial year ended 30 June 2005.

FINANCIAL PERFORMANCE

Growth momentum of the Malaysian economy decelerated slightly as compared to the previous year in view of the continued escalation of crude oil prices. Although our country is a net exporter of oil, and to a certain extent may be temporary insulated from the immediate adverse impact of soaring oil prices, the global slow down in demand will inevitable lead to lower output growth and subsequent inflationary pressures. From a high gross domestic products (GDP) growth rate of 7.1% achieved in 2004, the country recorded a moderate growth of about 5% for the first half of 2005.

For the year under review, revenue was significantly lower at RM590 million compared to RM765 million recorded last year mainly due to a substantial reduction in sales of steel products by our Building Materials Division in tandem with the slow down in the construction sector attributable to a postponement in the number of major infrastructure projects. However, the reduction in the sales volume for steel products has minimal impact on the Group's bottom line due to its low margins as compared to other building materials. Our Petroleum Products Division also performed well and recorded higher revenue despite being affected by the higher base oil prices.

Corresponding to the decline in revenue, the Group recorded a lower profit before tax of RM36.1 million as against RM39.4 million achieved in the previous year due primarily to higher production costs on account of the surge in oil prices experienced in the second half of the financial year and also lower production of paper due to the planned shut down of our paper mill in October 2004.

CORPORATE DEVELOPMENTS

During the financial year under review, the Group has undertaken the following corporate exercises in its effort to expand its earnings base:

- (a) The Group, via its wholly-owned subsidiary, Lion Rubber Industries Sdn Bhd ("LRISB") together with Shandong LuHe Group Co Ltd incorporated a subsidiary company in the province of Shandong, the People's Republic of China ("China") with an equity interest ratio of 75:25. The subsidiary, Shandong Silverstone LuHe Rubber & Tyre Co Ltd ("Shandong Silverstone") operates a tyre manufacturing business in China;

- (b) The Group, via its wholly-owned subsidiary companies, LRISB and Quay Class Ltd ("QCL") entered into a technical know-how and services agreement with iMpression Worldwide Inc, a wholly-owned subsidiary of Silverstone Berhad ("SB"), for the provision of technical know-how and the use of the "Silverstone" brand name in relation to tyre manufacturing in China;
- (c) The Group, via QCL proposed to acquire the entire issued and paid-up share capital of SB from Silverstone Corporation Berhad ("SCB") for a total purchase consideration of RM225 million ("Proposed Acquisition of SB").

The Proposed Acquisition of SB provides an opportunity to establish the "Silverstone" brand name in the international markets, particularly in supporting its tyre business in China via Shandong Silverstone which commenced the production of "Silverstone" brand tyres in July 2005. However, subsequent to the financial year end, the Securities Commission ("SC") advised the Company that the SC was not able to consider the Company's application as the SC has not approved SCB's proposed disposal of SB to QCL; and

- (d) The Group had also entered into an agreement with Pemerintah Kabupaten Malinau (the Regency Government of Malinau) for the proposed development of 40,000 hectares of oil palm plantation and the construction of two crude palm oil mills in Malinau Regency, Kalimantan Timur, the Republic of Indonesia.

This proposal will pave way for the Group's entry into the plantation sector, in particular, palm oil that offer immense opportunities to tap the increasing demand for healthier edible oil from the overseas markets.

REVIEW OF OPERATIONS

Timber Extraction and Pulp and Paper

For the financial year under review, Sabah Forest Industries Sdn Bhd ("SFI") registered a 4% reduction in revenue from RM398 million achieved last year to RM384 million mainly due to lower sales volume of paper products. However, profitability was only marginally affected as it was partially mitigated by the higher selling prices for paper products which increased steadily from an average of USD670 per metric ton ("MT") to USD715 per MT throughout the financial year. As a result, SFI reported a profit before taxation of RM38.1 million for the financial year under review, a 4% drop from last year's RM39.5 million.

A total of 118,100 MT of paper products was sold as compared to 143,700 MT achieved last year. Although the market demand remained strong, lower sales volume was recorded mainly due to lower production resulting from the scheduled annual maintenance and upgrading (“scheduled plant shut down”) in October 2004 and lower orders towards the end of the financial year as buyers held back new purchases in anticipation of the de-pegging of Ringgit against the US Dollar.

Concerted efforts are continuously being made to upgrade its operational efficiency and product quality in order to meet customer satisfaction. As reported in the previous year, during the scheduled plant shut down, SFI had upgraded its Paper Machine 1 with dilution technology which had improved the grammage, caliper and moisture of its paper products. An the upgrading of a similar nature will be carried out on its Paper Machine 2 in the next scheduled plant shut down. A system integration hardware, configuration and application tool to integrate individual systems in the power generation plant to the existing distribution control system was also installed to improve operational efficiency.

Building Materials and Others

Revenue for our Building Materials Division declined from RM315 million to RM154 million with a significant decrease in sales of steel products from RM183 million to RM21 million for the financial year under review. Sales of other building material products were maintained despite a weak sentiment in the construction sector. The year under review had seen a contraction in the construction sector due largely to the reduction in the number of public infrastructure development projects. However, growth in the property sector is expected to remain healthy driven by the sustained demand for residential properties which will help to stimulate the construction activities. In view of the increasingly competitive operating environment, the Division will continue its marketing efforts to strengthen its position to achieve wider market coverage while adopting various strategies on products line management to ensure the overall margins are sustained.

The Group’s Lubricant and Motor Accessories Division continued its track record of profitability

with an increase in its revenue. Revenue increased by 11% for the year under review mainly contributed by higher sales of its lubricant products. Other automotive products such as batteries, oil filters and motorcycle tyres had also registered a healthy growth in revenue during the financial year. However, the Division’s profitability was affected by the further increase in base oil costs arising from the upsurge in international crude oil prices during the year under review.

The Division achieved a notable milestone in the local automotive lubricant industry for being the first in the country to introduce the latest SM grade lubricants recognised by the American Petroleum Institute. The SM grade which was approved in November 2004 also received the endorsement of Japan’s Automotive Association. Through its own laboratory and blending facilities, the Division was able to respond rapidly in product improvements to meet the changing market demand and needs. During the financial year under review, “*HI-REV EZ Menang*” contest was launched in conjunction with *HI-REV*’s 10th Year Anniversary celebrations and these marketing efforts were extremely well received by our customers. Furthermore, such activities have contributed to further enhance its brand image and elevated *HI-REV* to be one of the market leaders in the automotive industry. Steps are currently being taken to expand our storage capacity for the imported base oil which will provide some cushion to the escalating prices of base oil.

DIVIDENDS

During the financial year, the Board of Directors declared an interim dividend of 5 sen per ordinary share, tax exempt, amounting to RM10.5 million in respect of the financial year ended 30 June 2005.

The Board of Directors is pleased to recommend a final dividend of 11 sen per ordinary share, tax exempt, for the approval of the shareholders at the forthcoming Annual General Meeting. Net dividend payable will amount to RM23.1 million.

If approved, total dividends for the financial year ended 30 June 2005 will be 16 sen per ordinary share amounting to RM33.6 million as compared to 17.5 sen per ordinary share amounting to RM35.5 million last year.

PROSPECTS

Despite the impending moderation in the growth of regional economies, the Group will continue to focus on its core business competencies by enhancing its productivity and efficiency levels whilst attempting to grow its market share in an environment that is expected to be extremely challenging. Efforts undertaken thus far to enhance its earnings base will augur well for the Group to meet the numerous challenges ahead.

BOARD OF DIRECTORS

On 10 September 2005, Mr Chang Chee Seng, upon reaching his retirement age, resigned from the Board of Directors as Director and Managing Director of the Company. On behalf of the Board of Directors, I wish to take this opportunity to thank him for his invaluable contributions to the Company.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I take this opportunity to express my appreciation to the management team and employees of the Group for their untiring efforts and commitment. I also wish to extend the Board's appreciation to our valued customers, bankers, business associates, the Government and shareholders for the continued support and confidence in the Group.

TAN SRI WILLIAM H.J. CHENG
Chairman

主席报告

我谨代表董事部，欣然提呈截至2005年6月30日的会计年度，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

由于原油价格持续上涨，马来西亚的经济成长因此比去年削弱。虽然我国是石油净出口国，在某种程度上可能不会立即受到油价高涨的不利影响，然而全球性需求减速，导致生产成长率降低，通货膨胀压力随即发生。我国在2004年达到高达7.1%的国内总生产成长率，相比之下，2005年上半年的成长率放缓，增长率大约是5%。

在本会计年度，本集团今年达到5亿9千万令吉，显著比上一年度的7亿6千500万令吉少，这主要是因为我们的建筑材料组的钢铁产品销售量大减，基于几项大型基建发展工程被展延推行，导致建筑业放缓。与其他建筑材料比较，钢铁利润率不大，因此钢铁产品销售量的减少对本集团的盈利影响不大。虽然油价上涨，我们的石油产品组创下良好成绩，获得更好的收入。

由于收入减少，本集团的税前利润也相对减少，共取得3千610万零吉，上一年度则是3千940万零吉，主要是由于在本会计年度下半年油价高涨，导致生产成本上涨，同时我们的纸厂也在2004年10月按照计划暂时关闭维修，导致纸张产量减少。

企业发展

在本会计年度，本集团致力于扩大盈利基础，采取了下述企业措施：

- (a) 本集团通过独资子公司Lion Rubber Industries Sdn Bhd ("LRISB")，联合山东泸河集团有限公司在中国山东省设立一家子公司山东银石泸河橡胶轮胎有限公司("山东银石")，这是一间轮胎制造厂；股权分配分别是75%和25%；
- (b) 本集团通过两家独资子公司LRISB和Quay Class Ltd ("QCL")，联合银石有限公司(Silverstone Berhad, "SB")的独资子公司iMpression Worldwide Inc，订立技术知识与服务合同，为中国的轮胎制造业提供技术

知识和“银石”品牌(Silverstone brand)的使用权；

- (c) 本集团通过QCL向银石盾机构有限公司献议，向它收购银石有限公司的全部发行及缴足资本股权，总收购价是2亿2千500万令吉("建议收购SB")。

建议收购SB提供机会，在国际市场上建立“银石”品牌，尤其通过山东银石(它从2005年7月起开始生产“银石”品牌轮胎)支援其在中国的轮胎业务；在本会计年度结束后，本公司收到证券委员会的通知书，说明由于银石盾机构有限公司建议脱售银石有限公司的献议不获批准，所以建议中收购银石的献议也不被接纳；以及

- (d) 本集团也和Malinau区政府达成协议，建议在印尼东加里曼丹省Malinau区发展4万公顷的油棕园丘和兴建2座棕油原油厂。

这项建议将使本集团涉足园丘业，尤其是棕油业。由于海外市场对更健康的食用油需求殷切，这是一个扩大海外市场的机会。

业务检讨

伐木业和纸浆及纸张业

在本会计年度，沙巴森林工业私人有限公司("SFI")的收入减少4%，从上一年度的3亿9千800万令吉减少到今年的3亿8千400万令吉，主要是由于纸产品的销售量减少。不过，利润只受到轻微影响，部分受到纸产品涨价所弥补；在这一年内，纸产品的每公吨平均价格从670美元上涨到715美元。因此，在本会计年度，其税前利润只下跌4%，至3千810万令吉，上一年则是3千950万令吉。

本年度共售出118,100公吨的纸产品，上一年度是143,700公吨。虽然市场需求仍然强劲，但由于在2004年10月份按照计划暂时关闭维修，生产量因此受到影响，也直接影响了销售量。在本会计年度将近结束时，纸产品的订单减少，因为买主在期待令吉对美元脱钩，暂时取消购买的念头。

有关部门不断采取配合性努力，以提升其营运效率及产品品质，好让顾客满意，正如上一年度所报告，在预定的关闭维修期间，SFI利用稀

释工艺提升其一号机器的性能，改进纸张的重量、厚度及湿度。在下次预定关闭维修期间，二号机器将进行类似性质的提升。在发电厂方面，针对现有的配电控制系统，装置了一个整合硬件装置、结构及应用工具的系统，以使个别系统统合在一起，提高营运效率。

建筑材料及其他

在本会计年度，我们的建筑材料组的收入下跌，从3亿1千500万令吉减少到只有1亿5千400万令吉，主要是由于钢铁产品的销售额剧降，从1亿8千300万令吉减少到只有2千100万令吉。尽管建筑业的购兴弱，其他建筑材料的销售保持。在本会计年度，建筑业收缩，主要是由于一些大规模公共基建发展工程减少。不过，房产的成长仍然保持稳定，主要是由于住宅产业的需求维持，协助刺激建筑业活动。鉴于营运环境日益竞争，本组将会继续提高销售，以加强其地位，使市场覆盖面更大，同时在产品线管理方面采纳各种策略，以确保总利润率获得保持。

本集团的滑机油及汽车零件组的营业额增加，利润记录良好。在本会计年度，增加11%，主要是由于滑机油产品的销售量增加。在这一年内，其他汽车产品诸如电池、油过滤器及电单车轮胎等，收入也有健全的增长。不过，由于国际原油价格持续高涨，造成基础油的成本进一步上升，本组的利润也因此受到影响。

本组在本地汽车滑机油业取得一个特出的里程碑，成为国内第一家引进最新式的SM级滑机油的企业。本组的SM级滑机油在2004年11月获得美国汽油研究院承认及日本协会认可。本组通过本身的试验室及混合设备能够对产品改善迅速作出反应，以迎合改变中的市场需求和要求。在本会计年度，为配合HI-REV 10周年纪念，我们推展了“HI-REV EZ Menang”竞赛，这项销售活动得到顾客热烈响应。通过这项活动，进一步提高了品牌形象，使到HI-REV成为汽车产品业的其中一个市场领袖。

我们目前正在采取步骤，扩大储存入口的基础油的储存量，以在基础油价格不断上涨的情况下给予某种缓冲。

股息

董事部前此宣布，在截至2005年6月30日为止的会计年度，派发每股5分、免所得税的中期股息，总额为1千50万令吉。

董事部欣然建议，派发每股11分、免所得税的终期股息，由将召开的常年股东大会批准。净股息将达到2千310万令吉。

如果获得批准，在截至2005年6月30日的会计年度，总股息将是每股16分，总额3千360万令吉；上一年度的股息则是每股17.5分，总额3千550万令吉。

展望

尽管本地区的经济成长率将减缓，本集团继续把注意力集中在提升核心业务的能力上，方法是加强生产力和提升效率，同时尝试在预料将会非常具挑战性的环境下扩大市场份额。迄今为止本集团所采取的加强盈利基础的措施是必须的，以便能应付未来的无数挑战。

董事部

我谨代表董事部，感谢曾志成先生在本集团任职期间所作的贡献。曾先生是本集团董事和董事经理，他已在2005年9月10日荣休。

鸣谢

我谨代表董事部，感谢本集团的管理团队和雇员的不懈努力和奉献精神。我也要感谢尊贵的顾客、银行家、商业伙伴、政府以及股东们，继续支持本集团对本集团有信心。

主席
丹斯里钟廷森

FINANCIAL STATEMENTS

2005

For The Financial Year Ended 30 June 2005

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 2005.

PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding, trading and distribution of building materials and consumer goods, and 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 as disclosed in Note 13 to the Financial Statements.

SIGNIFICANT CORPORATE EVENTS

- (a) On 10 December 2004, the Company acquired a wholly-owned subsidiary, Quay Class Ltd ("QCL"), a company incorporated in the British Virgin Islands for a cash consideration of USD1.00 (equivalent to approximately RM3.80).
- (b) On 11 December 2004, Lion Rubber Industries Sdn Bhd ("LRISB"), a wholly-owned subsidiary of the Company, and QCL entered into a technical know-how and services agreement with iMpression Worldwide Inc, a wholly-owned subsidiary of Silverstone Berhad ("SB"), which is in turn a wholly-owned subsidiary of Silverstone Corporation Berhad ("SCB"), for the provision of technical know-how and the use of the "Silverstone" brand name in relation to tyre manufacturing in the People's Republic of China ("PRC") ("Provision of Technical Know-how and the use of the 'Silverstone' Brand").
- (c) On 11 December 2004, LRISB entered into an agreement with Shandong LuHe Group Co Ltd to incorporate a company, Shandong Silverstone LuHe Rubber & Tyre Co Ltd ("Shandong Silverstone") in the province of Shandong, the PRC, for the purpose of operating a tyre business in the PRC, with the equity interest ratio of 75:25.

LRISB contributes its share of USD30.0 million (equivalent to approximately RM114.0 million) for the 75% equity interest by way of cash injection of USD26.0 million (equivalent to approximately RM98.8 million) and the balance of USD4.0 million (equivalent to approximately RM15.2 million), will be by way of the Provision of Technical Know-how and the use of the 'Silverstone' Brand.

Shandong Silverstone has not commenced commercial production as of 30 June 2005. However, trial-run production has commenced since May 2005.

- (d) On 31 January 2005, the Company and QCL entered into a conditional sale and purchase of shares agreement with SCB to acquire the entire issued and paid-up share capital of SB comprising 203,877,500 ordinary shares of RM1.00 each including QCL assuming the net intercompany liabilities due by SCB, its subsidiary and associated companies to SB for a purchase consideration of RM225,000,000. The purchase consideration is proposed to be satisfied by a combination of RM72,610,000 via the issue and allotment of 26,500,000 new ordinary shares of RM1.00 each in the Company at an issue price of RM2.74 each and the balance of RM152,390,000 in deferred cash payments ("Proposed Acquisition").

The Proposed Acquisition is subject to the approvals of the relevant authorities and the shareholders of the Company.

- (e) On 24 February 2005, the Company proposed to implement an Executive Share Option Scheme (“ESOS”) of up to 15% of the issued and paid-up share capital of the Company for the executive directors and executive employees of the Company and its subsidiary companies who meet the criteria of eligibility for participation in the ESOS as set out in the ESOS bylaws containing the rules, terms and conditions of the ESOS (“Proposed ESOS”).

The Company had a previous ESOS which expired on 30 May 2005. The Proposed ESOS was approved by the shareholders of the Company on 24 August 2005 and implemented on 1 September 2005.

- (f) On 17 March 2005, the Company entered into a conditional agreement with Pemerintah Kabupaten Malinau (the Regency Government of Malinau) (“PKM”) to set up a company (“Proposed Co”) for the proposed development of 40,000 hectares of oil palm plantation and the construction of two crude palm oil mills in Malinau Regency, Kalimantan Timur, the Republic of Indonesia (“Proposal”).

The Proposal shall be implemented via the Proposed Co with a total registered and paid-up capital of USD5.0 million (equivalent to approximately RM19.0 million) wherein the Group will hold 95% and PKM will hold 5% of the equity interest in the Proposed Co.

The Proposal is subject to the approvals of the relevant authorities in Malaysia and the Republic of Indonesia.

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	36,071	30,064
Income tax expense	(6,327)	(1,421)
	<hr/>	<hr/>
Profit after tax	29,744	28,643
Minority interests	(764)	-
	<hr/>	<hr/>
Net profit for the year	<u>28,980</u>	<u>28,643</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.

DIVIDENDS

A final dividend of 10%, tax exempt, amounting to RM20,422,757 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 5%, tax exempt, amounting to RM10,492,529 declared in respect of the current financial year, was paid on 15 April 2005.

The directors propose a final dividend of 11%, tax exempt, amounting to RM23,093,463 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

During the current 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 RM209,940,571, comprising 209,940,571 ordinary shares of RM1.00 each, by way of the issue of 6,722,000 new ordinary shares of RM1.00 each pursuant to the exercise of share options under the Company's ESOS as follows:

Number of Ordinary Shares of RM1.00 each	Issue Price Per Share RM
6,612,000	2.13
110,000	2.40
<hr style="border-top: 1px solid black;"/>	
<u>6,722,000</u>	

The resulting share premium of RM7,625,560 arising from the issue of shares has been credited to the share premium account.

The new shares issued ranked *pari passu* in all material respects with the then existing shares of the Company.

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

EXECUTIVE SHARE OPTION SCHEME ("ESOS")

The ESOS implemented for the benefit of eligible executive employees and executive directors of the Group became effective on 31 May 2000 and expired during the financial year 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 1.7.2004	Granted	Exercised	Lapsed	Unissued Shares as of 30.6.2005
21.6.2000	RM2.40	1,794,000	-	(110,000)	(1,684,000)	-
5.7.2004	RM2.13	-	8,877,000	(6,612,000)	(2,265,000)	-
2.12.2004	RM2.45	-	350,000	-	(350,000)	-
		<u>1,794,000</u>	<u>9,227,000</u>	<u>(6,722,000)</u>	<u>(4,299,000)</u>	<u>-</u>

The exercise period for the options expired on 30 May 2005.

During the financial year, the Company offered two grants of options to eligible executives and an executive director of the Company. The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of eligible employees who have been granted less than 140,000 options for each grant under the ESOS. The eligible employees who were granted 140,000 options or more for each grant during the financial year are as follows:

Name of Employee	Number of Options Granted at Subscription Price Per Share of	
	RM2.13 on 5.7.2004	RM2.45 on 2.12.2004
1. Teo Chor Pheow	215,000	-
2. Ng Chin Kwan	165,000	-
3. Hoh Cheon Fatt @ Ho Khoy Lim	152,000	-
4. Chin Voon Pin @ Lawrence	147,000	-
5. Johari Ho Bin Abdullah	144,000	-
6. Ngan Yow Chong	-	350,000
	<u> </u>	<u> </u>

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
 Ngan Yow Chong
 Jen (B) Tan Sri Dato' Zain Mahmud Hashim
 Dato' Mohamad bin Haji Ahmad
 Dato' Dali Mahmud Hashim
 Dato' Kalsom binti Abd. Rahman
 Zainab binti Dato' Hj. Mohamed
 Chang Chee Seng (resigned on 10.9.2005)

In accordance with Article 98 of the Company's Articles of Association, Mr Ngan Yow Chong and Y. Bhg. Dato' Dali Mahmud Hashim retire by rotation and, being eligible, offer themselves 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 30.6.2005
	Balance as of 1.7.2004	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	171,905,792	-	(1,417,280)	170,488,512

In addition to the above, the following directors are deemed to have interest in shares in the Company and the holding company, Lion Industries Corporation Berhad, by virtue of options granted to them pursuant to the ESOS of the respective company which expired on 30 May 2005 and 14 May 2005 respectively:

	Options over Ordinary Shares of RM1.00 each			Balance as of 30.6.2005
	Balance as of 1.7.2004	Granted	Lapsed/ Exercised*	
Ngan Yow Chong				
The Company	-	350,000	(350,000)	-
Chang Chee Seng				
Lion Industries Corporation Berhad	227,000	-	(227,000)*	-

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 1.7.2004	Number of Shares		Balance as of 30.6.2005
			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	227,000	(87,517)	147,000

(Forward)

	Nominal Value Per Ordinary Share	Balance as of 1.7.2004	Number of Shares		Balance as of 30.6.2005
			Bought	Sold	
Indirect Interest					
Tan Sri William H.J. Cheng					
Lion Industries Corporation Berhad	RM1.00	300,218,625	125,720,000	(102,000,000)	323,938,625
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
Zhongsin Biotech Pte Ltd	SGD1.00	1,000,000	-	-	1,000,000

	Nominal Value Per Deferred Share	Balance as of 1.7.2004	Number of Shares		Balance as of 30.6.2005
			Bought	Sold	
Sabah Forest Industries Sdn Bhd	RM1.00	146,000,000	-	-	146,000,000

	Currency	Balance as of 1.7.2004	Number of Shares		Balance as of 30.6.2005
			Bought	Sold	
Investments in the People's Republic of China					
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
Shandong Silverstone LuHe Rubber & Tyre Co Ltd	USD	-	26,064,000	-	26,064,000
Shanghai Lion Plastic Industrial Co Ltd	USD	3,690,000	-	-	3,690,000
Tianjin Baden Real Estate Development Co Ltd	USD	5,000,000	-	-	5,000,000
Tianjin Hua Shi Auto Meter Co Ltd (Under liquidation)	USD	10,878,944	-	-	10,878,944

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

DIRECTORS' BENEFITS

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

HOLDING COMPANY

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

AUDITORS

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

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

TAN SRI WILLIAM H.J. CHENG

NGAN YOW CHONG

Kuala Lumpur,
15 September 2005

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

We have audited the accompanying balance sheets as of 30 June 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

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

In our opinion:

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 ("Act") and the applicable Malaysian Accounting Standards Board ("MASB") 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 2005 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' 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 2005

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	Note	The Group		The Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	4	590,388	765,096	170,623	349,940
Changes in inventories of finished goods, trading merchandise and work-in-progress		(9,074)	14,736	(22,149)	22,254
Raw materials and consumables used		(213,993)	(210,683)	-	-
Purchase of trading merchandise		(143,666)	(341,279)	(117,220)	(321,588)
Staff costs		(45,424)	(42,987)	(3,940)	(3,953)
Extraction fees		(13,544)	(8,710)	-	-
Timber royalties		(6,241)	(3,886)	-	-
Other production expenses		(57,069)	(53,141)	-	-
Depreciation of property, plant and equipment	10	(45,059)	(44,383)	(134)	(138)
Amortisation of:					
Forest concessions	11	(10,796)	(10,796)	-	-
Goodwill on consolidation	16	(10,146)	(10,146)	-	-
Other operating expenses		(19,419)	(23,006)	(1,779)	(2,687)
Other operating income		21,865	10,946	17,431	6,147
Profit from operations	5	37,822	41,761	42,832	49,975
Finance costs	6	(1,079)	(1,499)	(12,768)	(6,082)
Share in results of associated company		(672)	(911)	-	-
Profit before tax		36,071	39,351	30,064	43,893
Income tax expense	7	(6,327)	(5,039)	(1,421)	(1,552)
Profit after tax		29,744	34,312	28,643	42,341
Minority interests		(764)	(806)	-	-
Net profit for the year		28,980	33,506	28,643	42,341
Earnings per ordinary share	8	14.0 sen	16.5 sen		

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

BALANCE SHEETS

AS OF 30 JUNE 2005

	Note	The Group		The Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
ASSETS (Note 24)					
Property, plant and equipment	10	825,743	704,274	7,435	7,485
Forest concessions	11	300,932	311,728	-	-
Plantation development expenditure	12	146,859	140,824	-	-
Investment in subsidiary companies	13	-	-	1,232,075	1,232,075
Investment in associated company	14	2,375	3,042	4,684	4,684
Other investments	15	302	251	242	243
Goodwill on consolidation	16	171,473	181,619	-	-
Deferred tax assets	17	419	457	155	193
Amount owing by holding company					
- non-current	20	70,000	70,000	70,000	70,000
Current Assets					
Inventories	18	105,184	107,332	136	22,285
Trade receivables	19	93,912	69,649	16,031	24,106
Other receivables and prepaid expenses	19	15,081	21,897	2,231	17,185
Amount owing by holding company	20	17,480	10,102	17,480	10,102
Amount owing by subsidiary companies	13	-	-	33,515	19,986
Amount owing by other related companies	20	104,953	101,575	104,048	101,201
Fixed deposits with licensed banks	21	24,061	61,300	-	-
Cash and bank balances	22	19,069	34,822	2,291	26,974
		379,740	406,677	175,732	221,839
Current Liabilities					
Trade payables	23	30,377	23,001	16,499	12,485
Other payables and accrued expenses	23	83,711	43,956	1,216	2,210
Amount owing to subsidiary companies	13	-	-	35,965	76,728
Amount owing to other related companies	20	1,457	934	1,457	894
Bank borrowings	24	15,133	15,885	8,811	13,358
Tax liabilities		3,058	5,755	590	1,894
Dividend payable		-	15,241	-	15,241
		133,736	104,772	64,538	122,810
Net Current Assets		246,004	301,905	111,194	99,029
Non-Current and Deferred Liabilities					
Hire-purchase payables	25	(208)	(242)	-	-
Deferred tax liabilities	17	(265)	(265)	-	-
Amount owing to subsidiary company					
- non-current	13	-	-	(70,000)	(70,000)
		(473)	(507)	(70,000)	(70,000)
		1,763,634	1,713,593	1,355,785	1,343,709
Represented by:					
Issued capital	26	209,941	203,219	209,941	203,219
Reserves	27	1,342,078	1,336,387	1,145,844	1,140,490
Shareholders' Equity		1,552,019	1,539,606	1,355,785	1,343,709
Minority interests	20	211,615	173,987	-	-
		1,763,634	1,713,593	1,355,785	1,343,709

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2005

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 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
Net profit for the year		-	-	-	-	-	28,980	28,980
Dividends	9	-	-	-	-	-	(30,915)	(30,915)
Issue of shares	26	6,722	7,626	-	-	-	-	14,348
Balance as of 30 June 2005		209,941	1,107,826	(46)	49,189	9	185,100	1,552,019

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 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
Net profit for the year		-	-	28,643	28,643
Dividends	9	-	-	(30,915)	(30,915)
Issue of shares	26	6,722	7,626	-	14,348
Balance as of 30 June 2005		209,941	1,107,826	38,018	1,355,785

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

The Group	2005 RM'000	2004 RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Profit before tax	36,071	39,351
Adjustments for:		
Depreciation of property, plant and equipment	45,059	44,383
Amortisation of:		
Forest concessions	10,796	10,796
Goodwill on consolidation	10,146	10,146
Allowance for doubtful debts	1,849	1,275
Finance costs	1,079	1,499
Share in results of associated company	672	911
Allowance for slow-moving and obsolete inventories	90	116
Property, plant and equipment written off	43	408
Inventories written down	36	101
Impairment loss of property, plant and equipment	-	3,448
Bad debts written off	-	6
Allowance for slow-moving and obsolete inventories no longer required	-	(74)
Loss/(Gain) on disposal of:		
Other investments	1	(42)
Property, plant and equipment	(438)	(139)
Allowance for doubtful debts no longer required	(901)	(187)
Interest income	(18,132)	(8,586)
Operating Profit Before Working Capital Changes	<u>86,371</u>	<u>103,412</u>
(Increase)/Decrease in:		
Inventories; adjusted for depreciation of property, plant and equipment of RM2,670,000 (RM2,178,000 in 2004) and amortisation of plantation development expenditure of RM102,000 (RM81,000 in 2004)	4,794	(5,068)
Trade receivables	(25,146)	(3,671)
Other receivables and prepaid expenses	6,751	(15,087)
Increase in:		
Trade payables	7,376	599
Other payables and accrued expenses; excluding hire-purchase payables	32,233	7,515
Cash Generated From Operations	<u>112,379</u>	<u>87,700</u>
Interest received	1,472	3,198
Income tax paid	(8,991)	(3,283)
Net Cash From Operating Activities	<u>104,860</u>	<u>87,615</u>

(Forward)

The Group	Note	2005 RM'000	2004 RM'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment (Note)		(124,472)	(14,648)
Addition to other investments		(52)	(34)
Proceeds from disposal of:			
Property, plant and equipment		465	236
Other investments		-	55
(Increase)/Decrease in:			
Amount owing by holding company		3,914	(79,918)
Amount owing by former immediate holding company		-	326
Amount owing by other related companies		(3,378)	(7,874)
Plantation development expenditure; adjusted for depreciation of property, plant and equipment of RM325,000 (RM433,000 in 2004)		(5,812)	(7,411)
Cash at banks held under Escrow Account		(61)	(31)
Interest received from other related companies		5,368	5,204
Net Cash Used In Investing Activities		<u>(124,028)</u>	<u>(104,095)</u>
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts		(407)	(3,772)
Amount owing to holding company		-	(64)
Amount owing to other related companies		523	(697)
Proceeds from issue of shares		14,348	-
Payment of hire-purchase payables		(184)	(223)
Dividends paid		(46,156)	(10,242)
Dividends paid to minority shareholder of subsidiary company		(585)	(872)
Finance costs paid		(1,079)	(1,499)
Net Cash Used In Financing Activities		<u>(33,540)</u>	<u>(17,369)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(52,708)	(33,849)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		93,647	127,496
CASH AND CASH EQUIVALENTS AT END OF YEAR	32	<u>40,939</u>	<u>93,647</u>

Note: During the financial year, the Group acquired property, plant and equipment at an aggregate cost of RM169,593,000 (RM14,819,000 in 2004) of which RM156,000 (RM171,000 in 2004) was acquired under hire-purchase arrangements and RM37,443,000 (RMNil in 2004) was contributed by a corporate shareholder of a subsidiary company in the People's Republic of China as capital injection in the subsidiary company. Cash payments for the acquisition of property, plant and equipment amounted to RM124,472,000 (RM14,648,000 in 2004) [net of finance costs of RM7,522,000 (RMNil in 2004)].

(Forward)

The Company	2005	2004
	RM'000	RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Profit before tax	30,064	43,893
Adjustments for:		
Finance costs	12,768	6,082
Allowance for doubtful debts	691	956
Depreciation of property, plant and equipment	134	138
Property, plant and equipment written off	-	1
Loss/(Gain) on disposal of other investments	1	(42)
Allowance for doubtful debts no longer required	(596)	(129)
Interest income	(17,231)	(6,037)
Dividend income	(25,905)	(38,591)
	<hr/>	<hr/>
Operating (Loss)/Profit Before Working Capital Changes	(74)	6,271
(Increase)/Decrease in:		
Inventories	22,149	(22,260)
Trade receivables	8,045	11,485
Other receivables and prepaid expenses	14,889	(15,893)
Increase/(Decrease) in:		
Trade payables	4,014	(2,086)
Other payables and accrued expenses	(994)	910
	<hr/>	<hr/>
Cash Generated From/(Used In) Operations	48,029	(21,573)
Interest received	483	555
Income tax paid	(2,642)	(1,152)
	<hr/>	<hr/>
Net Cash From/(Used In) Operating Activities	45,870	(22,170)
	<hr/>	<hr/>
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(84)	(162)
Proceeds from disposal of other investments	-	55
Addition to other investments	-	(34)
(Increase)/Decrease in:		
Amount owing by holding company	3,914	(79,918)
Amount owing by subsidiary companies	(13,529)	(14,574)
Amount owing by other related companies	(2,847)	(7,636)
Cash at banks held under Escrow Account	(61)	(31)
Interest received from:		
Subsidiary companies	88	94
Other related companies	5,368	5,204
Dividend received from subsidiary companies	25,860	38,517
	<hr/>	<hr/>
Net Cash From/(Used In) Investing Activities	18,709	(58,485)
	<hr/>	<hr/>

(Forward)

	Note	2005 RM'000	2004 RM'000
The Company			
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Increase/(Decrease) in:			
Bank borrowings; excluding bank overdrafts		(4,328)	(3,146)
Amount owing to holding company		-	(64)
Amount owing to subsidiary companies		(40,763)	126,853
Amount owing to other related companies		563	(703)
Proceeds from issue of shares		14,348	-
Dividends paid		(46,156)	(10,242)
Finance costs paid		(12,768)	(6,082)
Net Cash (Used In)/From Financing Activities		<u>(89,104)</u>	<u>106,616</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(24,525)	25,961
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		24,997	(964)
CASH AND CASH EQUIVALENTS AT END OF YEAR	32	<u>472</u>	<u>24,997</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, and 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 as disclosed in Note 13.

The total number of employees of the Group and of the Company at the end of the financial year was 2,156 (2,264 in 2004) and 70 (83 in 2004), 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 2005.

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 MASB approved accounting standards in Malaysia.

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 future 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 year 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 companies 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

<u>Foreign currency</u>	<u>30.6.2005</u>	<u>30.6.2004</u>
	RM	RM
1 United States Dollar	3.80	3.80
1 Singapore Dollar	2.24	2.21
1 Renminbi	0.46	-

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

Employee Benefits

Wages, salaries, paid annual leaves, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group and Company. Sick leaves are recognised when the absences occur.

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

Associated Company

An associated company is a non-subsiary 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Sales of goods	590,388	763,924	144,718	311,349
Servicing income	-	732	-	-
Hiring income	-	440	-	-
Gross dividend income from subsidiary companies	-	-	25,905	38,591
	590,388	765,096	170,623	349,940

5. PROFIT FROM OPERATIONS

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

	The Group		The Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Interest income on:				
Advances to holding company	11,292	184	11,292	184
Advances to other related companies	5,368	5,204	5,368	5,204
Fixed deposits with licensed banks	918	2,585	-	-
Advances to subsidiary companies	-	-	88	94
Others	554	613	483	555
Allowance for doubtful debts no longer required	901	187	596	129
Rental income	487	419	3	3
Gain on disposal of property, plant and equipment	438	139	-	-
Bad debts recovered	192	16	190	16
Realised gain/(loss) on foreign exchange	6	(7)	-	-
Allowance for slow-moving and obsolete inventories no longer required	-	74	-	-
Bad debts written off	-	(6)	-	-
Impairment loss on property, plant and equipment (Note 10)	-	(3,448)	-	-
Gain/(Loss) on disposal of other investments	(1)	42	(1)	42
Inventories written down	(36)	(101)	-	-
Property, plant and equipment written off	(43)	(408)	-	(1)
Hire of plant and machinery	(1,509)	(1,539)	-	-
Allowance for slow-moving and obsolete inventories	(90)	(116)	-	-
Auditors' remuneration:				
Current year	(149)	(155)	(30)	(26)
Underprovision in prior year	(5)	(2)	(4)	(3)
Lease rental	(348)	(302)	(111)	-
Directors' remuneration (Note 20)	(737)	(659)	(677)	(599)
Rental of premises payable to:				
Subsidiary company	-	-	(64)	(49)
Others	(811)	(874)	(92)	(150)
Allowance for doubtful debts	(1,849)	(1,275)	(691)	(956)

Staff costs include salaries, bonuses, contributions for defined contribution plans and all other staff related expenses. Contributions for the defined contribution plans of the Group and of the Company amounted to RM4,730,000 and RM399,000 (RM4,362,000 and RM400,000 in 2004), respectively.

6. FINANCE COSTS

	The Group		The Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
Bank overdrafts and other borrowings	1,045	1,455	487	815
Hire-purchase	34	35	-	-
Advances from holding company	-	9	-	9
Advances from subsidiary companies	-	-	12,281	5,258
	1,079	1,499	12,768	6,082

7. INCOME TAX EXPENSE

Income tax expense consists of the following:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current taxation:				
Estimated tax payable	6,243	5,338	1,337	1,695
Under/(Over)provision in prior years	51	(47)	46	(51)
	6,294	5,291	1,383	1,644
Deferred tax (Note 17)	38	(246)	38	(92)
Share in income tax expense of associated company	(5)	(6)	-	-
	6,327	5,039	1,421	1,552

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	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Profit before tax	36,071	39,351	30,064	43,893
Tax at applicable tax rate of 28% (28% in 2004)	10,100	11,018	8,418	12,290
Tax effects of (non-taxable)/non-deductible items:				
Dividend income	-	-	(7,286)	(10,731)
Entertainment	32	8	20	7
Depreciation of non-qualifying capital expenditure	321	54	34	23
Interest restriction	60	2	60	2
Utilisation of:				
Unabsorbed tax losses	(186)	(43)	-	-
Reinvestment allowances	(73)	(46)	-	-
Investment tax credits	(18,263)	(21,767)	-	-
Other non-deductible items	6,358	3,293	269	106
Other non-taxable items	(1,364)	(95)	(140)	(94)
Double deduction of expenses	(1,604)	(2,421)	-	-
Realisation of deferred tax assets not previously recognised	-	(399)	-	-
Deferred tax assets not recognised	10,895	15,482	-	-
Under/(Over)provision in prior years	51	(47)	46	(51)
	6,327	5,039	1,421	1,552

7. INCOME TAX EXPENSE (continued)

As of 30 June 2005, the balances in the tax-exempt accounts of the Company are as follows:

	The Company	
	2005 RM'000	2004 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 dividends received	43,600	48,770
	49,757	54,927

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 RM28,980,000 (RM33,506,000 in 2004) and on the weighted average number of ordinary shares (number of ordinary shares in 2004) in issue and ranking for dividend of 206,936,755 during the financial year (203,218,571 in 2004).

	2005 '000	2004 '000
Number of shares in issue as of 1 January	203,219	203,219
Effects of exercise of shares options	3,718	-
Weighted average number of/Number of ordinary shares	206,937	203,219
Basic earnings per ordinary share (sen)	14.0	16.5

Fully diluted

Under MASB Standard No. 13, Earnings Per Share, as of 30 June 2004, 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.

The exercise period for the options expired on 30 May 2005.

9. DIVIDENDS

	The Group and The Company	
	2005 RM'000	2004 RM'000
Interim dividend - 5%, tax exempt, in 2005; 7.5%, tax-exempt, in 2004	10,492	15,241
Final dividend - 10%, tax exempt, in 2004; 7%, less 28% tax, in 2003	20,423	10,242
	30,915	25,483

A final dividend of 10%, tax exempt (7%, less 28% tax, in 2003), amounting to RM20,422,757 (RM10,242,216 in 2003) 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 10 sen (7 sen in 2003).

An interim dividend of 5%, tax exempt (7.5%, tax exempt, in 2004), amounting to RM10,492,529 (RM15,241,393 in 2004) declared in respect of the current financial year, was paid on 15 April 2005. Gross dividend per share is 5 sen (7.5 sen in 2004).

The directors propose a final dividend of 11%, tax exempt, amounting to RM23,093,463 in respect of the current financial year. Gross dividend per share is 11 sen (10 sen in 2004). 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:

2005 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	7,664	149	-	-	-	7,813
Long leasehold land and buildings	4,207	47,776	-	-	-	51,983
Short leasehold land and buildings	74,947	74	-	-	-	75,021
Pulp and paper mill	768,464	-	-	-	-	768,464
Plant and machinery	256,923	93,257	(160)	(455)	24,852	374,417
Office equipment	768	134	-	(70)	-	832
Furniture and fittings	19,160	215	(29)	(31)	-	19,315
Motor vehicles	8,882	777	(1,680)	-	71	8,050
Motor vehicles under hire-purchase	771	156	-	-	(71)	856
Office renovation	789	-	-	(115)	-	674
Computer equipment	1,177	1,328	-	(528)	-	1,977
Housing colony and infrastructures	115,091	559	-	-	769	116,419
Jetty and access roads	100,380	454	-	-	-	100,834
Capital work-in-progress	5,505	24,714	-	-	(25,621)	4,598
	<u>1,369,955</u>	<u>169,593</u>	<u>(1,869)</u>	<u>(1,199)</u>	<u>-</u>	<u>1,536,480</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	1,198	166	-	-	-	1,364
Long leasehold land and buildings	671	9	-	-	-	680
Short leasehold land and buildings	29,953	3,206	-	-	-	33,159
Pulp and paper mill	385,858	16,608	-	-	-	402,466
Plant and machinery	106,233	17,609	(134)	(411)	2	123,299
Office equipment	610	52	-	(71)	-	591
Furniture and fittings	16,881	1,074	(28)	(31)	-	17,896
Motor vehicles	8,172	352	(1,680)	-	49	6,893
Motor vehicles under hire-purchase	346	159	-	-	(49)	456
Office renovation	717	17	-	(115)	-	619
Computer equipment	1,017	79	-	(528)	-	568
Housing colony and infrastructures	55,938	4,600	-	-	(2)	60,536
Jetty and access roads	54,639	4,123	-	-	-	58,762
Capital work-in-progress	-	-	-	-	-	-
	<u>662,233</u>	<u>48,054</u>	<u>(1,842)</u>	<u>(1,156)</u>	<u>-</u>	<u>707,289</u>

10. PROPERTY, PLANT AND EQUIPMENT (continued)

2005 The Group	ACCUMULATED IMPAIRMENT LOSS	NET BOOK VALUE	
	At beginning and end of year RM'000	At end of year RM'000	At beginning of year RM'000
Freehold land	-	5,227	5,227
Freehold buildings	-	6,449	6,466
Long leasehold land and buildings	-	51,303	3,536
Short leasehold land and buildings	-	41,862	44,994
Pulp and paper mill	3,448	362,550	379,158
Plant and machinery	-	251,118	150,690
Office equipment	-	241	158
Furniture and fittings	-	1,419	2,279
Motor vehicles	-	1,157	710
Motor vehicles under hire-purchase	-	400	425
Office renovation	-	55	72
Computer equipment	-	1,409	160
Housing colony and infrastructures	-	55,883	59,153
Jetty and access roads	-	42,072	45,741
Capital work-in-progress	-	4,598	5,505
	3,448	825,743	704,274

2005 The Company	COST			At end of year RM'000
	At beginning of year RM'000	Additions RM'000	Write-offs RM'000	
Freehold land	5,227	-	-	5,227
Freehold buildings	1,898	-	-	1,898
Long leasehold land and building	383	62	-	445
Office equipment	319	12	(42)	289
Furniture and fittings	418	1	(27)	392
Motor vehicles	554	-	-	554
Office renovation	256	-	-	256
Computer equipment	670	9	(360)	319
	9,725	84	(429)	9,380

	ACCUMULATED DEPRECIATION			NET BOOK VALUE	
	At beginning of year RM'000	Charge for the year RM'000	Write-offs RM'000	At end of year RM'000	At beginning of year RM'000
Freehold land	-	-	-	-	5,227
Freehold buildings	290	38	-	328	1,608
Long leasehold land and building	44	9	-	53	392
Office equipment	312	5	(42)	275	14
Furniture and fittings	410	2	(27)	385	7
Motor vehicles	308	56	-	364	190
Office renovation	256	-	-	256	-
Computer equipment	620	24	(360)	284	35
	2,240	134	(429)	1,945	7,485

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Current depreciation has been charged to the following accounts:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Income statements	45,059	44,383	134	138
Inventories	2,670	2,178	-	-
Plantation development expenditure (Note 12)	325	433	-	-
	48,054	46,994	134	138

As of 30 June 2004, the directors of a subsidiary company reviewed the carrying amount of certain plant and equipment and determined that there was an indication of impairment as the carrying amount exceeded the recoverable amount. The recoverable amount was estimated based on the expected net selling price that could be obtained from the disposal of the said plant and equipment. Consequently, an impairment loss of RM3,448,000 (Note 5) had been charged to the income statement of the Group.

Current additions to property, plant and equipment of the Group include finance costs amounting to RM7,522,000 (RMNil in 2004).

As of 30 June 2005, certain freehold land and buildings and long leasehold land and buildings of the Group and the Company with net book values totalling RM7,128,000 (RM7,174,000 in 2004) 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 2005, the titles to certain parcels of leasehold land of subsidiary companies with net book values totalling RM6,097,000 (RM1,550,000 in 2004) have yet to be registered in the name of the said subsidiary companies.

11. FOREST CONCESSIONS

	The Group	
	2005 RM'000	2004 RM'000
Forest concessions - at cost	388,200	388,200
Cumulative amortisation:		
At beginning of year	76,472	65,676
Amortisation for the year	10,796	10,796
At end of year	87,268	76,472
Net	300,932	311,728

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	
	2005 RM'000	2004 RM'000
At cost:		
At beginning of year	145,221	137,377
Additions for the year	6,137	7,844
At end of year	151,358	145,221
Cumulative amortisation:		
At beginning of year	4,397	4,316
Amortisation for the year	102	81
At end of year	4,499	4,397
Net	146,859	140,824

Charges to plantation development expenditure during the year include depreciation of property, plant and equipment amounting to RM325,000 (RM433,000 in 2004).

Current amortisation of RM102,000 (RM81,000 in 2004) has been charged to inventories.

13. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2005 RM'000	2004 RM'000
Unquoted shares - at cost	1,232,075	1,232,075

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 5.40% (1.00% to 5.50% in 2004) per annum.

Amount owing to subsidiary companies consist of:

	The Company	
	2005 RM'000	2004 RM'000
Advances	18,485	19,544
Revolving credit	-	47,000
Term loan	87,480	80,184
	105,965	146,728
Less: Amount due within 12 months (shown under current liabilities)	(35,965)	(76,728)
Non-current portion	70,000	70,000

13. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The non-current portion is repayable as follows:

	The Company	
	2005 RM'000	2004 RM'000
Financial years ending 30 June:		
2006	-	20,000
2007	20,000	20,000
2008	25,000	25,000
2009	25,000	5,000
	70,000	70,000

The advances are interest-free and have no fixed repayment terms.

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

	The Company	
	2005 %	2004 %
Revolving credit	-	8.00
Term loan	12.00	12.00

The term loan arose in 2004 when Lion Industries Corporation Berhad ("LICB") 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, 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 was implemented on 6 August 2004.

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
		2005 %	2004 %	
Direct				
Lion Petroleum Products Sdn Bhd (formerly known as Posim Petroleum Products Sdn Bhd)	Malaysia	100.00	100.00	Manufacturing of petroleum products
Lion Rubber Industries Sdn Bhd	Malaysia	100.00	100.00	Investment holding
LFIB Plantations Sdn Bhd (formerly known as SC Nominees Sdn Bhd)	Malaysia	100.00	100.00	Investment holding, inactive during the year

(Forward)

13. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2005 %	2004 %	
Direct				
Ototek Sdn Bhd	Malaysia	70.00	70.00	Trading and distribution of lubricants, spark plugs and automotive components
Posim Marketing Sdn Bhd	Malaysia	100.00	100.00	Trading of building materials and consumer products
Posim Petroleum Marketing Sdn Bhd	Malaysia	100.00	100.00	Trading and distribution of petroleum products
Posim EMS Sdn Bhd (formerly known as Posim Agricultural Products Sdn Bhd)	Malaysia	100.00	100.00	Dormant during the year. Commenced operations subsequent to the year end in the provision of energy management and conservation services
Sabah Forest Industries Sdn Bhd	Malaysia	97.78	97.78	Integrated wood-based activities and pulp and paper mill operations
Silverstone (Hubei) Rubber And Tyre Co Ltd	People's Republic of China	100.00	-	Dormant
Stoller Chemical Company (M) Sdn Bhd (In liquidation - voluntary)	Malaysia	100.00	100.00	Dormant
Quay Class Ltd	British Virgin Islands	100.00	-	Investment holding, inactive during the year
Indirect				
Shandong Silverstone LuHe Rubber & Tyre Co Ltd	People's Republic of China	75.00	-	Manufacturing and distribution of tyres
Sabah Pulp & Paper Mill Sdn Bhd (In liquidation - voluntary)	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 2004) 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	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unquoted shares - at cost	4,684	4,684	4,684	4,684
Share in post - acquisition loss	(2,309)	(1,642)	-	-
	2,375	3,042	4,684	4,684

The associated company is as follows:

Name of Company	Country of Incorporation	Effective Equity Interest		Principal Activity
		2005 %	2004 %	
Direct				
Kinabalu Motor Assembly Sendirian Berhad #	Malaysia	20.00	20.00	Assembly of commercial 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	
	2005 RM'000	2004 RM'000
Share of net tangible assets	1,851	2,518
Premium on acquisition	524	524
	2,375	3,042

15. OTHER INVESTMENTS

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At cost:				
Quoted shares	216	217	208	209
Quoted securities	34	34	34	34
	250	251	242	243
Unquoted shares	52	-	-	-
	302	251	242	243
Market value of quoted shares and securities	69	89	56	75

16. GOODWILL ON CONSOLIDATION

	The Group	
	2005	2004
	RM'000	RM'000
Goodwill on consolidation	253,646	253,646
Cumulative amortisation:		
At beginning of year	72,027	61,881
Amortisation for the year	10,146	10,146
At end of year	82,173	72,027
Net	<u>171,473</u>	<u>181,619</u>

17. DEFERRED TAX ASSETS/(LIABILITIES)

	The Group		The Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Deferred Tax Assets				
At beginning of year	457	185	193	101
Net transfer (to)/from income statements (Note 7)	(38)	272	(38)	92
At end of year	<u>419</u>	<u>457</u>	<u>155</u>	<u>193</u>

	The Group	
	2005	2004
	RM'000	RM'000
Deferred Tax Liabilities		
At beginning of year	265	239
Net transfer from income statements (Note 7)	-	26
At end of year	<u>265</u>	<u>265</u>

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

	The Group		The Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Temporary differences arising from:				
Property, plant and equipment	(136,570)	(141,984)	14	(25)
Plantation development expenditure	(39,313)	(39,268)	-	-
Inventories	46	64	-	-
Other payables and accrued expenses	231	326	123	218
Others	(36)	25	-	-
Unabsorbed tax losses	139,077	139,317	-	-
Unabsorbed capital allowances	368,395	358,362	18	-
	<u>331,830</u>	<u>316,842</u>	<u>155</u>	<u>193</u>
Less: Deferred tax asset not recognised	(331,411)	(316,385)	-	-
Net	<u>419</u>	<u>457</u>	<u>155</u>	<u>193</u>

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

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

	The Group	
	2005 RM'000	2004 RM'000
Temporary differences arising from:		
Property, plant and equipment	346	326
Others	(81)	(61)
	265	265

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

As of 30 June 2005, the Group has reinvestment allowances and investment tax credits totalling RM68,225,000 and RM77,064,000 (RM68,225,000 and RM147,676,000 in 2004), 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	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At cost:				
Finished goods				
- Paper	20,236	4,458	-	-
- Veneer	417	2,245	-	-
- Sawn timber	763	1,518	-	-
- Plywood	39	55	-	-
- Others	2,601	167	-	-
Commercial timber logs	12	769	-	-
Work-in-progress				
- Paper	2,616	6,573	-	-
- Veneer	363	563	-	-
- Sawn timber	785	1,602	-	-
- Plywood	286	235	-	-
Raw materials	25,630	14,063	-	-
Pulp and fuel logs	2,089	5,668	-	-
Engineering spares	37,632	35,352	-	-
Trading merchandise	9,190	28,954	136	22,285
Fuel and lubricants	1,244	3,328	-	-
Goods-in-transit	-	27	-	-
Others	1,682	2,330	-	-
	105,585	107,907	136	22,285
Less: Allowance for obsolete and slow-moving inventories	(402)	(576)	-	-
	105,183	107,331	136	22,285
At net realisable value:				
Trading merchandise	1	1	-	-
	105,184	107,332	136	22,285

19. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables are as follows:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade receivables	98,947	75,959	17,758	27,806
Allowance for doubtful debts	(5,035)	(6,310)	(1,727)	(3,700)
	93,912	69,649	16,031	24,106

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 2004).

The currency exposure profile of trade receivables is as follows:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Ringgit Malaysia	83,432	62,023	17,758	27,806
US Dollar	15,226	13,587	-	-
Renminbi	289	-	-	-
Singapore Dollar	-	349	-	-
	98,947	75,959	17,758	27,806

Other receivables and prepaid expenses consist of:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Other receivables	3,669	19,617	810	16,543
Allowance for doubtful debts	(1,613)	(1,548)	(260)	(195)
	2,056	18,069	550	16,348
Prepaid expenses	12,446	3,446	1,570	704
Deposits	579	382	111	133
	15,081	21,897	2,231	17,185

20. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS

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

Amount owing by holding company consists of:

	The Group and The Company	
	2005 RM'000	2004 RM'000
Advances	-	(82)
Term loan receivable	87,480	80,184
	87,480	80,102
Less: Amount due within 12 months (shown under current liabilities)	(17,480)	(10,102)
Non-current portion	70,000	70,000

The advances in 2004 bore interest at 8.00% per annum and had no fixed repayment terms.

The term loan receivable, which arose as a result of the Offer of Financing as disclosed in Note 13, bears interest at an average effective rate of 12.00% (12.00% in 2004) per annum, and has the same payment schedule as the non-current portion of the amount owing to subsidiary companies as disclosed in Note 13.

Amount owing by other related companies bears interest at rates ranging from 5.30% to 5.40% (5.40% to 5.50% in 2004) 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	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
With holding company:					
Lion Industries Corporation Berhad	Interest income on advances	11,292	184	11,292	184
	Interest expense on advances	-	9	-	9
With other related companies:					
JOPP Builders Sdn Bhd	Interest income on advances	41	40	41	40
LLB Harta (M) Sdn Bhd	Interest income on advances	5,327	5,164	5,327	5,164

20. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

Name of Company	Nature	The Group		The Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Antara Steel Mills Sdn Bhd	Trade sales	53	11,454	-	11,394
Amsteel Mills Sdn Bhd	Trade sales	2,669	1,998	-	-
	Trade purchases	-	2,654	-	2,654
	Transport service charges payable	604	675	-	-
Amsteel Mills Marketing Sdn Bhd	Trade purchases	19,938	74,872	19,938	74,872
With related parties:					
Parkson Corporation Sdn Bhd	Trade sales	973	1,344	888	1,231
Xtra Supercenter Sdn Bhd	Trade sales	432	38	347	-
Silverstone Berhad	Trade sales	372	2,235	-	-
Lion Motor Sdn Bhd	Rental payable	-	142	-	50
	Trade sales	111	130	-	-
Singa Logistics Sdn Bhd	Trade sales	56	12	-	-
Megasteel Sdn Bhd	Trade sales	2,110	919	-	-
	Trade purchases	-	144,504	-	144,504
	Purchase of spares	337	632	-	-
Bright Steel Sdn Bhd	Trade sales	356	314	-	-
	Purchase of spares	142	92	-	-
Lion Trading & Marketing Sdn Bhd	Purchase of equipment	141	1	-	-

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

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

20. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS (continued)

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

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Receivables:				
Included in trade receivables	2,003	1,300	411	-
Included in other receivables	-	71	-	66
Payables:				
Included in other payables	106	42	-	-

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.

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

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Fees				
Executive directors	36	36	30	30
Non-executive directors	160	134	154	128
	196	170	184	158
Salaries and other emoluments				
Executive directors	460	427	437	404
Non-executive director	23	23	-	-
	483	450	437	404
Contributions to defined contribution plans				
Executive directors	57	38	56	37
Non-executive director	1	1	-	-
	58	39	56	37
Total	737	659	677	599

As of 30 June 2005, 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 2004) 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 2.20% (2.30% in 2004) per annum.

22. CASH AND BANK BALANCES

Included in cash and bank balances of the Group and the Company is an amount of RM1,047,857 (RM987,301 in 2004) representing cash held under an Escrow Account as mentioned in Note 24. The Escrow Account was created pursuant to the Master Restructuring Agreement entered into between the Company and certain local banks. In accordance with the said agreement, utilisation of cash held under the Escrow Account is restricted to repayment of bank borrowings and payment of interest, commission, fees and other charges to the banks.

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 2004).

The currency exposure profile of trade payables is as follows:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Ringgit Malaysia	27,359	21,757	16,471	12,464
Renminbi	1,581	-	-	-
US Dollar	1,402	1,244	28	21
Singapore Dollar	35	-	-	-
	30,377	23,001	16,499	12,485

Other payables and accrued expenses consist of:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Hire-purchase payables (Note 25)	132	126	-	-
Other payables	62,349	16,927	29	24
Accrued expenses	21,230	26,903	1,187	2,186
	83,711	43,956	1,216	2,210

Included in other payables in 2005 is an amount of RM40,295,333 representing amount owing to Shandong LuHe Group Co Ltd, a corporate shareholder of a subsidiary company. The said amount, which is denominated in Renminbi, arose from payments made on behalf of the subsidiary company and bears interest at rates ranging from 5.58% to 7.25% (Nil in 2004) per annum and has no fixed repayment terms.

24. BANK BORROWINGS

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Bank overdrafts (Note 32)	1,143	1,488	771	990
Bankers acceptances, trust receipts and bills payable	12,927	11,519	6,977	9,490
Revolving credits	1,063	2,878	1,063	2,878
Total	15,133	15,885	8,811	13,358

As of 30 June 2005, the Company has bank overdraft and other credit facilities totalling RM9,241,000 (RM14,543,000 in 2004) obtained from certain local banks, which bear interest at average rates ranging from 5.30% to 5.40% (5.40% to 5.50% in 2004) 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 RM6,797,000 (RM6,835,000 in 2004)
 - (ii) long leasehold land and building of the Company with carrying value of RM331,000 (RM339,000 in 2004)
- (b) An assignment of the sale and purchase agreements over other buildings of the Company
- (c) A debenture containing a floating charge over the current assets, both present and future, of the following subsidiary companies of the Company:
 - (i) Lion Petroleum Products Sdn Bhd (formerly known as Posim Petroleum Products Sdn Bhd)
 - (ii) Posim EMS Sdn Bhd (formerly known as 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 intercompany receivables but excluding intercompany receivables from LFIB Plantations Sdn Bhd (formerly known as SC Nominees Sdn Bhd) and the Company's shareholdings in LFIB Plantations Sdn Bhd (formerly known as 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 2005, certain subsidiary companies have bank overdraft and other credit facilities totalling RM29,015,000 (RM50,015,000 in 2004) obtained from certain local banks. These facilities, which bear interest at rates ranging from 3.60% to 8.00% (4.00% to 7.40% in 2004) per annum, are secured by:

- (a) Corporate guarantee by the Company to the extent of RM13,875,000 (RM13,875,000 in 2004)
- (b) Corporate guarantee by the subsidiary company, LFIB Plantations Sdn Bhd (formerly known as SC Nominees Sdn Bhd) to the extent of RM10,000,000 (RM10,000,000 in 2004)
- (c) Negative pledge on one of the subsidiary companies' assets to the extent of RM19,000,000 (RM40,000,000 in 2004)
- (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	
	2005 RM'000	2004 RM'000
Total outstanding	406	454
Less: Interest-in-suspense	(66)	(86)
Principal portion	340	368
Payable as follows:		
Within the next 12 months (Note 23)	132	126
After the next 12 months	208	242
	340	368

The interest rates implicit in these hire-purchase obligations range from 3.50% to 5.00% (5.00% to 7.50% in 2004) per annum.

26. SHARE CAPITAL

	The Group and The Company	
	2005 RM'000	2004 RM'000
Authorised:		
Ordinary shares of RM1.00 each 500,000,000 at beginning and end of year	500,000	500,000
Issued and fully paid:		
Ordinary shares of RM1.00 each		
At beginning of year:		
203,218,571 as of 1 July 2004 and 2003	203,219	203,219
Issued during the year:		
6,722,000 in 2005; Nil in 2004	6,722	-
At end of year:	209,941	203,219
209,940,571 as of 30 June 2005; 203,218,571 as of 30 June 2004		

26. SHARE CAPITAL (continued)

During the current 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 RM209,940,571, comprising 209,940,571 ordinary shares of RM1.00 each, by way of the issue of 6,722,000 new ordinary shares of RM1.00 each pursuant to the Company's ESOS as follows:

Number of Ordinary Shares of RM1.00 each	Issue Price Per Share RM
6,612,000	2.13
110,000	2.40
<hr/>	
6,722,000	
<hr/> <hr/>	

The resulting share premium of RM7,625,560 arising from the issue of shares has been credited to the share premium account.

The new shares issued ranked *pari passu* in all material respects with the then existing shares of the Company.

The ESOS implemented for the benefit of eligible executive employees and executive directors of the Group became effective on 31 May 2000 and expired 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 1.7.2004	Granted	Exercised	Lapsed	Unissued Shares as of 30.6.2005
21.6.2000	RM2.40	1,794,000	-	(110,000)	(1,684,000)	-
5.7.2004	RM2.13	-	8,877,000	(6,612,000)	(2,265,000)	-
2.12.2004	RM2.45	-	350,000	-	(350,000)	-
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		1,794,000	9,227,000	(6,722,000)	(4,299,000)	-
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

27. RESERVES

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Non-distributable reserves:				
Share premium	1,107,826	1,100,200	1,107,826	1,100,200
Translation adjustment account	(46)	(46)	-	-
Capital reserve	49,189	49,189	-	-
Capital redemption reserve	9	9	-	-
	1,156,978	1,149,352	1,107,826	1,100,200
Distributable reserve:				
Unappropriated profit	185,100	187,035	38,018	40,290
	1,342,078	1,336,387	1,145,844	1,140,490

Translation adjustment account

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

Capital reserve

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

	The Group	
	2005 RM'000	2004 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 2005 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 foreign currencies with certain foreign entities and therefore is exposed to foreign currency risk.

(ii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on bank borrowings. The interest rates for the said bank borrowings are disclosed in Note 24. The interest rates for the hire-purchase payables, which are fixed at the inception of the hire-purchase arrangements, are disclosed in Note 25.

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow risk

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

Financial Assets

The Group's principal financial assets are cash and bank balances, 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, dividend payable and bank borrowings, which are stated at their nominal values.

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

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

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

28. FINANCIAL INSTRUMENTS (continued)
Fair Value of Financial Assets and Liabilities

The carrying amounts and the estimated fair values of the Group's and the Company's financial instruments as of 30 June 2005 are as follows:

	The Group		The Company	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
2005				
Financial Assets				
Other investments				
- quoted shares	216	57	208	44
- quoted securities	34	12	34	12
Amount owing by holding company	70,000	71,554	70,000	71,554
Financial Liabilities				
Hire-purchase payables	340	322	-	-
Amount owing to subsidiary company	-	-	70,000	71,554
2004				
Financial Assets				
Other investments				
- quoted shares	217	69	209	55
- 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

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.

Non-current intercompany indebtedness

The fair value of non-current intercompany indebtedness of the Group and the Company is estimated using the discounted cashflow analysis based on current borrowing rate for similar type of borrowing arrangement.

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

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

29. CONTINGENT LIABILITIES - UNSECURED

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Corporate guarantees given to financial institutions for the granting of credit facilities to certain subsidiary companies	-	-	2,748	585
Legal claims in respect of the termination of contracts for the 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 2004) 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 2005, the Group has the following capital commitments:

	The Group	
	2005 RM'000	2004 RM'000
Approved and contracted for:		
Purchase of property, plant and equipment	8,495	12,828
Approved but not contracted for:		
Purchase of property, plant and equipment	10,084	18,809
Plantation development expenditure	15,527	16,944
	25,611	35,753
	34,106	48,581

In addition, as mentioned in Note 33 (d) and (f), the Company and its subsidiary company entered into various agreements for the acquisition and incorporation of new subsidiary companies. The proposed corporate exercises however are subject to the approval of the relevant authorities and/or the shareholders of the Company.

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
- tyres
- others

As disclosed in Note 33 (c), the Group ventured into the tyre business during the financial year by the setting up of a subsidiary company, Shandong Silverstone LuHe Rubber & Tyre Co Ltd, in the People's Republic of China.

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

The inter-segment transactions were conducted at market value.

The Group 2005	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	383,588	153,658	53,142	-	590,388
Inter-segment sales	-	-	36	(36)	-
Total revenue	<u>383,588</u>	<u>153,658</u>	<u>53,178</u>	<u>(36)</u>	<u>590,388</u>
Results					
Segment results	28,489	16,402	5,224	(25,907)	24,208
Unallocated expenses					(3,046)
Unallocated income					<u>16,660</u>
Profit from operations					37,822
Finance costs					(1,079)
Share in results of associated company	-	-	(672)	-	<u>(672)</u>
Profit before tax					36,071
Income tax expense					<u>(6,327)</u>
Profit after tax					29,744
Minority interests					<u>(764)</u>
Net profit for the year					<u><u>28,980</u></u>

(Forward)

31. SEGMENT INFORMATION (continued)

The Group 2005	Timber extraction and pulp and paper RM'000	Building materials and steel products RM'000	Tyres RM'000	Others RM'000	Eliminations RM'000	Total RM'000
Consolidated Balance Sheet						
Assets						
Segment assets	1,423,223	64,140	180,670	34,583	-	1,702,616
Investment in associated company	-	-	-	2,375	-	2,375
Unallocated corporate assets						192,852
Consolidated total assets						<u>1,897,843</u>
Liabilities						
Segment liabilities	35,361	19,056	50,617	9,262	-	114,296
Unallocated corporate liabilities						19,913
Consolidated total liabilities						<u>134,209</u>
Other Information						
Capital expenditures	36,576	309	136,118	2,727	-	175,730
Depreciation	45,687	157	-	2,210	-	48,054
Amortisation	20,920	-	-	22	-	20,942

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>

(Forward)

31. SEGMENT INFORMATION (continued)

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
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>
Other Information					
Capital expenditures	18,109	162	4,392	-	22,663
Depreciation	45,012	138	1,844	-	46,994
Amortisation	20,920	-	22	-	20,942
Impairment loss	3,448	-	-	-	3,448

Geographical Segments

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

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

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

	Revenue	
	2005 RM'000	2004 RM'000
Malaysia	472,128	598,933
People's Republic of China	-	1,340
Other countries	118,260	164,823
	<u>590,388</u>	<u>765,096</u>

(Forward)

31. SEGMENT INFORMATION (continued)

	Total assets		Capital expenditures	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Malaysia	1,717,173	1,818,872	39,612	22,663
People's Republic of China	180,670	-	136,118	-
	1,897,843	1,818,872	175,730	22,663

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

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	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Fixed deposits with licensed banks	24,061	61,300	-	-
Cash and bank balances	19,069	34,822	2,291	26,974
Bank overdrafts (Note 24)	(1,143)	(1,488)	(771)	(990)
	41,987	94,634	1,520	25,984
Less: Non cash equivalents:				
Cash at banks held under Escrow Account (Note 22)	(1,048)	(987)	(1,048)	(987)
	40,939	93,647	472	24,997

33. SIGNIFICANT CORPORATE EVENTS

- (a) On 10 December 2004, the Company acquired a wholly-owned subsidiary, Quay Class Ltd ("QCL"), a company incorporated in the British Virgin Islands for a cash consideration of USD1.00 (equivalent to approximately RM3.80).
- (b) On 11 December 2004, Lion Rubber Industries Sdn Bhd ("LRISB"), a wholly-owned subsidiary of the Company, and QCL entered into a technical know-how and services agreement with iMpression Worldwide Inc, a wholly-owned subsidiary of Silverstone Berhad ("SB"), which is in turn a wholly-owned subsidiary of Silverstone Corporation Berhad ("SCB"), for the provision of technical know-how and the use of the "Silverstone" brand name in relation to tyre manufacturing in the People's Republic of China ("PRC") ("Provision of Technical Know-how and the use of the 'Silverstone' Brand").
- (c) On 11 December 2004, LRISB entered into an agreement with Shandong LuHe Group Co Ltd to incorporate a company, Shandong Silverstone LuHe Rubber & Tyre Co Ltd ("Shandong Silverstone") in the province of Shandong, the PRC, for the purpose of operating a tyre business in the PRC, with the equity interest ratio of 75:25.

33. SIGNIFICANT CORPORATE EVENTS (continued)

LRISB contributes its share of USD30.0 million (equivalent to approximately RM114.0 million) for the 75% equity interest by way of cash injection of USD26.0 million (equivalent to approximately RM98.8 million) and the balance of USD4.0 million (equivalent to approximately RM15.2 million), will be by way of the Provision of Technical Know-how and the use of the 'Silverstone' Brand.

Shandong Silverstone has not commenced commercial production as of 30 June 2005. However, trial-run production has commenced since May 2005.

- (d) On 31 January 2005, the Company and QCL entered into a conditional sale and purchase of shares agreement with SCB to acquire the entire issued and paid-up share capital of SB comprising 203,877,500 ordinary shares of RM1.00 each including QCL assuming the net intercompany liabilities due by SCB, its subsidiary and associated companies to SB for a purchase consideration of RM225,000,000. The purchase consideration is proposed to be satisfied by a combination of RM72,610,000 via the issue and allotment of 26,500,000 new ordinary shares of RM1.00 each in the Company at an issue price of RM2.74 each and the balance of RM152,390,000 in deferred cash payments ("Proposed Acquisition").

The Proposed Acquisition is subject to the approvals of the relevant authorities and the shareholders of the Company.

- (e) On 24 February 2005, the Company proposed to implement an Executive Share Option Scheme ("ESOS") of up to 15% of the issued and paid-up share capital of the Company for the executive directors and executive employees of the Company and its subsidiary companies who meet the criteria of eligibility for participation in the ESOS as set out in the ESOS bylaws containing the rules, terms and conditions of the ESOS ("Proposed ESOS").

The Company had a previous ESOS which expired on 30 May 2005. The Proposed ESOS was approved by the shareholders of the Company on 24 August 2005 and implemented on 1 September 2005.

- (f) On 17 March 2005, the Company entered into a conditional agreement with Pemerintah Kabupaten Malinau (the Regency Government of Malinau) ("PKM") to set up a company ("Proposed Co") for the proposed development of 40,000 hectares of oil palm plantation and the construction of two crude palm oil mills in Malinau Regency, Kalimantan Timur, the Republic of Indonesia ("Proposal").

The Proposal shall be implemented via the Proposed Co with a total registered and paid-up capital of USD5.0 million (equivalent to approximately RM19.0 million) wherein the Group will hold 95% and PKM will hold 5% of the equity interest in the Proposed Co.

The Proposal is subject to the approvals of the relevant authorities in Malaysia and the Republic of Indonesia.

34. SUBSEQUENT EVENT

On 4 August 2005, Posim EMS Sdn Bhd ("Posim EMS"), a wholly-owned subsidiary company of the Company and Digital Engines Sdn Bhd ("Digital Engines") entered into an agreement wherein Digital Engines agreed to provide the relevant technology to Posim EMS to undertake the business of the provision of energy management and conservation services.

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 MASB 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 2005 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 2005

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, 2005.

Before me,

W-217
P. SETHURAMAN
COMMISSIONER FOR OATHS
Kuala Lumpur

LIST OF GROUP PROPERTIES

AS AT 30 JUNE 2005

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 (16)	1.0	6.8.1992
Lot 72 Persiaran Jubli Perak 40000 Shah Alam Selangor Darul Ehsan	Freehold	5 acres	Industrial land and building	Factory (11)	9.7	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 (20)	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 (7)	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 (7)	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 (6)	0.7	9.2.1999
B2-2-39B Jalan Pinggiran 1/3 Taman Pinggiran Putra Seksyen 1, 43300 Seri Kembangan Selangor Darul Ehsan	Leasehold 13.12.2097	678 sq feet	Building	Office (3)	0.1	16.7.2004
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 (17 - 20)	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

Address	Tenure/ Expiry Date for Leasehold	Area	Description	Existing Use/ Age of Building (Year)	Net Book Value (RM million)	Date of Acquisition
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2043	4.0 hectares	Land	Jetty	18.4	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2044	58.9 hectares	Land	Nursery site	0.1	1.1.1984
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2048	166.7 hectares	Land and building	Pulp and) paper mills) (17 - 20)		1.1.1988
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2044	47.0 hectares	Land and building	Pulp and) paper mills) (17 - 20)	395.4	1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2043	499.0 hectares	Land and building	Mills and) housing) (17 - 20)		1.1.1983
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	1.5 hectares	Land and building	Pump house (17 - 20)	0.1	1.1.1989
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	6,107 hectares	Land	Plantation	15.3	1.1.1989
Kampung Sebuoh Mukim of Sipitang Sabah	Leasehold 31.12.2087	5,860 hectares	Land	Plantation	14.7	1.1.1989
LuHe Industrial Zone Zhucheng City Shandong Province People's Republic of China	Leasehold 20.12.2054	157,049 sq metres	Land and building	Office and plant (1)	47.7	21.12.2004

ANALYSIS OF SHAREHOLDINGS

Share Capital as at 15 September 2005

Authorised Share Capital	:	RM500,000,000
Issued and Paid-up Capital	:	RM209,940,571
Class of Shares	:	Ordinary shares of RM1.00 each
Voting rights	:	One (1) vote per ordinary share

Distribution of Shareholdings as at 15 September 2005

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Less than 100	18	0.42	476	0.00
100 - 1,000	1,469	34.15	1,426,280	0.68
1,001 - 10,000	2,342	54.45	9,219,740	4.39
10,001 - 100,000	415	9.65	11,202,000	5.34
100,001 - less than 5% of issued shares	55	1.28	17,994,804	8.57
5% and above of issued shares	2	0.05	170,097,271	81.02
	4,301	100.00	209,940,571	100.00

Substantial Shareholders as at 15 September 2005

Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	% of Shares	No. of Shares	% of Shares
1. Tan Sri William H.J. Cheng	-	-	170,488,512	81.21
2. Datuk Cheng Yong Kim	-	-	170,488,512	81.21
3. Lion Realty Pte Ltd	-	-	170,488,512	81.21
4. Lion Development (Penang) Sdn Bhd	-	-	170,097,271	81.02
5. Horizon Towers Sdn Bhd	-	-	170,097,271	81.02
6. Lion Corporation Berhad	-	-	170,097,271	81.02
7. Lion Industries Corporation Berhad	47,627,236	22.69	122,470,035	58.34
8. Amsteel Mills Sdn Bhd	122,470,035	58.34	-	-
9. LLB Steel Industries Sdn Bhd	-	-	122,470,035	58.34
10. Steelcorp Sdn Bhd	-	-	122,470,035	58.34
11. Lion Diversified Holdings Berhad	-	-	170,097,271	81.02
12. LDH (S) Pte Ltd	-	-	170,097,271	81.02
13. LLB Nominees Sdn Bhd	-	-	58,323,730	27.78

Thirty Largest Registered Shareholders as at 15 September 2005

Registered Shareholders	No. of Shares	% of Shares
1. AMMB Nominees (Tempatan) Sdn Bhd AmTrustee Berhad for Amsteel Mills Sdn Bhd (7/974-1)	122,470,035	58.34
2. RHB Merchant Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lion Industries Corporation Berhad	47,627,236	22.69
3. Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Balanced Returns Fund (N14011980060)	1,709,400	0.81
4. Amsteel Equity Capital Sdn Bhd	1,680,800	0.80
5. HDM Nominees (Asing) Sdn Bhd Pledged Securities Account for Heng Ting Meng (M02)	1,338,000	0.64
6. Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Hidden Treasures Fund (240218)	1,286,000	0.61
7. HSBC Nominees (Asing) Sdn Bhd Kosipetto Management Limited	1,000,000	0.48
8. Employees Provident Fund Board	868,900	0.41
9. Chua Ching Geh	818,000	0.39
10. HLG Nominee (Tempatan) Sdn Bhd Pledged Securities Account for Kok Kim Swee	606,000	0.29
11. ECM Libra Securities Nominees (Tempatan) Sdn Bhd Choy Wee Chiap (PCS)	500,000	0.24
12. RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Susy Ding (CEB)	445,000	0.21
13. Quah Say Beng	427,100	0.20
14. Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Susy Ding (471873)	366,100	0.17
15. Ong Sai Hoon	289,800	0.14
16. Yeoh Ah Tu	275,000	0.13
17. Lau Jit Weng	268,000	0.13
18. HDM Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd for Lim Boey Tee @ Lim Ah Bah	260,000	0.12
19. CIMSEC Nominees (Tempatan) Sdn Bhd CIMB for Mohamed Tamrin Bin Munir (PB Retail Banking)	253,000	0.12
20. Ng Teng Song	245,600	0.12
21. Low Sai Kian	245,000	0.12
22. Affin Nominees (Tempatan) Sdn Bhd Lion Group Medical Assistance Fund	237,000	0.11
23. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Panoron Sdn Bhd (41403980012B)	228,204	0.11
24. HDM Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd for Kor Chui Chui	224,000	0.11
25. Na Chiang Seng	196,000	0.09
26. Ting Siew Pin	184,600	0.09
27. HSBC Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Boon Siong	175,000	0.08
28. Tan Lee Hwa	175,000	0.08
29. RHB Nominees (Asing) Sdn Bhd Kripalson International Ltd	171,000	0.08
30. Mayban Securities Nominees (Tempatan) Sdn Bhd Malayan Banking Berhad for Happyvest (M) Sdn Bhd (3GC Loan)	163,000	0.08

Directors' Interests in Shares in the Company and its Related Companies as at 15 September 2005

The Directors' interests in shares in the Company and its related companies as at 15 September 2005 are as follows:

	Nominal Value Per Ordinary Share	Direct Interest		Indirect Interest	
		No. of Shares	% of Shares	No. of Shares	% of Shares
The Company					
Dato' Mohamad bin Haji Ahmad	RM1.00	12,000	0.01	-	-
Tan Sri William H.J. Cheng	RM1.00	-	-	170,488,512	81.21
Related Companies					
Dato' Mohamad bin Haji Ahmad					
Lion Industries Corporation Berhad	RM1.00	3,276	*	-	-
Tan Sri William H.J. Cheng					
Lion Industries Corporation Berhad	RM1.00	-	-	323,938,625	46.47
LLB Enterprise Sdn Bhd	RM1.00	-	-	690,000	69.00
LLB Strategic Holdings Berhad	RM1.00	-	-	4,050,000	90.00
Marvenel Sdn Bhd	RM1.00	-	-	100	100.00
Ototek Sdn Bhd	RM1.00	-	-	1,050,000	70.00
Posim EMS Sdn Bhd	RM1.00	-	-	800,000	80.00
Sabah Forest Industries Sdn Bhd					
- ordinary shares Class 'A'	RM1.00	-	-	752,532,412) 97.78
- ordinary shares Class 'B'	RM0.10	-	-	7,525,324,120	
Soga Sdn Bhd	RM1.00	-	-	4,332,078	93.93
Steelcorp Sdn Bhd	RM1.00	-	-	99,750	99.75
Holdsworth Investment Pte Ltd	SGD1.00	-	-	4,500,000	100.00
Zhongsin Biotech Pte Ltd	SGD1.00	-	-	1,000,000	100.00
Deferred Shares					
		Nominal Value Per Deferred Share		Indirect Interest No. of Shares	% of Shares
Sabah Forest Industries Sdn Bhd		RM1.00		146,000,000	100
Investments in the People's Republic of China					
				Indirect Interest USD	%
Beijing Trostel Property Development Co Ltd				6,650,000	95.00
Hebei Weiyuan Heilen Bio-Chemical Co Ltd				2,313,982	33.00
Shandong Silverstone LuHe Rubber & Tyre Co Ltd				30,000,000	75.00
Shanghai Lion Plastic Industrial Co Ltd				3,690,000	68.00
Tianjin Baden Real Estate Development Co Ltd				5,000,000	95.00
Tianjin Hua Shi Auto Meter Co Ltd (Under liquidation)				10,878,944	56.00

Note:

* Negligible.

MATERIAL CONTRACTS

INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

1. Letter of Offer dated 11 December 2003 between the Company and Lion Industries Corporation Berhad ("LICB"), the holding company of the 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 among 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.
2. Conditional Sale and Purchase of Shares Agreement dated 31 January 2005 and the Supplemental Agreement dated 19 April 2005 among Quay Class Ltd ("QCL"), a wholly-owned subsidiary of the Company ("LFIB"), LFIB and Silverstone Corporation Berhad ("SCB"), all of which are companies wherein a Director and certain major shareholders of the Company have an interest, for the disposal by SCB of the entire equity interest in Silverstone Berhad ("SB") comprising 203,877,500 ordinary shares of RM1.00 each to QCL, including the assumption by QCL of the net inter-company balances owing by SCB, its subsidiaries and associated companies to SB as at the completion date, for a total consideration of RM225,000,000.00 to be satisfied by the issuance of 26,500,000 new ordinary shares of RM1.00 each in LFIB to SCB at an issue price of RM2.74 per share and the balance of RM152,390,000.00 to be settled by way of deferred cash payments by QCL in the following manner:
 - (a) RM20,000,000.00 on or before 15 December 2006;
 - (b) RM35,000,000.00 on or before 15 December 2007;
 - (c) RM35,000,000.00 on or before 15 December 2008; and
 - (d) RM62,390,000.00 on or before 15 December 2009.

OTHER INFORMATION

NON-AUDIT FEES

The amount of non-audit fees paid or payable to external auditors for the financial year was RM184,000.

OPTIONS EXERCISED DURING THE FINANCIAL YEAR

During the financial year ended 30 June 2005, a total of 6,722,000 options were exercised by the eligible employees who are executive employees of the Company at an exercise price of RM2.40 or RM2.13 per share pursuant to the Executive Share Option Scheme of the Company. Details of the options exercised are disclosed in Note 26 to the Financial Statements.

RECURRENT RELATED PARTY TRANSACTIONS

The aggregate value of transactions conducted during the financial year ended 30 June 2005 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)	169
(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)	142
	Amsteel Group ^(c)	202
	LCB Group ^(b)	337
		681
(iii) The provision of storage, leasing and rental of properties to SFI	Amsteel Group ^(c)	13
(iv) The provision of transportation services to SFI	LICB Group ^(a)	604
(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)	19,938
(ii) The sale of steels bars, wire rods, scrap iron, hot rolled coils, billets and other related steel and building materials	LDHB Group ^(b)	1,405
(iii) The sale of lubricants, spark plugs, tools and other automotive and petroleum products	Amsteel Group ^(c)	71
	LICB Group ^(a)	2,726
	LCB Group ^(b)	2,232
	SCB Group ^(c)	541
	ACB Group ^(c)	359
	LDHB Group ^(b)	4
	SHSB Group ^(c)	98
		6,031
(iv) The sale of consumer products	Amsteel Group ^(c)	90

Nature of Recurrent Transactions	Related Parties	Amount RM'000
(c) Others		
(i) The provision of staff training and development, corporate office support and secretarial services to LFIB and subsidiary companies	LCB Group ^(b) SCB Group ^(c)	41 36 <hr/> 77
(ii) The provision of security services and security communication equipment to LFIB and subsidiary companies	Amsteel Group ^(c)	<hr/> 10
(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) SCB Group ^(c)	235 27 <hr/> 262
(iv) The purchase of office furniture and other equipment	LCB Group ^(b)	<hr/> 142

Notes:

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

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-Third Annual General Meeting of the Company to be held at the Meeting Hall, Level 48, Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur on 14 November 2005 at 9.15 am and at any adjournment thereof.

RESOLUTIONS	FOR	AGAINST
1. To receive and adopt the Directors' Report and Audited Financial Statements		
2. To approve a final dividend		
3. To approve Directors' fees		
4. To re-elect as Director, Mr Ngan Yow Chong		
5. To re-elect as Director, Y. Bhg. Dato' Dali Mahmud Hashim		
6. To re-appoint as Director, Y. Bhg. Jen (B) Tan Sri Dato' Zain Mahmud Hashim		
7. To re-appoint Auditors		
8. Authority to Directors to issue shares		
9. Proposed Shareholders' Mandate for Recurrent Related Party Transactions		

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

As witness my/our hand this day of 2005

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.



