

CHAIRMAN'S STATEMENT



On behalf of the Board of Directors, I am pleased to present the Annual Report of the Group for the year ended 31 January 2005.

INDUSTRY OVERVIEW

The steel industry worldwide witnessed a phenomenon never seen in history. The unprecedented demand for steel from China coupled with the booming economies of East Asia created shortages of steel products internationally. This pushed the price of the commodity spiralling into uncharted territories, with the price of Hot Rolled Coils ("HRC") which is the feedstock for flat steel producers hitting new peaks throughout the year. The scheduled shutdowns of some HRC mills in Japan and Korea for maintenance during the year made matters worse.

Similarly, on the local front, the price of both local and imported HRC went up substantially. Fortunately, the demand for steel products was good during the first half of the year, thereby preserving healthy margins for the steel producers. The third quarter, however, saw a gradual slowdown in the construction sector which, traditionally, is a major consumer of steel products. This slowdown in demand for long and flat steel products continued into the fourth quarter as the local construction industry contracted further.

Despite the turn of events, the Group achieved a remarkable performance and registered a strong revenue and profit for the year.

FINANCIAL RESULTS

For the year under review, the Group achieved significant increase of almost 30% in total revenue to RM 598.7 million (2004 : RM 462.3 million).

In terms of earnings, the Group registered a pre-tax profit of RM 72.7 million, compared to the preceding year's pre-tax profit of RM 80.6 million which included a one-time extraordinary gain of RM 25.3 million arising from the disposal of an investment in a steel centre in 2003. After discounting this extraordinary item, the pre-tax profit for the year was a commendable increase of 31.5% over the previous year.



CHAIRMAN'S STATEMENT

(continued)



REVIEW OF OPERATIONS

Steel Tube Division

The steel tube division maintained its good performance with a total revenue of RM 289.4 million which represented a 35.4% increase (2004 : RM 213.7 million). The increase in sales volume and higher sales price contributed to this achievement.

Of the total revenue recorded, 50% of the sales was to the construction sector with the balance attributed to the furniture, automobile, electrical and water sectors. In terms of revenue and tonnage, the steel tube division maintained its position as the industry leader with a market share of 20% of steel tube sales in Malaysia.

Although the profit margins eased in the fourth quarter due to lower demand and stiffer competition, the steel tube division managed to register a healthy profit before tax of RM 29.3 million (2004 : RM 21.1 million).

Cold Rolled Coils ("CRC") Steel Sheet Division

The CRC division recorded a total revenue of RM 357.2 million for the year which represented an increase of 32.5% (2004 : RM 269.6 million). In terms of profit contribution, the profit before tax of this division increased to RM 35.6 million an increase of 8.9% (2004 : RM 32.7 million).

This strong growth in sales was boosted by the high steel prices and sustained demand from steel centres and drum manufacturers for its CRC products which are well-known in the market for its high quality. Operating at almost maximum capacity, the division is embarking on a plant upgrade and capacity expansion programme with a scheduled completion by mid 2007. The plant upgrade will further improve product quality and allow the division to tap into the higher quality and less competitive segments of the CRC market.

Steel Bar Division

The steel bar division recorded an increase in sales revenue to RM 41.4 million (2004 : RM 26.6 million), due primarily to higher steel prices. Due to a correspondent higher cost of sales, it registered a profit before tax of RM 1.79 million (2004 : RM 1.74 million).

To arrest the problem of shortage of steel billets for its rolling mill and to lower its production costs, the division has commissioned the construction of a smelter and billet-making facility. Under the plan, the division will recycle all the steel scrap produced in the Group by smelting and casting them into billets. The billets will then be used as feedstock for the rolling mill. With this added competitive edge of lower production cost, the division will be poised to achieve better margins in the future. The smelter and billet-making facility is expected to be completed by the end of 2005.

STEEL DIVISION BUSINESS OUTLOOK

Although the construction sector is expected to remain weak based on the economic forecast by Bank Negara, we believe that the impact to the Group will be restricted to the steel tube division only. Whilst the steel bar division will also be affected by a slowdown in the construction sector, its contribution to the Group is currently small and any adverse variation in its results will not have a material impact on the Group's performance.

The Government has recently announced a RM 2.4 billion expenditure programme to spur the construction sector. Should this and the much awaited water renewal and privatisation projects be implemented in the near future, it will augur well for the steel industry and the Group.

The CRC division is, on the other hand, expected to maintain its performance as it operates in an environment where the local CRC demand still exceeds supply. The niche market the division presently caters to will assure the division of continued good sales because of the superior quality of its products. Its impending plant upgrade and expansion programme will further consolidate its position as the leading producer of high quality CRC.



CHAIRMAN'S STATEMENT

(continued)



CORPORATE DEVELOPMENT

Listing of CRC Division

The CRC division was successfully listed on the main board of Bursa Malaysia Securities Berhad ("Bursa Securities") on 21 June 2004 under the name of Mycron Steel Berhad ("MSB").

Capital Distribution

In conjunction with the listing of MSB, the Group distributed 40,243,434 MSB ordinary shares to its shareholders on the basis of one (1) MSB share for every four (4) shares held in June 2004.

Acquisition of Equity Interest in Gindalbie Gold NL

The Group had, on 12 August 2004, pursuant to a share placement offer, subscribed for 27 million ordinary shares representing 12.84% of the enlarged issued and paid-up share capital of Gindalbie Gold NL, Australia ("GBG") for a cash consideration of AUD3,375,000 (equivalent to RM 9.15 million). As a 12.84% shareholder, the group is the single largest shareholder of GBG.

GBG, which has since been renamed Gindalbie Metals Ltd is listed on the Australian Stock Exchange (ASX). GBG is a mining company based in Western Australia with exploratory and mining rights over significant deposits of iron ore, tungsten, gold and other minerals in its tenements. GBG has announced that it plans to produce 2 million tonnes per annum of iron ore for export, and with the recent 72% increase in iron ore, places GBG in an excellent position to tap into the booming steel industry's success.

Acquisition of Equity Interest in Trenergy (Malaysia) Berhad

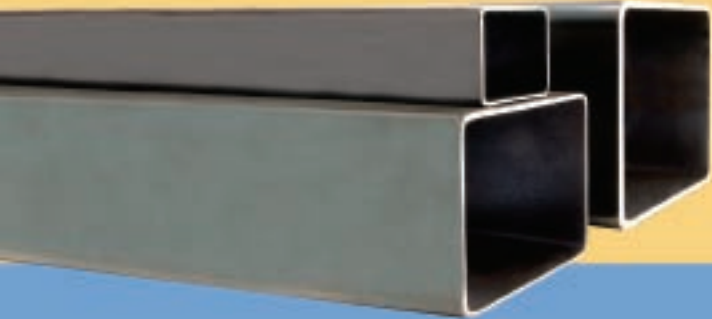
The Group had, on 17 January 2005, acquired 12 million ordinary shares in Trenergy (Malaysia) Berhad ("Trenergy") representing approximately 16.03% of the issued and paid-up share capital of Trenergy for a cash consideration of RM38.4 million.

Trenergy is listed on Bursa Securities and its core business is the Oil and Gas industry, particularly focused on provision and operations of FPSO (floating, production, storage and offtake) facilities for Petronas, Oil and Gas Engineering Services, Barite production and shipping.

Issue of Warrants

The Company had, on 5 October 2004 announced on Bursa Securities that it proposed to implement a renounceable rights issue of up to 33,332,400 warrants on the basis of one (1) warrant for every five (5) existing shares held at an issue price of RM 0.20 each. All relevant approvals have been obtained and the exercise is expected to be completed by June 2005.





CHAIRMAN'S STATEMENT

(continued)

DIVIDEND

The Board of Directors of the Company had, on 24 March 2005 recommended a first and final dividend of 13% less 28% tax in respect of financial year ended 31 January 2005. This is subject to shareholders' approval at the forthcoming Annual General Meeting to be held on 30 June 2005. If approved, the final dividend will be paid on 25 July 2005.

As mentioned previously in the last Annual Report, it is the goal and conviction of the Board of Directors to work towards enhancing shareholder wealth and to achieve this, a dividend policy was formulated. Under the policy, the Group will maintain a dividend payout ratio of at least 50% of the net profit after tax from its operations. In addition, the Group also targets to pay out 50% of all dividends received from its listed subsidiaries or associates.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I wish to convey my utmost gratitude to all our shareholders, customers, suppliers and business partners for their support. I also wish to thank all our staff and members of the management team, for their hard work, loyalty and dedication.

**TUNKU TAN SRI ABDULLAH
IBNI ALMARHUM TUANKU ABDUL RAHMAN**
CHAIRMAN





GROUP FINANCIAL HIGHLIGHTS

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1 Result of Operations										
Revenue (RM mil)	451.6	433.2	461.5	300.9	366.6	378.3	352.3	390.8	462.3	598.7
Profit Before Tax (RM mil)	58.0	56.0	55.4	7.0	72.3	67.9	42.8	77.5	80.6	72.7
Profit After Tax (RM mil)	45.7	44.8	45.0	7.9	62.3	59.5	53.9	56.6	64.4	46.5*
2 Balance Sheet										
Share Capital (RM mil)	78.9	79.0	79.0	79.0	79.0	79.0	79.0	158.1	158.3	161.0
Bonus Shares (RM mil)	0	0	0	0	0	0	0	79.0	0	0
Shareholders' Funds (RM mil)	311.6	350.1	388.4	389.4	436.8	584.4	623.6	630.3	359.1	351.4
Total Assets (RM mil)	428.9	411.8	476.3	413.2	471.0	597.2	658.0	685.5	484.8	621.2
3 Financial Ratio										
Return on Equity	14.7%	12.8%	11.6%	2.0%	14.3%	10.2%	8.7%	9.0%	17.9%	13.3%
Debts / Equity (Times)	0.37	0.17	0.22	0.05	0.07	0.01	0.05	0.05	0.29	0.38
Current Assets / Current Liabilities (Times)	1.91	3.18	3.01	9.57	9.15	37.34	12.00	12.56	2.20	2.41
Pre-Tax Profit / Average Shareholders' Fund	19.9%	16.9%	15.0%	1.8%	17.5%	13.3%	7.1%	12.4%	16.3%	20.5%
Pre-Tax Profit / Revenue	12.9%	12.9%	12.0%	2.3%	19.7%	18.0%	12.2%	19.8%	17.4%	12.1%
4 Per Share										
Net Tangible Asset per share (RM)	3.95	4.43	4.19	4.93	5.53	7.39	7.89	3.99	2.27	2.19
Gross Earnings per share (sen)	73.5	70.8	70.0	8.9	91.5	85.9	54.2	49.0	50.9	45.3
Net Earnings per share (sen)	57.9	56.7	56.9	10.0	78.8	75.3	68.2	35.8	40.7	29.0
5 Dividends										
Tax Exempt Dividend (sen)	-	-	-	-	10.0	10.0	20.0	10.0	80.0	-
Ordinary Dividend (sen)	12.0	12.0	12.0	12.0	12.0	12.0	-	-	180.0	13.0

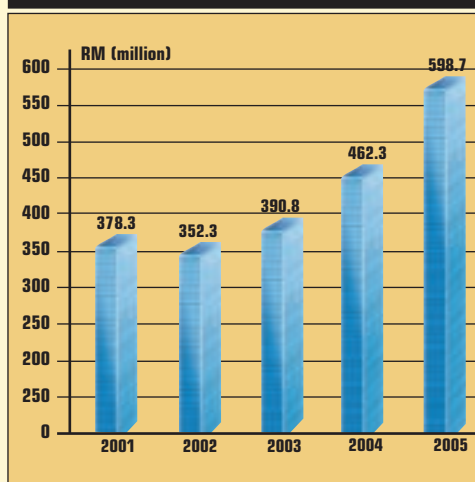
* Note : Profit After Tax and After Minority Interest



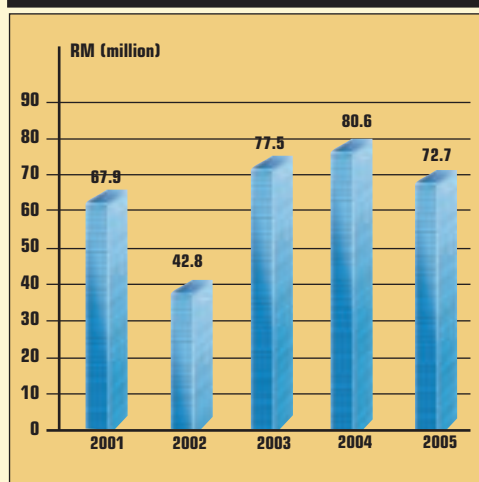
GROUP FINANCIAL

HIGHLIGHTS (continued)

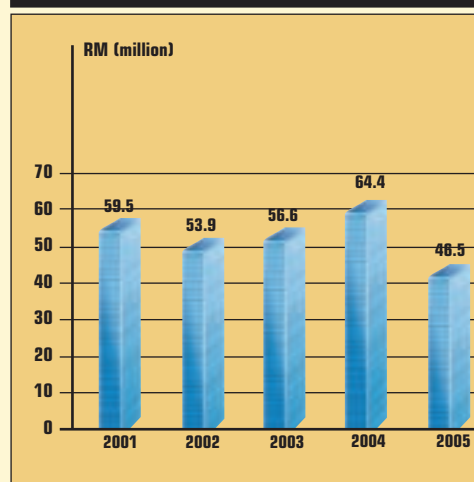
REVENUE



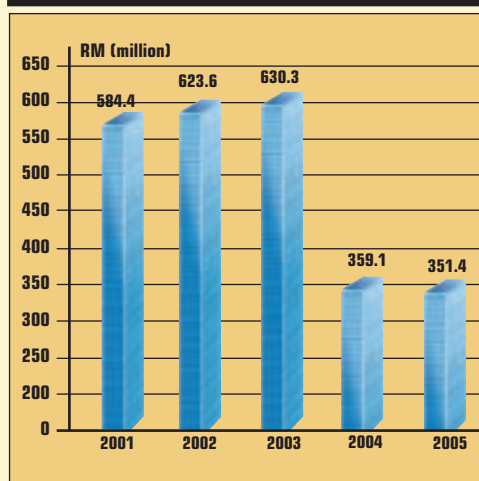
PROFIT BEFORE TAX



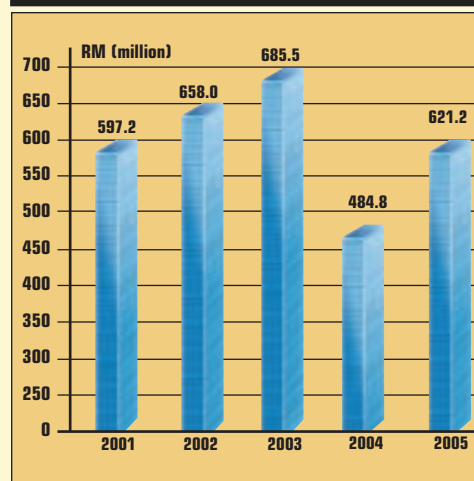
PROFIT AFTER TAX



SHAREHOLDERS' FUNDS



TOTAL ASSETS





ANALYSIS OF SHAREHOLDINGS

AS AT 29 APRIL 2005

Authorised Share Capital	-	RM500,000,000
Issued and Paid-up Capital	-	RM160,987,800
Class of Shares	-	Ordinary Shares of RM1 each
Voting Rights	-	1 Vote Per Ordinary Share
No. of Shareholders	-	7,733

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Capital
Less than 100	34	0.44	1,256	0.00
100 – 1,000	2,020	26.12	1,868,086	1.16
1,001 – 10,000	4,779	61.80	19,490,512	12.11
10,001 – 100,000	817	10.57	21,338,618	13.25
100,001 and below 5% of issued shares	80	1.03	50,266,528	31.22
5% and above of issued shares	3	0.04	68,022,800	42.25
Total	7,733	100.00	160,987,800	100.00

Thirty Largest Shareholders As at 29 April 2005

Name	Ordinary Shares of RM1/- each	(#) % of Issued Capital
1. HDM Nominees (Tempatan) Sdn Bhd Beneficiary : UOB Kay Hian Pte Ltd for Melewar Equities (BVI) Ltd	37,354,000	23.29
2. Employees Provident Fund Board	22,468,800	14.01
3. HDM Nominees (Asing) Sdn Bhd Beneficiary : UOB Kay Hian Pte Ltd for Ovington Finance Limited	8,200,000	5.11
4. Malaysian Assurance Alliance Berhad	7,896,000	4.92
5. HDM Nominees (Tempatan) Sdn Bhd Beneficiary : UOB Kay Hian Pte Ltd for Melewar Equities Sdn Bhd	4,750,000	2.96
6. HSBC Nominees (Tempatan) Sdn Bhd Beneficiary : Pledged securities account for Koon Yew Yin	4,069,800	2.54
7. M & A Nominee (Asing) Sdn Bhd Beneficiary : UOB Kay Hian Private Limited for Ace Financial Services Inc	2,893,900	1.80
8. Permodalan Nasional Berhad	2,650,000	1.65
9. TA Nominees (Tempatan) Sdn Bhd Beneficiary : Pledged securities account for Kidstone Sdn Bhd	2,431,200	1.52
10. Erasetia Synergy Sdn Bhd	2,422,300	1.51
11. HSBC Nominees (Asing) Sdn Bhd Beneficiary : RTCC London for Melewar Equities (BVI) Limited	2,300,000	1.43



ANALYSIS OF SHAREHOLDINGS

AS AT 29 APRIL 2005 (continued)

Thirty Largest Shareholders As at 29 April 2005

Name	Ordinary Shares of RM1/- each	(#) % of Issued Capital
12. TA Nominees (Tempatan) Sdn Bhd Beneficiary : Pledged securities account for Tan Kit Pheng	1,428,500	0.89
13. Yeoh Kean Hua	1,265,000	0.79
14. TA Nominees (Tempatan) Sdn Bhd Beneficiary : Pledged securities account for Koon Yew Yin	918,600	0.57
15. Bumiputra-Commerce Trustee Berhad	850,000	0.53
16. Kumpulan Wang Amanah Pencen	707,500	0.44
17. HSBC Nominees (Tempatan) Sdn Bhd Beneficiary : Pledged securities account for Tan Kit Pheng	613,500	0.38
18. Palani Appan Subramanian	526,000	0.33
19. Public Nominees (Tempatan) Sdn Bhd Beneficiary : Pledged securities account for Zet Enterprise Sdn Bhd	505,000	0.31
20. Lee Hau Hian	483,500	0.30
21. Citicorp Nominees (Asing) Sdn Bhd Beneficiary : CBNY for DFA Emerging Markets Fund	479,000	0.30
22. Yap Siew Chin	477,400	0.30
23. Lee Hau Hian	476,500	0.30
24. HSBC Nominees (Tempatan) Sdn Bhd Beneficiary : HSBC (Malaysia) Trustee Berhad for Amanah Saham Sarawak	464,000	0.29
25. Eng Nominees (Asing) Sdn Bhd Beneficiary : Kim Eng Securities Pte Ltd for Hexacon Construction Pte Ltd	440,800	0.27
26. Daiman bin Jamaluddin	420,000	0.26
27. Araneum Sdn Bhd	361,500	0.23
28. Wong Yoon Chyuan	340,000	0.21
29. Nik Hatmah binti Nik Hassan	327,998	0.20
30. HDM Nominees (Tempatan) Sdn Bhd Beneficiary : Pledged securities account for Jiantilal Jethalal a/l Jethalal Valji	322,800	0.20
TOTAL	108,843,598	67.86

Note :-

(#) The % of the Thirty Largest Shareholders is calculated on the total issued and paid-up capital of the Company excluding a total of 591,700 Melewar Industrial Group Berhad shares bought back by the Company and retained as treasury shares as at 29 April 2005.





ANALYSIS OF SHAREHOLDINGS

AS AT 29 APRIL 2005 (continued)

List of Substantial Shareholders As at 29 April 2005

Name	Number of Shares Held			
	Direct	% ⁽¹⁾	Indirect	% ⁽¹⁾
Tunku Tan Sri Abdullah ibni Almarhum Tuanku Abdul Rahman	-	-	52,500,000	32.73 ^(a)
Tunku Dato' Ya'acob bin Tunku Abdullah	200,000	0.12	52,300,000	32.61 ^(b)
Tunku Dato' Seri Iskandar bin Tunku Abdullah	-	-	52,500,000	32.73 ^(a)
Tunku Yahaya @ Yahya bin Tunku Abdullah	-	-	52,500,000	32.73 ^(a)
Iternum Melewar Sdn Bhd	-	-	52,300,000	32.61 ^(c)
Melewar Equities (BVI) Ltd	39,654,000	24.72	7,896,000	4.92 ^(d)
Employees Provident Fund Board	22,469,000	14.01	-	-
Ovington Finance Limited	8,200,000	5.11	-	-

Directors' Shareholdings As at 29 April 2005

Name	Number of Shares Held			
	Direct	% ⁽¹⁾	Indirect	% ⁽¹⁾
Tunku Tan Sri Abdullah ibni Almarhum Tuanku Abdul Rahman	-	-	52,500,000	32.73 ^(a)
Tunku Dato' Ya'acob bin Tunku Abdullah	200,000	0.12	52,300,000	32.61 ^(b)
Tunku Dato' Seri Iskandar bin Tunku Abdullah	-	-	52,500,000	32.73 ^(a)
Tunku Yahaya @ Yahya bin Tunku Abdullah	-	-	52,500,000	32.73 ^(a)
Lim Kim Chuan	140,000	0.09	-	-
Azlan bin Abdullah	100,000	0.06	-	-

Notes :-

⁽¹⁾ The percentages of the substantial shareholdings are calculated by dividing the shares held by the respective substantial shareholders with the total number of ordinary shares in issue, excluding 591,700 treasury shares held by the Company.

^(a) Deemed interested through Tunku Dato' Ya'acob bin Tunku Abdullah who is the ultimate substantial shareholder of Melewar Equities (BVI) Ltd, Melewar Equities Sdn Bhd and Malaysian Assurance Alliance Berhad. Melewar Equities (BVI) Ltd, Melewar Equities Sdn Bhd, Malaysian Assurance Alliance Berhad and Tunku Dato' Ya'acob bin Tunku Abdullah holds 24.72%, 2.96%, 4.92% and 0.12% respectively in the Company.

^(b) Deemed interested through Melewar Equities (BVI) Ltd, Melewar Equities Sdn Bhd and Malaysian Assurance Alliance Berhad by virtue of Section 6A(4) and Section 122A(1)(b) of the Companies Act: 1965. Melewar Equities Sdn Bhd holds 2.96% in the Company and Malaysian Assurance Alliance Berhad holds 4.92% in the Company and the balance of 24.72% is held by Melewar Equities (BVI) Ltd.

^(c) Deemed interested by virtue of its holding of 35,109,460 shares representing 64.3% of the issued and paid-up share capital of Melewar Equities Sdn Bhd.

^(d) Deemed interested by virtue of its substantial interests in Malaysian Assurance Alliance Berhad.



STATEMENT ON CORPORATE GOVERNANCE

With the growing emphasis on good corporate governance to be adhered to by companies, the Board of Directors (“the Board”) of Melewar Industrial Group Berhad has taken positive steps to ensure that the Company and its subsidiaries maintain a high standard of corporate governance. The Board recognizes the importance of discharging its responsibilities effectively to protect and enhance shareholders’ value and the financial performance of the Group.

The Board considers that the Company has fully complied with Part 1 and Part 2 of the Malaysian Code on Corporate Governance (“the Code”). This Statement, together with other statements, such as the Statement on Internal Control, sets out the manner in which the Corporate Governance framework has been applied.

BOARD OF DIRECTORS

a) Board Responsibilities

The Board is aware of its responsibility to ensure that all decisions to be made by the Group should take into consideration the effects on the shareholders including minority shareholders. The Board also acknowledges that it is the duty of the Board of Directors to act in the best interest of the Group and the Company at all times.

The Board has full control of the management of the Group and is overall responsible for the strategies and directions, shareholders and investors’ relationship, annual budget, major capital expenditure, significant financial matters and the adequacy and integrity of internal controls including risk assessment.

The Board has delegated specific responsibilities to 4 sub-committees namely Audit, Nomination, Remuneration and Risk Management Committees. These Committees have the authority to examine particular issues and will report to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, rests with the entire Board.

b) Board Balance and Composition

The Board currently has 11 members comprising of the following :-

- 1 non-independent non-executive Chairman
- 1 Managing Director / Chief Executive Officer
- 2 Executive Directors
- 2 non-independent non-executive directors
- 5 independent non-executive directors

Premised on the above Board balance, the Board has complied with Paragraph 15.02 of the Listing Requirements to have at least one-third (1/3) of the Board comprising independent directors. The composition of the Board reflects a balance of Executive, Non-Executive and Independent Directors with a wide range of technical skills in steel industry, business, financial and legal experience. All Board members participate and deliberate on the issues and matters affecting the Group. The profiles of the Directors which are set out on Page 22 to 27 illustrate an impressive spectrum of experiences vital to the direction and management of the Company.

There is a clear division of responsibilities between the Chairman and the Managing Director / Chief Executive Officer to ensure that there is a balance of power and authority. The Chairman is primarily responsible for the working of the Board, its membership and participation of the members at Board Meetings. The Managing Director / Chief Executive Officer is responsible for the making and execution of strategic goals, effective operation within the Group, to explain, clarify and inform the Board on matters pertaining to the Group.

The Executive Directors are responsible for implementing the policies and decisions of the Board, overseeing the daily operations and business development of the Group. The Non-Independent Non-Executive Directors are independent of management and are free from any business relationship which could materially interfere with the exercise of their judgement. Together with the Independent Non-Executive Directors, they provide the support to complement the skills and experience of the Executive Directors. The Independent Non-Executive Directors also offer the unbiased independent view, advise and judgement in the best interest, not only for the Group but also of shareholders, employees and communities in which the Group conducts its business.



c) Board Meetings

The Board meets at least four (4) times a year, with additional meetings convened as necessary, to review Management Reports on the progress of business operations and minutes of meetings of the various Board Committees and to consider and if deemed fit approve proposals that require the sanction of the Board.

Senior Management staff may be invited to attend Board Meetings to provide the Board with their views and explanations on certain agenda items tabled to the Board and to furnish their clarification on issues that may be raised by the Board.

During the financial year ended 31 January 2005, 4 meetings were held. The following is the record of attendance of the Directors :-

Executive Directors		Total
1. Tunku Dato' Ya'acob bin Tunku Abdullah		4/4
2. Lim Kim Chuan		4/4
3. Azlan bin Abdullah		4/4
Non-Independent Non-Executive Directors		Total
1. Tunku Tan Sri Abdullah ibni Almarhum Tuanku Abdul Rahman		4/4
2. Tunku Dato' Seri Iskandar bin Tunku Abdullah		4/4
3. Tunku Yahaya @ Yahya bin Tunku Abdullah		4/4
Independent Non-Executive Directors		Total
1. Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah (Appointed w.e.f. 03.05.2005)		Not Applicable
2. Dato' Jaffar bin Ahmad Indot		3/4
3. Terence Francis Mahony		3/4
4. Lee Ching Kion		4/4
5. Tengku Ahmad Fuad bin Tengku Burhanuddin		4/4
6. Muk Sai Tat (Resigned w.e.f. 06.02.2004)		Not Applicable

d) Supply of Information

The Board Members are given board papers with appropriate support documentation in a timely manner prior to each Board Meeting to enable them to function effectively and allow Directors to discharge their responsibilities accordingly. These include, a periodic financial and operational report, proposals for capital expenditure and proposals for investment.

The Directors are regularly updated by the Company Secretary on new statutory as well as regulatory requirements relating to the duties and responsibilities of Directors. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed. In addition, the Directors may obtain independent professional advice at the Company's expense, where necessary, in the furtherance of their duties.

The proceedings and resolutions reached at each Board Meeting are recorded in the minutes of the meetings, which are kept in the Minute Book at the registered office. Besides Board Meetings, the Board also exercises control on matters that require Board's approval through circulation of Directors' Resolutions.



e) Appointments to the Board

The Board had set up a Nomination Committee whose main responsibility is to recommend board appointments and to assess directors on an on-going basis.

The members of the Nomination Committee currently comprises of the following members :-

- (i) Mr Lee Ching Kion (Chairman);
- (ii) Tunku Yahaya @ Yahya bin Tunku Abdullah; and
- (iii) Tengku Ahmad Fuad bin Tengku Ahmad Burhanuddin

The principal duties and functions of the Nomination Committee based on a Terms of Reference approved by the Board, are to recommend technically competent persons of integrity with a strong sense of professionalism, assisting the Board in assessing its overall effectiveness as well as to review the performance of members of the Board, the Chief Executive Officer and Members of Board Committees as a whole and the contribution of each individual Director.

The Nomination Committee has also recommended the appointment of Dato' Jaffar bin Ahmad Indot as the Senior Independent Director to whom all concerns may be conveyed and which was endorsed by the Board.

f) Re-election

Every Director is required by the Company's Articles of Association to retire from office once at least every three years except for those who retire every year in accordance with Section 129 of the Companies Act, 1965 and to seek re-election by the shareholders at the Annual General Meeting.

Any Director appointed by the Board during the year to fill as a casual vacancy or as an addition shall hold office only until the next Annual General Meeting but shall also be eligible for re-election.

g) Directors' Training

All Directors have also attended the Mandatory Accreditation Programme ("MAP") within the period stipulated. Members of the Board continue to attend seminars, various training programmes accredited by Bursa Malaysia Securities Berhad ("Bursa Securities"), conferences and various other training programmes to keep abreast with developments in the regulations and statutes in the relevant industry and to further enhance their skill and knowledge.

h) Directors' Remuneration

The Company has adopted the principle recommended in the Code whereby the level of remuneration of the Directors is sufficient to attract and retain the Directors needed to manage the Group successfully.

The Board had also set up a Remuneration Committee whose main responsibility is to determine and recommend to the Board the framework or broad policy for the remuneration of the Directors, Chief Executive Officer and other senior management members of the staff.

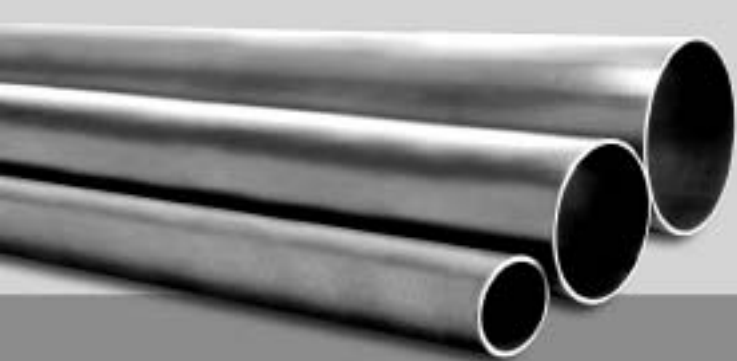
The members of the Remuneration Committee comprises of the following members :-

- (i) Mr Lee Ching Kion (Chairman);
- (ii) Tunku Yahaya @ Yahya bin Tunku Abdullah; and
- (iii) Tengku Ahmad Fuad bin Tengku Ahmad Burhanuddin

Non-Executive Directors are paid attendance allowance for each Board and Committee Meeting. Directors' fees are also paid to the Non-Executive Directors which will be presented to shareholders for approval at the Annual General Meeting.

The Company recognises the need to have a competitive remuneration package to attract and retain the Directors of the calibre needed to lead the Group successfully. In the case of the Executive Directors, their remuneration are linked to level of responsibilities, experience, contributions and individual as well as Group performance. For the Non-Executive Directors, the level of remuneration reflects the experience and level of responsibility undertaken by them.





STATEMENT ON CORPORATE GOVERNANCE

(continued)

The remuneration of Directors, in aggregation and analysed into bands of RM50,000 is as follows :-

Types of Remuneration	Executive Directors RM'000	Non-Executive Directors RM'000
Salaries	662	-
Allowances	-	36
Bonuses	110	-
Fees	-	480
Benefits-In-Kind	48	22
Other Emoluments	141	30
TOTAL	961	568

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
Less than RM50,000	-	6
RM350,001 to RM400,000	-	1
RM450,001 to RM500,000	2	-

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the need to communicate with shareholders and investors on all material business matters of the Group. The results of the Company and the Group are published quarterly via the Bursa Securities website. In addition to various announcements made during the year, information on the Company is available on the Company's website at www.melewar-mig.com. Any general enquiries and comments can be addressed to enquiry@melewar-mig.com.

The Company also encourages shareholders to attend its Annual General Meeting as this is the principal forum for dialogue and interaction with shareholders. At each Annual General Meeting, the Directors usually provide adequate time to attend to questions and comments of shareholders. Notices of each meeting are issued on a timely manner to all the shareholders.

The Managing Director, Executive Directors and Senior Management have periodical dialogues with existing and prospective investors and the analysts to enhance understanding of the Group's objectives and provide insight on the latest developments in the Group.



ACCOUNTABILITY AND AUDIT

a) Financial Reporting

The Board aims to present a balanced, clear and understandable assessment of the Group's financial positions and prospects in the annual financial statements and quarterly announcements to the shareholders, investors and regulatory authorities.

The Audit Committee deliberates and reviews the quarterly financial results to ensure accuracy, adequacy and completeness before the results are reviewed and approved by the Board of Directors. The details of the Company's and the Group's financial positions are included in the Financial Statements section of the Annual Report.

In the preparation of the financial statements, the Directors had considered the appropriate accounting policies to be used and consistently applied and supported by reasonable and prudent judgements and estimates.

b) Internal Control

The Board recognizes that it has overall responsibility for maintaining a sound system of internal control for the Group in order to safeguard shareholders' interest of the Group's assets. The system of internal control not only covers financial controls but also operational and compliance controls as well as risk management.

The Group's Statement of Internal Control is set out on pages 40 to 42 of this Annual Report.

The system of internal control involves each key business unit and its management, including the Board, and is designed to meet the business units' particular needs, and to manage the risks to which they are exposed. The system, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud. The concept of reasonable assurance recognizes the costing aspect, whereby the cost of control procedures is not to exceed the expected benefits.

The Board further recognizes that risks cannot be fully eliminated. As such, the systems, processes and procedures being put in place are aimed at minimizing and managing them. Ongoing reviews are continuously carried out to ensure the effectiveness, adequacy and integrity of the system of internal controls in safeguarding the Company's assets.

A Risk Management Committee ("RMC") has been formed to look into the risk management of the Group. The RMC comprises of three (3) Independent Non-Executive Directors.

The members of the RMC are as follows :-

- (i) Dato' Jaffar bin Ahmad Indot (Chairman);
- (ii) Mr Terence Francis Mahony; and
- (iii) Mr Lee Ching Kion

The RMC is to meet regularly, at least once every quarter in a financial year to review risk management report of the Company and its subsidiary companies. The RMC has categorized risks into nine (9) key risk factors affecting the Company and the Group, namely, Product Risk, Human Risk, Regulatory Risk, Operational Risk, Financial Risk, External Risk, Customer Risk, Integrity Risk and Supplier Risk ("Key Risk Factors"). The Group has embarked on a risk identification and assessment process whereby all department heads of the Company and subsidiary companies are required to assess their operations and identify risk under each of the Key Risk Factors affecting their operations, identify existing controls in place to manage those risks and risk transferred and the probability of the risk occurring and its impact.

c) Audit Committee

The Audit Committee meets regularly with senior financial management, Internal and the External Auditors to review the Company's and the Group's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control and compliance.

The terms of reference and activities of the Audit Committee during the financial year ended 31 January 2005 are provided separately in this Annual Report.





STATEMENT ON CORPORATE GOVERNANCE (continued)

d) Relationship with the External Auditors

The Board through the Audit Committee has established a transparent and appropriate relationship with the Company's auditors, Messrs PricewaterhouseCoopers ("PwC"). PwC will report to members of the Company on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements. The Audit Committee meets with the External Auditors on a quarterly basis.

The relationship between the Board and the External Auditors is also formalized through the Audit Committee's terms of reference.

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF FINANCIAL STATEMENTS

The Directors are required to prepare the financial statements which give a true and fair view of the state of affairs of the Company and of the Group at the end of each financial year end of the results and cashflow for that year. The financial statements must be prepared in compliance with the Companies Act, 1965 and with applicable approved accounting standards.

The Directors considered the following in preparing the financial statements :-

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable approved accounting standards have been followed.

The Directors are of the opinion that the financial statements comply with the above requirements. The Directors are also responsible for ensuring the maintenance of adequate accounting records to enable them to ensure that the financial statements comply with the requirements of the Companies Act, 1965.

ADDITIONAL COMPLIANCE INFORMATION

a) Corporate Proposal

The Company had on 5 October 2004 announced to the Bursa Securities that it proposes to implement a renounceable rights issue of up to 33,332,400 warrants on the basis one(1) warrant for every five(5) existing MIG shares held at an issue price of RM0.20 each ("Proposed Rights Issue of Warrants").

Approvals have been obtained by the following authorities / parties on the dates set against their respective names :-

Authorities	Approval Dates
• Securities Commission	29 December 2004
• Bank Negara Malaysia	9 November 2004
• Shareholders of MIG at an Extraordinary General Meeting	24 March 2005

The last date of payment for the Rights Issue of Warrants was 30 May 2005.

b) Share Buy-Back

During the financial year ended 31 January 2005, the Company had in June 2004 acquired 305,700 ordinary shares of RM1.00 each from the open market at an average price of RM2.37 per share. The Company had repurchased 286,000 additional shares of MIG after the financial period. As such, as at 29 April 2005, the Company had repurchased in total 591,700 ordinary shares of MIG. All the shares repurchased are being held as treasury shares.

c) Options, Warrants or Convertible Securities

During the financial year ended 31 January 2005, the Company had issued 2,661,800 and 6,000 ordinary shares of RM1.00 each pursuant to the Company's ESOS at the exercise price of RM2.35 and RM1.94 per ordinary share respectively.

d) Non-Audit Fees Paid / Payable

Non-audit fees paid by the Group to the External Auditors during the financial year ended 31 January 2005 amounted to RM41,950.00.



STATEMENT ON

CORPORATE GOVERNANCE

(continued)

e) During the financial year ended 31 January 2005 :-

- (i) There were no material contracts (not being contract entered into in the ordinary course of business) entered into by the Group which involved directors and shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.
- (ii) The Company has not sponsored any ADR or GDR programme for the financial year ended 31 January 2005 ;
- (iii) There were no sanctions and / or penalties imposed on the Company, directors or management by the relevant regulatory bodies during the financial year ;
- (iv) During the financial year, there were no profit guarantees given by the Company ;
- (v) There were no profit estimates, forecasts, projections or unaudited results made or announced for the financial year ended 31 January 2005 which differed by 10 per cent or more from the audited results ;
- (vi) There were no loans between the Company and its subsidiaries that involve directors' or major shareholders' interests
- (vii) The Company and the Group have the policy of revaluing their land and building at least once in every 5 years.

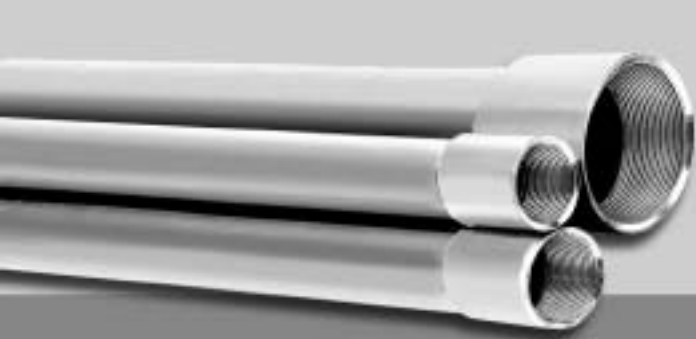
f) Recurrent Related Party Transactions of a Revenue or Trading Nature

On 29 June 2004, the Company sought approval for a shareholders' mandate for the MIG Group to enter into Recurrent Transactions (as defined in the Circular to Shareholders dated 7 June 2004) in their ordinary course of business with related parties ("Shareholders' Mandate") as defined in Chapter 10 of the Listing Requirements of Bursa Securities.

The aggregate value of transactions conducted during the financial year ended 31 January 2005 in accordance with the Shareholders' Mandate obtained in the last Annual General Meeting were as follows :-

Transacting Party	Nature of Transaction	Related Party	Nature of Interest	Value of Transaction (RM)
Melewar Industrial Group Berhad ("MIG")	Providing corporate secretarial services.	Trace Management Services Sdn Bhd ("Trace")	A company in which Tunku Tan Sri Abdullah ibni Almarhum Tuanku Abdul Rahman ("TA"), Tunku Dato' Seri Iskandar bin Tunku Abdullah ("TI") and Tunku Dato' Ya'acob bin Tunku Abdullah ("TY") have deemed interest by virtue of their substantial interest in The Melewar Corporation Berhad, who in turn is the major shareholder of Trace.	177,776.00
	Ticketing, tour and travel.	Mitra Malaysia Sdn Bhd ("Mitra")	A company in which TI has deemed interest by virtue of his substantial interest in Melewar Leisure Sdn Bhd, the holding company of Mitra.	253,227.00
	General and life insurance business.	Malaysian Assurance Alliance Berhad ("MAAB")	MAA Holdings Berhad ("MAAH") is the holding company of MAAB. Iternum Melewar Sdn Bhd, a company controlled by TY, is deemed interested in MAAH by virtue of its substantial shareholdings in Melewar Equities (BVI) Ltd, a substantial shareholder of MIG.	891,370.00
	Providing security services and trading in security equipment.	Wira Security Services Sdn Bhd ("WSS")	WSS is a wholly-owned subsidiary of MAA Corporation Sdn Bhd ("MAA Corp") who in turn is a wholly-owned subsidiary of MAAH.	231,296.00
	Providing corporate consultancy services.	MAA Corporate Advisory Sdn Bhd ("MAACA")	MAACA is a wholly-owned subsidiary of MAA Corp Sdn Bhd who in turn is a wholly-owned subsidiary of MAAH.	1,124,889.00





STATEMENT ON INTERNAL CONTROL

1. Introduction

Pursuant to Paragraph 15.27 (b) of the Listing Requirements of Bursa Securities, the Board of Directors of listed companies are required to include in their annual report a "statement about the state of their internal controls of the listed issuer as a Group". The Board of Melewar Industrial Group Berhad recognizes the importance of sound internal control and risk management practices for good corporate governance.

In acknowledging the above statement, the Board is pleased to provide the following statement which outlines the state of internal control of the Group for the year under review.

2. Board's Responsibility

The Board affirms its overall responsibility for the Group's system of internal controls and for reviewing its effectiveness, adequacy and integrity. Due to the limitations that are inherent in any system of internal control, the Board is aware that such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board is also responsible for identifying the nature and extent of major business risks faced by the Group, evaluating them and to manage, instead of attempting to eliminate these risks that could inadvertently prevent the achievement of the Group's business objectives.

3. Risk Management Framework

The Risk Management Committee ("RMC") has also during the financial year of 2005 formally adopted a Risk Management Framework for the Group. The objective of this framework is to provide guidance to the Group to facilitate a structured approach to identifying, evaluating and managing significant risks and to achieve a level of adequacy and standard reporting by the subsidiaries to the holding company in a timely manner. This process has been in operation during the financial year ended 31 January 2005 and up to the date of approval of the annual report and its financial statements.

The roles of the Board of Directors, Risk Management Committee, Risks Committee and Division Heads are well defined under the framework with clear lines of accountability. The Management is responsible for the identification and evaluation of key risks applicable to their areas of business on a continuous basis. Risks identified are reported in a timely manner during the periodic management meetings to enable corrective actions to be taken.

The Board has delegated the responsibility to review the entire risk management processes and procedures and to provide feedback to the Board of Directors on a regular basis to the RMC.

The main duties and functions of the RMC based on the Terms of Reference approved by the Board are, inter-alia, as follows :-

- a. Reviewing existing controls that may reduce the risk factors of the Group ;
- b. Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval ;
- c. Reviewing and assessing the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively ;
- d. Ensuring adequate infrastructure, resources and systems are in place for an effective risk management that is ensuring that the staff is responsible for implementing risk management systems, perform those duties independently ; and
- e. Reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.



STATEMENT ON

INTERNAL CONTROL (continued)

The Company has established, within its risk management framework, a structured approach to enterprise-wide risk management. The risk management process entails the following to be carried out :-

- Risk Identification ;
- Risk Assessment ;
- Risk Mitigation ;
- Risk Monitoring ; and
- Risk Reporting

During the period, the Group has developed an enterprise wide risk map through the control and risk self assessment exercise facilitated by the Risk Management Unit. This exercise includes profiling and mapping of the risks identified and proposing risk mitigating strategies to manage these risks. The risk profiles of the Group and the individual business units are presented to the RMC who then present the Risk Reporting to the Board.

The RMC will co-ordinate the implementation of the risk management programme for the Group. The implementation of the risk management programme will ensure a more coordinated and consistent approach in managing the Group's significant risk exposures.

4. Internal Control

The Board had also towards the end of the financial year engaged the services of Messrs Moores Rowland Risk Management Sdn Bhd ("MR") to carry out the internal audit functions which was previously handled by the Group Internal Audit Department. The principal duty and responsibility of MR is to examine and evaluate all major phases of operations of the Group and to assist the Board in the effective discharge of the Board's responsibilities.

The key elements of the Group's internal control systems include :

- a. The Internal Audit Department had prepared a 'risk-based' internal audit plan which considers all the critical and high impact areas within the business operations. During the financial year, internal audits on various audit areas per the approved internal audit plan were carried out by the Internal Audit Department. Any weaknesses identified during the reviews were reported to the Audit Committee and improvement measures were recommended to strengthen controls. This provides assurance regarding the adequacy and the integrity of the internal controls system.
- b. The Group's operations are accredited with ISO9001 international quality system standard and such quality management system provides the Group with improved control of key processes and a foundation for improving quality and customer satisfaction.
- c. The Group has an appropriate organisational structure for planning, executing and controlling business operations which enables adequate monitoring of the activities and ensures effective flow of information across the Group.
- d. The Management is responsible for the identification and evaluation of key risks applicable to their areas of business on a continuous basis. Risks identified are reported in a timely manner during the periodic management meetings to enable corrective actions to be taken.
- e. Lines of responsibility and delegations of authority are clearly defined which include amongst others approval of capital expenditure and investment programmes.
- f. The Executive Directors and Management monitor the Group's performance via key performance indicators, monthly management report and periodic management meetings. Any exceptions noted will be duly investigated and reported.
- g. Key processes of the Group are governed by policies and procedures.
- h. The Group has in place a Safety and Health Committee to review the occupational safety and health procedures.
- i. The Audit Committee meets at least four times a year and, within its limit, reviews the effectiveness of the Group's system of internal controls. The Committee receives reports from the internal audit consultants and management.
- j. The Risk Management Unit undertakes to oversee the whole risk management processes as described under the risk management framework.





STATEMENT ON

INTERNAL CONTROL (continued)

5. Controls Weaknesses

The Board of Directors reviewed the adequacy and integrity of the system of internal control that provide reasonable assurance to the Company in achieving the business objectives.

The Management continues to take measures to strengthen the controls environment and during the current financial year, there were no major weaknesses of internal control which result in material losses, contingencies or uncertainties that would require disclosure in the Company's Annual Report.

6. Financial Reporting

In presenting the annual financial statements and quarterly announcements of its results, the Board of Directors have ensured that the financial statements present a balanced and understandable assessment of the Company and the Group's position and prospects.



AUDIT COMMITTEE

REPORT

Members and Meetings

Chairman of the Audit Committee

Mr. Terence Francis Mahony (Independent Non-Executive Director)

Members of the Audit Committee

Tengku Ahmad Fuad bin Tengku Ahmad Burhanuddin (Independent Non-Executive Director)

Mr. Lee Ching Kion (Independent Non-Executive Director)

Mr. Lim Kim Chuan (Executive Director / Chief Operating Officer)

Encik Azlan bin Abdullah (Executive Director)

Secretary

The Company Secretary is the Secretary of the Audit Committee.

During the financial year ended 31 January 2005, 5 Audit Committee meetings were held. The details of attendance of each Committee member are as follow :

Name	Total
Mr. Terence Francis Mahony (Chairman)	5/5
Mr. Lee Ching Kion	5/5
Mr. Lim Kim Chuan (Appointed Audit Committee member w.e.f. 19.02.2004)	4/5
Encik Azlan bin Abdullah	5/5
Tengku Ahmad Fuad bin Tengku Ahmad Burhanuddin	5/5
Mr. Muk Sai Tat (Resigned w.e.f. 06.02.2004)	Not Applicable

Terms of Reference

The terms of reference of the Committee are as follows :

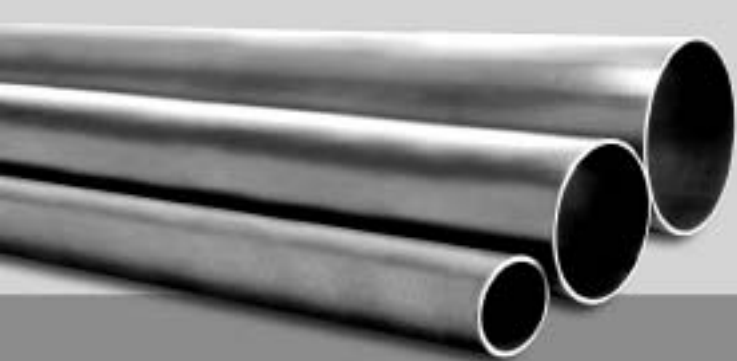
Formation

1. The Board of Directors of the Company had established an Audit Committee ("the Committee") on 15 April 1994.

Membership

2. The Committee shall be appointed by the Board from amongst the Directors of the Company and shall consist of not less than 3 members of which the majority of them must consist of Independent Directors. At least one of the Committee members must be a member of the Malaysian Institute of Accountants, or such other qualifications approved by the Bursa Securities.





AUDIT COMMITTEE

REPORT (continued)

No member of the Committee shall be :

- An alternate Director, or
 - A spouse, parent, brother, sister, son or adopted son, daughter or adopted daughter of an Executive Director of the Company or of any related corporation, or
 - Spouse of brother, sister, son or adopted son, daughter or adopted daughter of an Executive Director of the Company or of any related corporation, or
 - Any person having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgement in carrying out the functions of the Committee.
3. The members of the Committee shall elect a Chairman from amongst their number who shall be an Independent Director.
4. In the event that a member of the Committee ceases to be a member with the result that the number of members is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members.
5. The term of office of Committee members should be reviewed by the Board no less than every 3 years.

Authority

6. The Committee is authorised by the Board to investigate any activity within its terms of reference and has the right to any resources which are required to perform its duties. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
7. The Committee is authorised by the Board to obtain outside legal or other independent professional advice to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
8. The Committee is authorised by the Board to have direct communication channels with the external auditors and person(s) carrying out the internal audit function. It is also authorised to convene meeting with the external auditors whenever deemed necessary.

Functions

9. The functions of the Committee shall be :
- (a) to review the following and report the same to the Board of Directors :
- (i) with the external auditors, the audit plan;
 - (ii) with the external auditors, the evaluation of the system of internal controls;
 - (iii) with the external auditors, the audit report;
 - (iv) the assistance given by the Company's officers to the external auditors;
 - (v) 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;
 - (vi) the internal audit programme, processes or investigations, undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
 - (vii) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on :
 - changes in or implementation of major accounting policy;
 - significant and unusual events; and
 - compliance with accounting standards and other legal requirements;
 - (viii) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - (ix) any letter of resignation from the external auditors of the Company; and
 - (x) whether there is reason (supported by grounds) to believe that the external auditors of the Company is not suitable for reappointment; and
- (b) to consider the nomination of external auditors together with such other functions as may be agreed to by the Committee and the Board of Directors.



AUDIT COMMITTEE

REPORT (continued)

Attendance at meetings

10. The Vice President-Finance & Corporate Services, Internal Auditor Consultants, a representative of the external auditors and other authorised officers shall normally attend meetings. Other Board members may attend meeting upon the invitation of the Committee.

Frequency of meetings

11. (a) Meetings shall be held not less than 4 times a year. The external auditors may request a meeting if they consider necessary.
- (b) In order to form a quorum in respect of a meeting of the Committee, the majority members present must be Independent Directors.

Reporting procedures

12. The Secretary shall circulate the minutes of meeting of the Committee to all members of the Board.

Summary of Activities of the Committee during the financial year ended 31 January 2005

During the financial year ended 31 January 2005, the main activities undertaken by the Audit Committee were as follows :-

- i. Reviewed the adequacy and the relevance of the scope, functions, resources, internal audit plan and results of internal audit processes with the internal auditor ;
- ii. Reviewed the quarterly financial reports and year-end financial statements with management and recommend the same to the Board for approval before release to Bursa Securities ;
- iii. Reviewed with external auditors on their audit plan (including system evaluation, audit fee, issues raised and management's response) prior to the commencement of audit ;
- iv. Reviewed the financial statements, the audit report, issues and reservations arising from audits and the management letter with the external auditors and recommend the same to the Board ;
- v. Reviewed the disclosure of related party transactions and any conflict of interest situation and questionable transactions ;
- vi. Reviewed the findings of the risk management process and recommended to the Board improvement opportunities in risk management, internal controls and governance process ;
- vii. Prepared the Audit Committee Report for inclusion in the Company's Annual Report ;
- viii. Reported to and updated the Board on significant issues and concerns discussed during the Committee's meetings and where appropriate, made the necessary recommendations to the Board ;
- ix. Reviewed the disclosure statements on compliance of Malaysian Code on Corporate Governance, Board's responsibility on the annual audited financial statements and the state of internal control and other relevant documents for publication in the Company's Annual Report.

