



On behalf of the Board of Directors, I am pleased to present the annual report of Melewar Industrial Group Berhad and its group of companies (the "Group") for the financial year ended 30 June 2009.

The global financial and economic meltdown, which commenced in September and October 2008, was unprecedented in economic history. Triggered by the collapse of several large and established banks, in the US and Europe, global stock markets valuation fell drastically, as confidence in the financial sector disappeared, and as fears of a knock-on economic recession set in. Within a few months, commodity prices, including that of steel and oil, fell from their historic highs, down to historic lows. Values across the globe were wiped out.

By 2009, the world had indeed gone into the deepest recession, it has probably ever faced.

Although the operations of the Group, during the financial year ended 30 June 2009, was relatively healthy, the Group was not spared the impact of this recession, with provisions having to be made, for the loss in value of its listed associate companies and for its steel inventories.

FINANCIAL RESULTS

For the financial year under review, the Group recorded lower revenues of 14.7% at RM599.6 million, compared to the previous year of RM703.3 million.

For the first time, since its listing on the stock market in 1986, the Group recorded a Loss After Tax for the year, at RM172.7 million (FY 2008: Profit After Tax RM55.2 million).

The principal reasons for this loss, were the accounting provisions made, for the impairment in the value of the Group's investments in its listed associated and affiliated companies of RM211.7 million, and for the impairment in the value of its steel inventories of RM60.7 million.

As a result of these provisions, the Group's Net Assets have decreased to RM2.02 per share (FY 2008: RM2.71 per share).

DIVIDEND

In view of the weak result for the year, the Board of Directors has decided not to recommend any dividend, in respect of the financial period ended 30 June 2009.

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DIVISIONAL PERFORMANCE

The Group is principally involved in three (3) core business divisions, namely:

- (1) Iron and Steel;
- (2) Power, Oil and Gas; and
- (3) Engineering.

The reports on the performance and progress of the 3 core divisions are set out in the ensuing paragraphs.

1.0 IRON & STEEL DIVISION

The Group's Iron and Steel Division is made up by its interest in the following companies:

- Melewar Steel Tube Sdn Bhd - Manufacturer of Steel Tubes
- Mycron Steel Berhad - Manufacturer of Cold Rolled Coil Steel Sheets
- Melewar Steel Mills Sdn Bhd - Manufacturer of Steel Reinforcement Bars
- Gindalbie Metals Ltd - Miner of Iron Ore in Australia

1.1 Industry Overview (Iron & Steel Division)

The financial year under review was a very difficult period for the iron and steel industry, both internationally and domestically. The global economic crisis played havoc on major commodities prices including iron ore and steel.

As a direct impact of the global credit freeze, in the world financial markets, the ability for end-product manufacturers to maintain inventories, at traditional levels became impossible. Coupled by significant falls in sales, of durable and semi-durable goods, manufacturers began to immediately cut orders, for all raw materials, including steel.

The anticipated slowdown in steel demand, after the Beijing Olympics in August 2008, compounded the fall in demand for steel products, and steel prices spiraled down into a free fall. World consumption for steel fell sharply, causing a massive oversupply situation. The severity and speed, of the drop in price, was unprecedented in the history of the global steel industry.

During this period, the price for international Hot Rolled Coil ("HRC") steel sheets fell from a high of over US\$1,000 per tonne in July 2008 to a low of US\$450 per tonne in March 2009. Similarly, the price for steel Reinforcement Bar ("Rebar") and Cold Rolled Coil ("CRC") steel sheets also fell by similar proportions.

As a consequence of the fall in steel prices and iron ore prices, which had been enjoying huge price increases previously, also fell into a slump, dropping by more than 50% from its high.

In Malaysia, the Gross Domestic Product ("GDP") growth for 2008 was 4.6% which was significantly below the Malaysian Government's original forecast of 5.7%. The acceleration of the Ninth (9th) Malaysian Plan, and the economic stimulus programme implemented by the Malaysian Government, to boost economic recovery, has cushioned the local steel sector somewhat, with steel demand beginning to show signs of recovery, from May 2009 onwards.

1.2 Steel Tube Operations (Melewar Steel Tube Sdn Bhd)

The Group's Steel Tube manufacturing operations are conducted through its 100% subsidiary, Melewar Steel Tube Sdn Bhd.

Poor demand for steel tubes, following three years of negative growth in the construction industry, saw the division turn around from October 2007. Enjoying a buoyant surge in demand for steel tubes, the division enjoyed healthy results. Unfortunately, this vibrant business environment ended, when the industry entered a sharp slump, from September 2008, following the on-set of the global recession.

Although some up-tick in demand has been experienced recently, sales volumes are still far off what they were, during the 2008 financial year.

Prices of HRC and CRC, which are the main feed materials for this division, fell 44% and 52% respectively, from their 2008 peaks and reached their lowest levels in May 2009. Similarly, finished steel tube prices, fell 43% to 58%, depending on size, which significantly squeezed profit margins.

As a consequence, the division recorded lower Revenue of 29.9% to RM224.9 million, compared to RM320.7 million in the previous year.

Accordingly, the division reported a Loss Before Tax of RM5.7 million, after taking into account, an inventory value impairment of RM16.2 million, compared to the Profit Before Tax of RM22.7 million in the previous financial year.

Taking cognisance of the current uncertain times, the management will continue to focus on a tight inventory management policy, by maintaining inventory at a level of 1.5 times sales volume. The management has been, and will continue to adhere to, stringent credit controls, and are confident of managing trade debtors, at the current level, of 50 days of sales, which is one of the lowest in the industry.

1.3 Cold Rolled Coil Operations (Mycron Steel Berhad)

The Group's Cold Rolled Coil ("CRC") steel sheet operations are conducted through its 54.8% subsidiary, Mycron Steel Berhad ("Mycron"), which is listed on Bursa Malaysia.

For the financial year under review, the CRC Division achieved a Revenue of RM383.3 million which is a 5.6% decrease compared to the previous financial year of RM406.1 million.

Operationally, the division recorded a Loss Before Tax of RM49.7 million, after taking into account, an inventory value impairment of RM40.3 million, compared to a Profit Before Tax of RM16.7 million, in the previous financial year.

The domestic demand for CRC was strong until September 2008, gradually weaken thereafter, as the economic environment worsened, and resulting in a significant drop in orders, commencing October 2008. The de-stocking by the division's customers, continued until May 2009, after which sales volumes began to improve slightly, due to the overly reduced customer inventory levels. Selling prices, have been depressed since October 2008, and have only begun to show signs of recovery recently.

The plant upgrade and expansion exercise, embarked on by this division, was completed in June 2008, and has resulted in the division, moving up the value chain, to produce higher grades of CRC products. The plant upgrade and the technical assistance provided by JFE of Japan, has enabled this division to penetrate both the galvanising and automotive sectors, as well as increase the CRC production capacity by 45%, from 180,000 to 260,000 tonnes per year.

This division is now supplying quality CRC to Bluescope (Malaysia) Sdn Bhd for galvanisation and production into roofing sheets. It has also now begun to supply automotive grade CRC to Proton, for the manufacture of 15 components for their new MPV model. Both these achievements augur well for this division, which should quickly use up, all the added capacity of the plant expansion.

With the ability to produce higher grade products, enlarged capacity and the benefits arising from better economies of scale, this division is well poised to achieve higher profitability, and maintain its position as the manufacturer of highest quality CRC in Malaysia.

1.4 Steel Reinforcement Bar Operations (Melewar Steel Mills Sdn Bhd)

The Group's Steel Reinforcement Bar ("Rebar") manufacturing operations are conducted through its 100% subsidiary, Melewar Steel Mills Sdn Bhd.

Demand for steel rebar was strong up to September 2008, allowing the division to record significant sales volumes. However the weak demand since then, caused by the slowdown in the construction sector, coupled with the drastic drop in rebar prices, both internationally and domestically, did not bode well for this division.

The liberalisation of the long steel product sector, by the Ministry of International Trade and Industry ("MITI"), in May 2008 had resulted in the domestic prices, becoming more susceptible to the volatility of international markets for steel.

Although the initial impact of the liberalisation, saw an increase in domestic prices, as it adjusted to meet booming international rates, the turn around in the international markets into a slump situation, had a whip-lash effect on the domestic markets. The sudden availability of cheap steel imports from China, increased the domestic competition level to unhealthy levels, as a shrinking global demand and oversupply situation, led to dumping of foreign steel products, into the Malaysian market. Domestic prices fell drastically, whilst domestic steel production, grinded down to an almost full stop.

The division registered a small Revenue increase of 6.8% to RM25.2 million (FY 2008: RM23.4 million). The division reported a Loss Before Tax of RM10.6 million, after making a provision for inventory value impairment, amounting to RM4.2 million.

1.5 Iron Ore Mining Operations (Gindalbie Metals Ltd)

The Group's involvement in iron ore mining is held through its interest in Gindalbie Metals Ltd ("Gindalbie"), which is listed on the Australian Stock Exchange.

Gindalbie is an iron ore exploration and mining company based in Perth, Western Australia, with a total tenement holding of 1,900 sq km located in the Mid-West region, in the north of Perth. The Karara Iron Ore Project, which is a significant Magnetite and Hematite ore mining resource, is being jointly developed with the Anshan Steel Group, the second largest steel company in China.

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The project, with a development budget of A\$1.8 billion, targets an initial production of 2 million tonnes a year of hematite iron ore, beginning early 2011, and 8 million tonnes a year of magnetite iron ore, beginning mid 2011. With plans to increase magnetite iron ore production up to 30 million tonnes a year, the Karara project, will be a substantial contributor to the Western Australian economy in the future.

Geological survey drillings to-date, estimates a total economic iron ore reserve and resource base, at the Karara site, of 2.4 billion tonnes of magnetite. At a rate of 30 tonnes a year, this site will have an 80 year economic life.

Under the terms of the joint venture agreement, Anshan Steel will off-take the entire iron ore production from this project, at international benchmark prices, plus a premium, due to the higher grade of its concentrate.

The Group made an initial investment in Gindalbie in 2004, via a direct subscription for shares, amounting to 12.4% of the company's share capital. Following subsequent rights issues, which saw the Group interest increase to 27%, and subsequent share placements, in particular to Anshan Steel, the group's interest was reduced to 11%. After the effects of the Open Prime saga, which is further explained below, the net interest of the Group in Gindalbie, is now 6.0%.

Toward the end of 2007, the Group took a loan of A\$11.2 million from Opes Prime Stockbroking Ltd ("Opes Prime"), secured by part of its shareholding in Gindalbie. Unfortunately, Opes Prime went into receivership in early 2008, and all but 3.1 million of the pledged Gindalbie shares, were disposed by one of its creditor banks. As already announced, the Group pursued legal action against the said bank, in Australia, for the return of the shares.

The Group has recently ceased the said legal action, pursuant to a scheme of settlement proposed by the said bank, and which was accepted by 91.2% of Opes Prime creditors, and approved by the Australian Federal Court. The estimated settlement payout of A\$0.37 to the dollar, translates to a sum of A\$5.1 million payment, out of the Group's claim against Opes Prime of A\$13.7 million. This A\$5.1 million settlement, is net of the initial loan of A\$11.2 million, which is now considered fully settled.

The said settlement sum, plus the balance of unsold pledged 3.1 million Gindalbie shares, is expected to be received by December 2009.

The Group's reduced net interest of 6.0% in the paid up capital of Gindalbie, representing 42 million shares, is subject to quarterly revaluation, to reflect the movement in its traded share price. The share price currently trades at A\$0.93 per share, from its high of A\$1.80 per share in 2008, and its low of A\$0.40 per share in mid 2009.

2.0 POWER, OIL AND GAS DIVISION

The Group's participation in the Oil & Gas sector is principally via its 22.7% interest in M3nergy Berhad, while its participation in the Power Generation business is held via its 95% subsidiary, Siam Power Generation Public Company Ltd ("SIPCO"). A report of the performance of this division is set out in the ensuing paragraphs.

2.1 Oil & Gas Operations (M3nergy Berhad)

The principal activities of M3nergy Berhad ("M3nergy"), which is listed on Bursa Malaysia, are:

- (i) Provision of FPSO (i.e. Floating Production Storage and Offloading) vessels and related maintenance services;
- (ii) Oil and gas exploration and field development;
- (iii) Barite processing and supply for the oil and gas industry; and
- (iv) Infrastructure engineering works for the power transmission sector.

M3nergy currently owns an FPSO vessel, named FPSO Perintis, which is located off-shore Terengganu, and which is contracted to Petronas Carigali Sdn Bhd, under a recently renewed agreement, for a period of five (5) years, with an option to extend for a further five (5) years. M3nergy also operates and manages another vessel, Puteri Cekerawala, located in the Malaysian-Thai Joint Development Area in the Gulf of Thailand, on behalf of Carigali Hess Operating Company Sdn Bhd.

The company had in 2008 secured a 16-year contract to supply and operate an FSO (i.e. Floating, Storage and Offloading) vessel for another client, Carigali-PTTEPI Operating Company Sdn Bhd. The vessel named FSO Ratu Songkhla, has been purchased and successfully converted, and is now anchored at the site, in the Malaysian-Thai Joint Development Area, in the midst of final commission.

The company's foray into the upstream oil exploration and field development activities are still in their infancy. Their first joint venture, with Hindustan Petroleum Corporation Ltd and Prize Petroleum Company Ltd, for an oil field development known as Cluster 7, located off-shore Mumbai, unfortunately, did not work out. As has been announced, this joint venture was terminated in January 2009.

In 2007, the company also secured a Production Sharing Contract from Pertamina, to develop the Ujong Kulon oil and gas field, located in the south-west of Java, Indonesia. The 2-D and 3-D seismic surveys for this project are presently on-going.

As for their barite processing operations, the company has successfully secured a tolling contract from Malaysian International Trading Corporation Sdn Bhd ("MitCo") in January 2009. All the barite for MitCo will be processed at M3nergy's new barite plant in Labuan, which was commissioned in end 2008.

The Infrastructure Division of the company was successful, in securing 2 new projects from Tenaga Nasional Bhd, during the period, with an aggregate contract value of RM500 million.

For the period under review, the company recorded a higher Revenue of RM276.7 million (FY 2008: RM168.0 million) but incurred a Loss Before Tax of RM10.5 million (FY 2008: Profit Before Tax RM10.7 million), mainly due to the expense write-off, in relation to the terminated joint venture in India.

2.2 Power Operations (Siam Power Generation Public Company Ltd)

The Group via its wholly-owned subsidiary, Mperial Power Ltd ("Mperial"), has a total interest of 95.03% equity interest in Siam Power Generation Public Company Ltd ("SIPCO").

SIPCO has a "Concession To Produce" license, issued by the Thai Energy Regulatory Commission, to build, own and operate a power generation facility, with a total output of up to 450 MW of electrical power, on its 40 acre site, in the SPP Industrial Park, in Rayong Province, Thailand.

Under its first phase, SIPCO is constructing a 160 MW combined-cycle gas fired power plant under the Electricity Generation Authority of Thailand's ("EGAT") Small Power Producer ("SPP") programme. Physical construction of the plant, which commenced in September 2008, is currently 60% completed. The expected completion date is targeted in mid-2010, with commercial operations on-schedule to start in October 2010.

EGAT, which is the principal off-taker, has executed the Power Purchase Agreement ("PPA") for 90 MW of power, for a period of 25 years, upon commercial operation of the plant, with fluctuation in foreign exchange and energy cost pass-through clauses incorporated therein. Another 70 MW is sold to a major steel player located next to the plant, under a similarly structured Energy Services Agreement. The steam generated in the power generation process, will be sold to a domestic consumer under a long term Steam Sales Agreement.

In June 2009, SIPCO was awarded with a second PPA, to supply another 90 MW to EGAT, under its SPP2 programme, with target commercial operation set for June 2013. The new plant will also be a combined-cycle gas fired power plant and will be constructed on the same site.

Although the power generation sector has not contributed profits to the Group yet, SIPCO remains an attractive investment, with a potentially strong and steady future earnings base.

3.0 ENGINEERING DIVISION

The Engineering Division of the Group comprises its 70% interest in Melewar Integrated Engineering Sdn Bhd and other companies.

3.1 Engineering (Melewar Integrated Engineering Sdn Bhd)

Melewar Integrated Engineering Sdn Bhd ("MIE") plays a key role as the project manager, engineer and consultant for the various projects within the Group. MIE has successfully completed and commissioned the barite processing plant in Labuan for M3nergy, and the CRC plant upgrade and expansion for Mycron.

The Engineering Division also undertakes third party works, and actively participates in tenders for various project management and engineering works within and outside the country.

For the period under review, MIE achieved a Revenue of RM9.2 million (FY 2008: RM37.4 million) and Profit Before Tax of RM1.8 million (FY 2008: RM2.4 million).

3.2 Steel Smelting Technology (Melewar Mycrosmelt Technology Ltd.)

Melewar Mycrosmelt Technology Ltd ("MMTL") was incorporated to market the Group's scrap-smelting technology for the production of steel billets. The Group's existing billet plant, in Shah Alam, is operated by Melewar Steel Mills Sdn Bhd.

MMTL is now actively looking into licensing the use of this technology outside the country and presently, is undertaking a feasibility study to build a similar facility in Bahrain.

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BUSINESS OUTLOOK

The global financial crisis will continue to pose a challenge to all business corporations in terms of revenue and earnings. Although the situation appears to have stabilised, with some economies showing signs of recovery, the global economy will, nevertheless, remain fragile.

General consensus, however, is that the world will emerge from the recession, with a moderate growth projected for 2010. Oil and commodity prices appeared to have bottomed out, and are showing signs of strengthening.

Likewise, iron ore and steel prices have stabilised and whilst they remain slightly volatile in the short term, the prospects of prices heading upwards in the longer term is good. Steel mills in Japan, China and Korea which cut back on production at the height of the steel industry slump, have begun to slowly increase production. If properly managed, this action should bode well for the industry.

In Malaysia, steel consumption generally, has improved slightly in recent weeks, with some signs of increased demand, partly attributed to down-stream manufacturers and traders, having to replenish their stocks, and partly in anticipation of increased steel prices. Whether this will herald a continued increase in sales, is left to be seen.

While Bank Negara Malaysia ("BNM") has forecasted a -1.0% to +1.0% GDP growth for the country, for 2009, the Malaysian Institute of Economic Research ("MIER") has taken a more conservative stance, with a forecasted GDP contraction of -3.3% for this year. On a more positive note, MIER forecasts a +3.7% GDP growth for 2010.

Prospects For The New Financial Year

The Steel Tube Division, which is dependent on the construction sector, will continue to face a challenging time, for the 2010 financial year. However, should the implementation of the stimulus programme by the Government, be expediently administered, a recovery for the division should be forthcoming.

The CRC Division, although not directly affected by the contraction in the construction sector, will nonetheless, be affected by a slow global economic recovery. Fortunately for this division, its inroads in the supply of higher grade CRC, to both the automobile and roofing sectors, as a result of their plant upgrade and collaboration with JFE of Japan, bodes well for the division. Barring any further adverse economic development, this division should perform well in the new financial period.

The Power, Oil and Gas Division is the least affected by the economic downturn as their main revenue, which is largely derived from power off-take agreements, and FPSO/FSO charter contracts, will remain constant and steady, due to the long term nature of their contracts.

The Engineering Division, like the Steel Divisions, will continue to face challenges ahead, as its performance is highly dependent on its bids for projects. However, if the various projects, under the Ninth (9th) Malaysia Plan, and the economic stimulus programme, are implemented as planned, this division should be able to benefit and contribute positively, to the Group's future results.

Overall, the Group views the forthcoming financial year, to be significantly better than the last, and is focusing its efforts in stream-lining its operations, both in terms of resource allocation, and in improving operating efficiencies, to better take advantage of the improving economic environment.

APPRECIATION

On behalf of the Board of Directors, I would like to express our appreciation to all members of the management team and their staff, for their loyalty and perseverance in the past year. I would also like to thank all our shareholders, customers, suppliers and business partners for their continuing support.

With your support, we should see the Group, steering itself back to success, in the near future.

Tunku Dato' Ya'acob bin Tunku Tan Sri Abdullah
Executive Chairman

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Results of Operations										
Revenue (RM mil)	366.6	378.3	352.3	390.8	462.3	598.7	566.9	810.2	703.3	599.5
Profit/(Loss) Before Tax (RM mil)	72.3	67.9	42.8	77.5	80.6	72.7	35.7	189.1	56.2	(246.7)
Profit/(Loss) After Tax (RM mil)	62.3	59.5	53.9	56.6	64.4	46.5 *	46.9 *	104.8 *	45.5 *	(156.0) *
2. Balance Sheet										
Share Capital (RM mil)	79.0	79.0	79.0	158.1	158.3	161.0	169.9	226.2	226.7	226.7
Bonus Shares (RM mil)	0	0	0	79.0	0	0	0	56.3	0	0
Shareholders' Fund (RM mil)	436.8	584.4	623.6	630.3	359.1	351.4	475.5	581.1	616.4	454.9
Total Assets (RM mil)	471.0	597.2	658.0	685.5	484.8	621.2	828.1	1,181.9	1,582.6	1,279.5
3. Financial Ratio										
Return on Equity	14.3%	10.2%	8.7%	9.0%	17.9%	13.3%	9.9%	18.0%	7.4%	(34.3%)
Total Liabilities***/Equity (Times)	0.07	0.01	0.05	0.05	0.29	0.38	0.41	0.67	1.16	1.50
Current Assets/Current Liabilities (Times)	9.15	37.34	12.00	12.56	2.20	2.41	2.24	2.20	1.36	1.07
Pre-Tax Profit/(Loss)/Average Shareholders' Fund	17.5%	13.3%	7.1%	12.4%	16.3%	20.5%	8.6%	35.8%	9.4%	(46.1%)
Pre-Tax Profit/(Loss)/Revenue	19.7%	18.0%	12.2%	19.8%	17.4%	12.1%	6.3%	23.3%	8.0%	(41.1%)
4. Per Share										
Gross Earnings/(Loss) per share (sen) ****	34.3	32.2	20.3	36.8	38.2	34.0	16.3	59.2 **	24.9	(109.4)
Net Earnings/(Loss) per share (sen) ****	29.5	28.2	25.6	26.7	30.6	21.8	21.4	32.9 **	20.2	(69.1)
Net Assets per share (RM)	5.53	7.39	7.89	3.99	2.27	2.19	2.79	2.56	2.71	2.02
5. Dividends										
Tax Exempt Dividend (sen)	10.0	10.0	20.0	10.0	80.0	-	3.0	6.0	-	-
Ordinary Dividend (sen)	12.0	12.0	-	-	180.0	13.0	-	-	4.0	-

The figures for 2007 are for 17-month financial period while the figures for other years are for full 12-month financial period.

* Profit/(Loss) After Tax and After Minority Interests

** Annualised

*** Total Liabilities exclude Deferred Tax Liabilities

**** After Adjusting for Bonus Issues

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