chief executive's review

DEAR SHAREHOLDER

FOR THE YEAR UNDER REVIEW, YOUR GROUP HAS CERTAINLY SEEN AMAZING GROWTH, RIDING ON ATTRACTIVE PRICES FOR CRUDE PALM OIL AND STRONG DEMAND FOR OUR PROPERTY DEVELOPMENTS. INVESTOR CONFIDENCE HAS HAD A POSITIVE IMPACT ON US PARTICULARLY IN THE SECTORS OF THE ECONOMY THAT WE ARE INVOLVED IN.

Across the board, we are pleased with the progress made for the year under review although this was punctuated by epidemics in Asia, the war in Iraq, volatile petroleum prices and the increasingly weak US dollar. Decisive management policies, improved financial measures and the unwavering pursuit of the Group to ensure all operating entities deliver on the bottom line has been our beacon for this successful year. As with any progressive organisation we are not about to rest on our laurels. We will ensure the momentum continues to spur us to deliver better results.

FINANCIALS

The Group posted an improved pre-tax profit of RM247 million on the back of turnover of RM1,268 million. This significant financial milestone over the previous year's profit of RM208 million represents a commendable increase of 19%. As a result, the Group's capital base was strengthened with an increase in reserves which boosted shareholder funds to RM1.8 billion. Spurred on by the year-on-year growth that the Group has experienced, we are in a fortified position to take on future challenges while sustaining our performance.

fortified to take on future challenges

CORPORATE GOVERNANCE

In the Group's ongoing efforts to maximise shareholder value, we are ever conscious of the developments taking place in the evolving business landscape. Corporate governance remains a top priority on the organisation's agenda. This year is no exception, thus we are taking extra initiatives to enhance our risk management framework in addition to the adoption of all applicable accounting standards set by the Malaysian Accounting Standards Board.

With the risk management regime well in place, financial transparency, managerial interests and stakeholder relations are some of the relevant issues related to corporate governance that will continue to receive priority. Various sub-committees and procedures have been established to embrace improved corporate governance for the Group. This endeavour will filter down the ranks of the Group to instil a corporate culture that is committed to best practices.

CORPORATE VALUE CREATION

As we continue to see stronger profitability levels from our numerous operating units in the five divisions, we have made a continuous effort to implement ongoing programmes on a Group wide basis to enhance operational efficiency.

A step in this direction is the successful completion of the privatisation of Boustead Plantations Berhad. In addition, some 15 companies within the Group have been earmarked for voluntary liquidation as these companies have ceased operations after their income generating assets were sold to other companies within the Group.

Another feather in our cap was the ability of the Group to complete the disposal of some of its assets within the Real Property Gains Tax (RPGT) exemption period. Hence gains from these disposals will not be subject to RPGT. The rationalisation exercise will enable the Group to enjoy tax savings which will give rise to healthier cash flows.

We will continue to leverage on our corporate brand identity which today remains a highly visible home grown conglomerate. For the year under review, 33 companies were rebranded to better reflect the Boustead brand name. Of these companies, the two most notable ones were SCB Developments Berhad to Boustead Properties Berhad and Kuala Sidim Berhad to Boustead Plantations Berhad.

MOVING FORWARD

Our divisions are poised for further growth, given ample opportunities that exist in the domestic economy in the coming year. We will maintain operational excellence and continue our ongoing business expansion exercise in order to sustain growth for the longer term. Further upside potential is expected from the recently announced proposed acquisition of BP Malaysia Sdn Bhd.

For the year 2004, I present to you my review by divisions and their relevant operating entities. I trust you will find the information comprehensive and insightful.

Tan Sri Dato' Lodin Wok Kamaruddin
Group Managing Director
24 February 2005

Panoramic view of the University of Nottingham Malaysia Campus under construction.

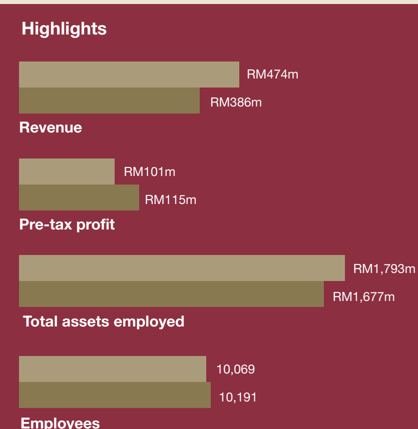
plantation

In 2004, the division registered a pre-tax profit of RM101 million on the back of a turnover of RM474 million, which is a contribution of 41% to the Group's overall profitability. Although there is a slight dip compared to last year's pre-tax profit of RM115 million, the performance is testament to sound management policies in the face of higher interest cost, commodity market fluctuations as well as escalating petroleum prices.

The division's performance was the result of prudent cost control measures and improved palm oil prices, which is attributed to an overall increase in demand. With strong soy oil prices and edible oil stock levels on the rise, palm oil registered a 62-month high of RM2,030 per metric tonnes (MT) in April. Although it dipped to RM1,400 per MT in mid-year, prudent forward selling policies resulted in prices averaging at RM1,616 (2003: RM1,504) per MT.

The division's landbank currently stands at 107,000 hectares and of this 81,000 hectares are under cultivation. On this score, oil palm continues to dominate and forms the base of the pyramid with more than 80,000 hectares or 99% of the area under cultivation. Rubber remains a fringe crop with 60 hectares and forest plantation, namely teak and coconut, make up the balance of the planted area.

The year 2004 also saw an additional 5,500 hectares of oil palm coming into maturity bringing the total mature area to 72,000 hectares.

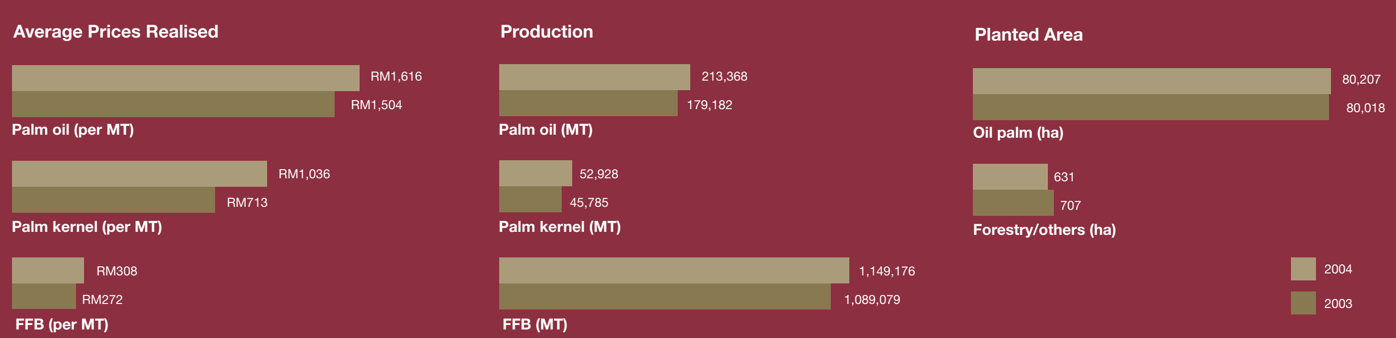


Despite mature palms making up 90% of the total area under oil palm, young mature palms (six years and below) formed 41% of this total, the majority of which are in their first and second year of production. The Group's immature oil palm holdings register at just about 8,000 hectares.

During the year, the full-scale implementation of our Yield Improvement Program (YIP) and Yield and Cost Benchmarkings profile on all our estates clearly boosted overall operational efficiency. With a complete system in place, managers have been able to precisely identify low yielding fields and pin-point specific factors to ensure estates achieve their optimal site yield potential.

The up and running YIP will result in a progressive improvement in yield. In addition, we expect to reduce fertilisation costs related to dependence on expensive inorganic fertiliser through our Boustead Biotherm Palmass's research and development work, which converts empty fruit bunches into compost for fertilisation purposes.

Technology and innovation will continue to drive the division's growth. New cloning material developed with cutting edge technology will be used in all replanting programmes and operations are expected to experience enhanced efficiency and synergy through the deployment of state-of-the-art software and hardware in our precision agriculture approach.



Newly commissioned palm oil mill at Loagan Bunut in Sarawak.

In addition, our commercial clonal planting programme which was put into motion over the last few years has been demonstrating encouraging yields and low incidences of abnormality. This has spurred the division to implement this programme in all future replanting efforts.

PRODUCTION

Although a series of stringent controls were put in place to mitigate price erosion and inflationary effects, production costs nevertheless experienced a marked increase from the previous year's RM151 to RM180 per MT of fresh fruit bunch (FFB). Contributing factors to the rise were a high percentage of young palms with lower yields as well as a significant increase in petroleum prices, which have taken its toll on the fertilisation costs.

The Group's investments in Sumatera, Indonesia continue to show improvements as the country's geo-political and economic factors take a positive turn. Simultaneously, manpower in the estates strengthened with the arrival of additional workers from Jogjarkata when the necessary approvals were received from the authorities in the second half of 2004. This facilitated the intensification of the field upkeep programme to improve the conditions of the estates.

The main thrust of our Indonesian operations centred on the

improvement of productivity. Towards this end, the use of compound fertilizer resulted in better efficiency and eliminated logistic problems due to poor transport and weather conditions. Basic infrastructure features put in place during the year will pave the way towards workers' retention and productivity.

Where 2003 witnessed a bumper crop for FFB, 2004 was slightly more sedate due to unfavourable weather conditions. Despite an 8% increase in mature area, production increased by only 6% to register 1,149,000 MT. The mild climatic changes coupled with the extremely dry spell that sparked-off in February following heavy downpour at the start of 2004 took its toll on production and average yield per hectare was low at 16 MT. However, average yield from prime mature areas (seven years and above) registered at a reasonable 22.9 MT per hectare.

MILLS

The mill operations, fuelled by the efforts of the Group Engineering Department, continued to maintain its competitive edge with regards to palm oil mills. Todate it has played a significant role in the construction of almost 60 mills both domestically and in Indonesia. Another feather was added in the Group's cap this year with the construction and the commissioning of a 45 tonnes per hour (TPH) mill in Loagan Bunut, Sarawak. This mill, which utilises the latest state-of-the-art automated cage handling system in the sterilisation station, will be the ninth oil mill for the Group. Of these mills, six have received the industry respected ISO9001:2000 Quality Management System accreditation.

Another notable milestone is the new mill design known as Modular Compact Mill, which has a basic throughput capacity of 20 TPH which can be upgraded to a maximum of 60 TPH.

Crop evacuation in hilly areas.

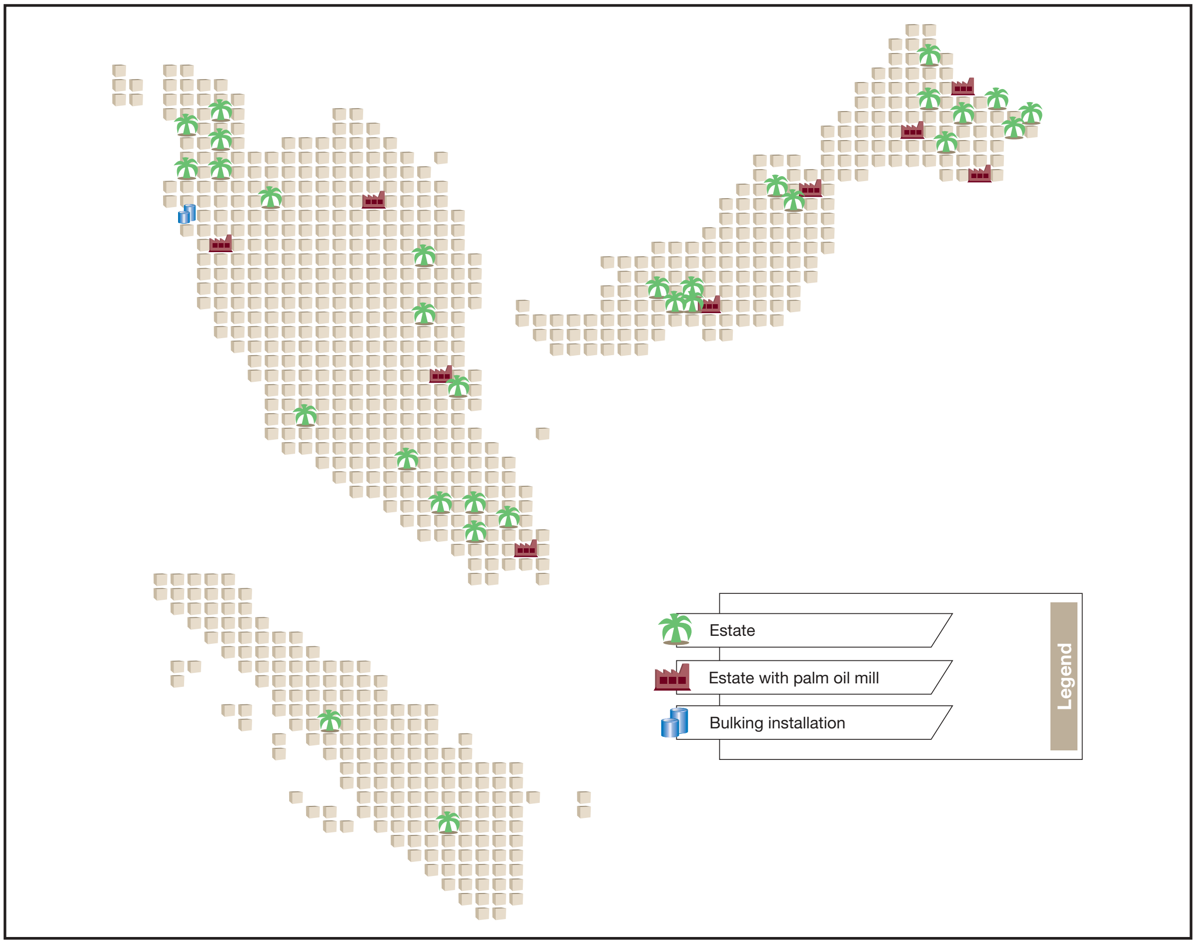
Newly completed research facility at AAR.

The appeal of this design lies in the fact that the mill will utilise a smaller area and provides cost savings.

Boustead Estates Agency Sdn Bhd continued to generate positive results for the division due to the commissions received from the sale of palm products. The Engineering Department also contributed positively through its consultation earnings from the Loagan Bunut mill.

Boustead Advisory and Consultancy Sdn Bhd successfully completed the construction and commissioning of the 45 TPH mill for Meridien Plantation and the 60 TPH mill for Persatuan Peladang Negeri Johor in Kahang.

In accordance with Indonesian legislation, *Boustead- Anwarsyukur Estates Agency Sdn Bhd* underwent a rationalisation exercise to incorporate a wholly owned subsidiary, *PT Boustead Indonesia Management and Consultancy Services*. Under the new structure, the former relinquished its agency and engineering services role in Indonesia and handed them over to the latter.



Applied Agricultural Research Sdn Bhd (AAR) was another company under the division to undergo a restructuring exercise so as to achieve enhanced efficiency and effectiveness. The exercise included the renaming of the company to *Applied Agricultural Resources Sdn Bhd,* to provide advisory services. In addition, *Advanced Agriecological Research Sdn Bhd*, wholly owned by the former and dedicated to spearheading all research, saw the completion of the new tissue culture laboratory, which has a production capacity of one million ramets.

Boustead Bulking Sdn Bhd and Boustead Oil Bulking Sdn Bhd continued to post positive contribution to the division in 2004 through its bulking facilities in Port Klang and Butterworth respectively.

FFB ready for despatch.

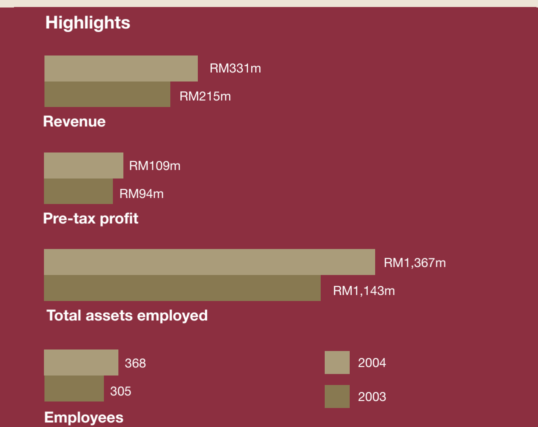
Year 2004 was an exceptional year for the Property Division with profits soaring to its highest peak ever to contribute 44% to Group earnings. This laudable achievement saw the division registering a profit of RM109 million on the back of a turnover of RM331 million for the period ended December 31, 2004. The surge of 16% is a marked improvement on the pre-tax profit of RM94 million on the back of a turnover of RM215 million achieved for 2003.

PROPERTY DEVELOPMENT

This sub-division forged ahead showing clear signs of being the driving force for the entire division. We have created a strong following in both Johor and Selangor by forcusing on brand differentiation for our Mutiara Homes developments.

In Johor, the division's *Mutiara Rini* project, which spans 435 hectares and houses more than 3,500 families in the locale, has todate been well received by investors and more than 90% has been taken-up since its inception. We attribute this success to our commitment to meticulous planning coupled with ample facilities such as schools and open spaces as being central to all our development projects. The satisfaction of residents remains a top priority and the Group is ever cognisant of the community that supports it. As such, we continue to invest and infuse significant elements into the township, which will not only cater for its residents but of equal importance enhance the overall viability and appreciation of prices in the secondary market. We continue to cater to the varied needs of the residents living within Mutiara Rini and recent

property



initiatives include the ground breaking of *Masjid Mutiara Rini*, where the Group has allocated a site and contributed towards its construction, which will be undertaken by the state. The Group also contributed a site for a Chinese School and both these facilities have enabled the Group to create a balanced township for the locale.

Property market investors have also been converging into *Mutiara Damansara*, Selangor as both our residential and commercial properties command an impressive premium in the secondary market. The division's wide array of different product mix has been incredibly well received by both investors and home owners alike. Our residential properties in the township continue to be well received with high take-up rates for our projects.

Our commercial development in Mutiara Damansara continues to break new ground by adding the elements of diversity and a well-planned infrastructure. We have successfully created a new sought after address which has distinguished us from our competitors.

Renowned retail names such as Ikea, Ikano, Tesco and the Curve offer shoppers a unique shopping experience with the wide range of retailers who offer complementing products and services. The choices of retailers reflect a synergy and an understanding of consumer needs.

The Group's offering of corporate lots have been released in stages for sale and have been well received, this time round by a wide diversity of Malaysian blue chip and multinational corporations. The division recently concluded the sale of four corporate lots and of late prices for corporate lots have breached the RM200 per sq ft mark and are expected to surpass RM300 per sq ft in early 2005. The projects distinguishing characteristics and special features attract renowned international and home-grown brands such as Mercedes Benz, BMW, Proton, Lexus and UAC to house their flagship offices and showrooms. Through their day-to-day operations, these entities will provide healthy feeder traffic to the Curve and cement Mutiara Damansara's reputation as a preferred corporate address.

Year round attractions at the Curve.

Commercial precinct in Mutiara Damansara.

Up north in Bukit Mertajam, *Jernih Rezeki Sdn Bhd* saw huge success with the last phase of its development spanning over 36 acres. 94% of the 513 launched units, comprising mostly double storey terrace houses, have been taken up to date.

Year 2004 saw the continuation of *Boustead Construction Sdn Bhd's* role in providing project management services for the construction project of the University of Nottingham, which is located on a 100-acre plot in Semenyih, Selangor. In addition, the company is also providing the same services to a heritage hotel and office complex along Jalan Conlay in Kuala Lumpur.

PROPERTY INVESTMENT

The opening of the Curve in the tail-end of 2004 marked exciting beginnings and this development is indeed the focal point in the Mutiara Damansara commercial precinct. This first-of-its-kind lifestyle mall in Malaysia is distinctly unique and sets itself apart from the conventional shopping malls in the country.

Detailed market research coupled with years of analysis undertaken by the division confirmed the Curve's viability in view of the high purchasing power and the refined taste of the surrounding households. In addition, the brands under the banner of the Curve also came under meticulous scrutiny, as these brands which were specially hand-picked are not viewed as rental revenue driven but instead as business partners who share the essence of the Curve's brand identity.

This division delivers consistent rental revenue as strategic investments in key locations within the city make up the Group's stable of office properties. This stable includes landmarks such as Menara Boustead, Wisma Boustead and Menara Affin, which enjoyed high tenancy rates of 85% and more. On going refurbishment efforts and the expansion of the Group's wholly-owned Royale Bintang have been the key factors in contributing to the hotel's impressive occupancy rate of 80%. Building on the success of the Mutiara Damansara development, the Division is expected to officially launch its second hotel, Royale Bintang Damansara in mid 2005. The 140 room hotel will be planned, constructed and managed with the same set of principles and business concepts that have proven to be the recipe for the division's success in 2004.

In 2005, the Group will achieve yet another milestone with the completion of Cineleisure Damansara. This project once completed, will feature a wide variety of entertainment attractions including a 10 screen Cineplex, 24 lane bowling alley and entertainment centred retailers catering to both children and adults.

In addition, *Pavilion Entertainment Centre Sdn Bhd* is awaiting approval for its proposed development on a 2.8-acre plot of land in the prime-shopping district along Jalan Bukit Bintang. The project will include an entertainment complex, a hotel and office suites.

Boustead Linear Corporation Sdn Bhd which manages the District Cooling Plant (DCP) at the Curve, was commissioned during the year under review. The DCP utilises an integrated ice thermal energy storage system, which has the capacity to supply chilled water to the Curve, Cineleisure Damansara and Royal Bintang Damansara.

The steady stream of both pedestrian and vehicular traffic into the Mutiara Damansara area is testament to its strategic location. The commercial front is linked to four major highways in and out to all parts of the Klang Valley. Some RM30 million will eventually be spent to upgrade Persiaran Surian and to build the connection to the Penchala Link. This should enhance further the visibility and accessibility to the development.

Our Deputy Prime Minister presenting the award for best performing LTAT subsidiary 2003/2004, won by Mutiara Rini Sdn Bhd.

The division's contribution of RM13 million to the Group's overall earnings was a marked improvement from the previous year's deficit of RM16 million. This bounce back into the black is indeed a laudable performance and is primarily attributed to stronger results from the Affin Group.

During recent months, the market price of our quoted investment in PSC Industries Berhad (PSCI) has seen a sharp erosion. The Board is concerned with the widening of the gap between the acquisition cost and its market valuation. However, having considered at length the track record and earnings potential of PSCI, in particular the company's lucrative contract to supply offshore patrol vessels to the Malaysian Navy, it remains the Board's belief that in the long term, our investment in PSCI has intrinsic value. Nevertheless, being cognisant of the temporary impairment that has occurred, we have decided to make a provision of RM100 million during the year under review.

Affin Holdings Berhad posted a pre-tax profit of RM332 million on the back of a turnover of RM1,836 million in 2004. This significant surge in profitability is a hefty 133% increase compared to last year's pre-tax profit of RM142 million on the back of a turnover of RM1,904 million.

Affin Holdings' profitability track record was very much spearheaded by *Affin Bank's* planned and sustained efforts to fortify its risk management policies and practices while vigilantly strengthening its credit strategy. The Group is encouraged by

finance& investment

Highlights

Affin Bank's initiatives which led to the bank's impressive twelve-fold increase in pre-tax profit from RM15 million in 2003 to RM175 million this year. In addition, the Bank's net non-performing loans declined to 23.6% compared to the previous year's 24.6%. Its risk weighted capital ratio reached 14.6% for 2004 as compared to 12.3% the year before.

In 2004, *Affin-ACF Holdings Berhad Group* recorded a pre-tax profit of RM114 million that was modestly lower by 12% compared to that of 2003, primarily attributed to lower loan yield. *Affin Merchant Bank*, achieved a pre-tax profit of RM35 million representing a significant increase of 200%. This outstanding performance was due to higher interest income from investment securities complemented by reducing non-performing loans. *Affin Discount* also notched an improvement, tripling its efforts in 2004 by recording a surplus of RM31 million driven by a hike in trading and accretion income.

Affin Securities became a wholly owned subsidiary of the Group in 2004 and closed the year with a gain of RM8.2 million. This can be attributed to positive sentiments in the local capital market and higher trading volumes on the Exchange. *Affin Money Broker's* results were consistent with the previous year, reporting a profit of RM1.7 million. *AXA-Affin Assurance* ended the year with a 8% dip in pre-tax surplus of RM42 million due to lower unrealised gain on investments.

Royal & Sun Alliance Insurance (M) Bhd recorded a pre-tax profit of RM43 million, which is marginally lower than last year's profit. This profitability has been built on growing gross premium, which increased by 8% and in real terms RM226 million for the year, mainly due to strong growth from the engineering class of insurance. In the same instance, underwriting results decreased by 6% to RM20 million as both income and commissions took a plunge and higher claims took its toll on profits.

Boustead Credit Sdn Bhd has beaten the odds of tightening margins and narrowing secondary car market dynamics to post a surplus compared to the previous year's deficit. However, in response to lacklustre market conditions, the company has undertaken a proactive approach to realign its focus to the consumer finance segment, which promises more attractive yields.

Newly renovated barrier-free Affin Bank's branch in Bangsar.


The division recorded strengthened contribution to the Group's overall earnings by posting a profit of RM26 million which is a notable improvement from the RM21 million posted in 2003.

BUILDING MATERIALS

This category was driven by contributions from *UAC Berhad* which fared well for the year under review. The year was a trying period for the local building and construction industry as in general the industry faced challenges ranging from pricing and supply of steel based products to uncertainties as a result of escalating petroleum prices and the shortage of new construction projects.

Nevertheless, UAC Berhad achieved a pre-tax profit of RM48.9 million which showed a 7% improvement from the figure recorded for 2003. This better performance was attributed to improved export sales of fibre cement boards, which compensated for the reduced demand in the domestic market. Steel roof truss operations registered a steady growth while polyethylene pipe operations had to contend with the sharp increase in the prices of polyethylene resin, a by-product of the petroleum industry.

manufacturing &trading

Highlights

Boustead Sissons Paints' new factory in Nilai.

Boustead Sissons Paints Sdn Bhd recorded lacklustre growth due to declining sales volume as a result of reduced construction projects. However, the company is confident of strengthening its brand position and improving marketability. This is reflected by the investment made for the new plant in Nilai, Negeri Sembilan, which will ease production bottlenecks. In line with streamlining efforts, the China factory will be closed in the coming year.

CONSUMER BRANDS

Kao Malaysia Sdn Bhd weathered stormy market conditions driven by fierce competition and managed to report an increase of 28% in profit contribution. Pro-active and innovative branding and distribution initiatives resulted in maintaining market share of its core products specifically in the sanitary and facial categories.

Cadbury Confectionery Malaysia Sdn Bhd further reinforced its firm grip on the local confectionery market to maintain its status as a leader in the sector and posted a 116% increase in profit contribution. Comprehensive and innovative branding efforts kept the company's core products in a commanding position.

TRADING

Boustead Global Trade Network Sdn Bhd registered an improved performance with strong support from all Principals that resulted in surging sales volumes while adhering to stringent cost control measures.

Riche Monde Sdn Bhd also recorded a very successful year by once again making a strong contribution to the division's earnings. The announcement of a hike in excise duty did little to hamper the sales volume of duty free and domestic duty paid markets, which were buoyed by an influx of tourists and a string of promotions.

Though the shortage of steel bars in the first half of the financial year was an industry wide concern, *Boustead Building Materials Sdn Bhd* was able to record improved growth due to its focus in other building products which boosted higher margins. The Curve at Mutiara Damansara and projects at Mutiara Rini played a significant role to contribute to its growth.

Boustead Engineering Sdn Bhd maintained its profitable streak due to the healthy performance of both the Mechanical Industrial Supplies and Chemicals departments.

In contrast, *Drew Ameroid Sdn Bhd* only saw a marginal increase in sales turnover while *Boustead Emastulin Sdn Bhd* suffered a loss as a result of the discouraging sales of BMC trucks and the non-availability of desired models of Proton cars.

The longest outdoor billboard in Malaysia.

The division recorded a reduced deficit of RM2 million given that the university has yet to realise its full potential. In tandem with the Government's objectives of developing a k-economy and achieving developed nation status, the Group is confident and optimistic that the education industry holds immense potential.

EDUCATION

The University of Nottingham in Malaysia Sdn Bhd has firmly established itself as the education institution of choice in Malaysia. Its unique positioning as the first branch campus of a British University in Malaysia, the quality of the disciplines offered and the obvious dedication of its staff bodes well for the University's prospects. The University had an encouraging year, meeting its recruitment target of 900 students in 2004 and this figure is expected to be surpassed by more than 40% to reach 1,300 students in late 2005.

In addition, with the new Semenyih campus anticipated to be completed in May 2005, a diverse range of new disciplines will be offered from September 2005 onwards. Once these courses are fully operational, the landmark campus will reach its Phase 1 capacity of 2,500 students.

TRANSPORTATION

P&O Nedlloyd M.A. Sdn Bhd navigated through 2004 with renewed vigour. Its improving results in the container shipping sector is testament to

service industry

improving supply and demand trends and this is expected to be retained in the coming fiscal year.

Boustead Shipping Agencies Sdn Bhd continued on its growth curve recording improved revenue mainly from its liner trade. Its air division succeeded in posting a modest profit despite constricting margins.

LEISURE

Boustead Travel Services Sdn Bhd, returned to robust growth from a challenging year in 2003. Crucial contributing factors were the increase in tourist traffic, as well as air traffic into KLIA by major airlines, which spurred the growth for Malaysia's tourism sector. Focusing on its niche business, the corporate ticketing service helmed revenue growth for the year.

Boustead Emasewa Sdn Bhd, franchise holder of the National Car Rental, experienced improved performance for 2004 due to a recovering tourism sector as well as a calendar year packed with international sporting events.

TECHNOLOGY

Boustead Information Technology Sdn Bhd continued its focus in expanding its product range through partnerships and alliances with other Information and Communications Technology companies in the face of heightened competition. The exchange of technical know-how between the company and its various partners has seen the development of better products resulting in various software solutions, for its wide clientele base.

Asia Smart Card Centre (M) Sdn Bhd was clearly the leader in the PMPC (Payment Multi Purpose Card) ATM cards market with a vast 75% share. Visa and MasterCard International also provided the company with the prestigious certification to personalise chip based credit cards.

Boustead Travel at MATTA Fair.

EU-Heads of Mission visit onboard P&O Nedlloyd Houtman.