



**Jeneral (B) Tun Ibrahim
bin Datuk Ismail**
(Chairman)

The Group achieved another year of outstanding performance and impressive growth in its earnings and shareholders' funds.

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of Malaysia Smelting Corporation Berhad, its subsidiaries and associated companies (the Group) for the year ended 31 December 2003.

Results

The Group achieved another year of outstanding performance and impressive growth in its earnings and shareholders' funds. Group profit before taxation recorded an increase of 34.0% to register a new high of RM53.2 million (2002 : RM39.7 million) providing a pre-tax return of 26.6% on its average shareholders' funds. Group profit after taxation was higher by 41% reaching RM37.2 million (2002 : RM26.3 million). The earnings per share improved to 38.6 sen (2002 : 31.7 sen). By the end of 2003 shareholders' funds increased to RM206.9 million (2002 : RM193.3 million). Group turnover rose by 9% to RM783.4 million (2002 : RM719.5 million). This commendable performance was achieved on the back of a 20% increase in the tin price, unrelenting efforts in cost rationalization and the strategic re-positioning of the Group's smelting, commercial and marketing operations.

Dividends

On 25 February 2004, the Board declared a higher second interim dividend of 14 sen per share, less 28% tax, totalling RM7,560,000 payable on 18 May 2004. Together with the first interim dividend of 8 sen, tax-exempt, paid on 30 October 2003, the total dividend paid and declared for the year was 22 sen totalling RM13,560,000 (as compared to the 2002 dividend of 18 sen per share, tax exempt, totalling RM13,500,000). The Board does not intend to recommend a final dividend for the year 2003.

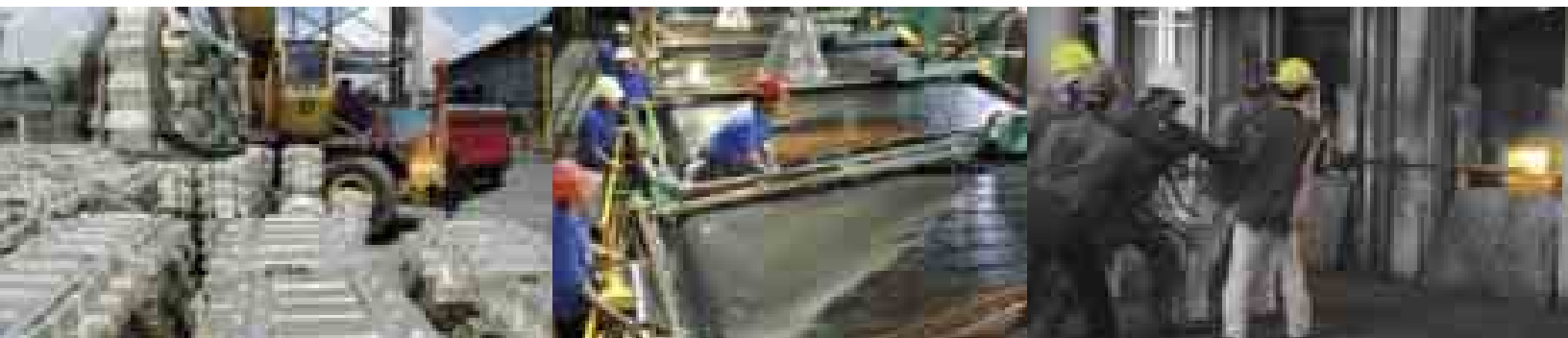
The Group's combined production of tin metal in 2003 totalled **37,058 tonnes** which strategically strengthened the Group's position as a **leading global producer and supplier of tin metal and tin-based products** contributing about 15% to the world production.

Global Tin Industry

The global tin industry, after having gone through a long and bleak period marked by historical low prices, stagnant demand and massive mine closures worldwide, appears to have turned the corner. 2003 may yet be the industry's watershed that signals the end of the prolonged gloom attendant upon the collapse of the tin buffer stock operations in 1985, and will witness the emergence of the long awaited revival of the industry. From an average price of just over US\$4,000 per tonne in 2002, the global tin prices have surged through the US\$5,000 and then US\$6,000 levels towards the last Quarter of 2003, with prices currently trading firmly in the US\$7,000 to US\$8,000 range. Although the decline in the US Dollar accounted in part for the increase, the dominant contributory factors were the significant increase in demand in China for all base metals, the revival of the electronics industry, the consumption growth led by the switch from tin-lead solder to lead free solder, the current supply deficit in the market and the significant reduction in global stocks of tin metal. The year 2003 saw for the first time the world tin consumption exceeding the 300,000 tonnes level, with a healthy increase of 7.8% from 280,000 tonnes in 2002 to 302,200 tonnes in 2003.

Production

The Group's smelting operations at Butterworth managed to achieve a reasonable level of profitability in 2003 despite the significant rationalization and downsizing of capacity utilization from October 2002 onwards. This resulted in an approximate 41% reduction in metal production from 30,841 tonnes in 2002 to 18,210 tonnes in 2003. However, metal production from the Group's 75% subsidiary, PT Koba Tin in Indonesia increased by 17% or 2,739 tonnes to register a new record level of 18,848 tonnes in 2003. This higher production and favourable tin price boosted PT Koba Tin's results to an impressive level. The Group's combined production of tin metal in 2003 totalled 37,058 tonnes which strategically strengthened the Group's position as a leading global producer and supplier of tin metal and tin-based products contributing about 15% to the world production.



Shipment of tin bundles.

Working at mineral processing plant.

Rabbling the furnace.

The Group's development and exploration strategy is to **expand its tin mining operations through in-house exploration, joint ventures and the acquisition of quality exploration assets.**

Development and Exploration

The Group's development and exploration strategy is to expand its tin mining operations through in-house exploration, joint ventures and the acquisition of quality exploration assets. For 2004, the Group budgeted a total of RM 8 million for its exploration programme. The focus is on the discovery of low-cost tin deposits that can be mined and processed with sustainable returns. In December 2003, the Company entered into a strategic cooperation agreement with an Indonesian based company which would give access to a prospective area of approximately 15,000 hectares in Bangka Island, Indonesia, under a production sharing arrangement that would enable extensive exploration for new tin deposits. A wholly-owned subsidiary company, PT MSC Indonesia, was established as the corporate vehicle to undertake this proposed exploration and pursue any new mine developments in Indonesia.

Group's Vision and Outlook

The Board is committed to the Group's vision to be a successful world-class organization in its integrated core businesses of mining, smelting, manufacturing and global marketing of tin and tin based products, delivering sustainable results through quality operations. The Group's growth strategy is to leverage on its core competencies to focus on organic growth as well as on strategic acquisitions. The Board remains optimistic on the long-term prospects of the Group. Barring any unforeseen circumstances, the Group is expected to perform better in the current year in view of the continuing favourable tin prices.

Corporate Governance

The Board is committed to high standards of corporate governance to safeguard the interests of shareholders and stakeholders. The statement on corporate governance included in this Annual Report describes how the Company applies the principles of corporate governance and how it complies with the Principles and Best Practices set out in the Malaysian Code on Corporate Governance.



Check drilling.



Palong operation at Koba Tin.



Gas cutting at Earth Moving Equipment workshop.

Internal Control

The Board has overall responsibility for the Group's systems of internal control and risk management and for reviewing their effectiveness. These procedures aim to safeguard assets, ensuring proper accounting records are maintained, so that the financial information, pertaining to the business and for publication, are transparent and reliable. The risk management systems are designed to manage key risks. They cannot guarantee however to eliminate altogether the risk of failure in achieving the business objectives.

Risk in today's world is multifaceted. I am pleased to report that the Group operates an on-going process for identifying, evaluating and managing the significant risks endemic to our industry. As mentioned in the Statement on Internal Control in this Annual Report, the process is in place and is regularly reviewed by the Board and Board Committees.

Acknowledgement

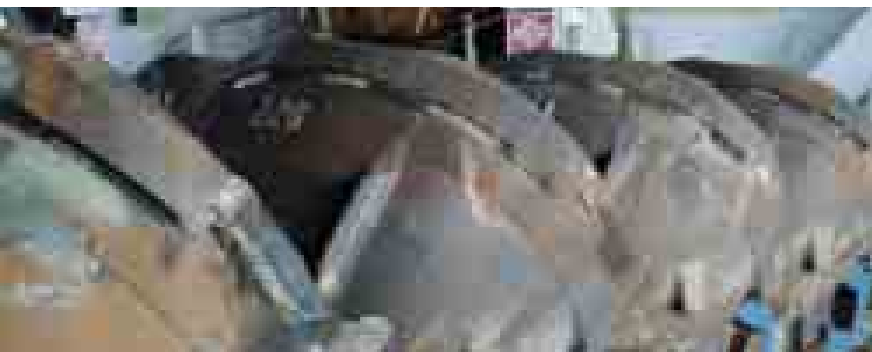
On behalf of the members of the Board, I would like to take this opportunity to thank the shareholders for their continued support, and the management and employees for their contribution, commitment, dedication and perseverance towards the success of the Group. My heartfelt gratitude also goes to our customers, suppliers, bankers, business associates and the various relevant authorities for their cooperation and continued support. Finally, I would also like to record my appreciation to my colleagues on the Board for their invaluable contribution and collaboration throughout the year.



Jeneral (B) Tun Ibrahim bin Datuk Ismail

Chairman

23 March 2004



Dredge buckets



Silica R&D project at Koba Tin.



Dato' Dr Mohd Ajib Anuar
(Group CEO/Executive Director)

Today we are on the verge of a renaissance for our oldest industry to repossess our natural mineral heritage as it acquires a new contemporary positioning.

The MSC Group is to be congratulated on an excellent performance achieved in the year 2003. We need to see this not just in terms of the intrinsic achievement but as indicative of the turning point we have reached in the evolution of the tin industry, which is undergoing a global revival.

With the 3rd Millennium we have entered a period of renewal. Nowhere is this felt more than in Malaysia at the present time. And nowhere more than in our business. Previously many had fallen into the trap of seeing tin as a sunset industry. Forgetting that the sun also rises. Today we are on the verge of a renaissance for our oldest industry to repossess our natural mineral heritage as it acquires a new contemporary positioning. Ironically, this new lease of life has seen tin emerge as a versatile, non-toxic, environmentally friendly material. Research and development is driving tin based technologies and has released many new and unique properties in this indigenous, sustainable resource, opening up a diversity of opportunities. The Group is benefiting. It is like a reward for our stubborn persistence over the years in believing in the continued relevance of the tin industry, a belief that is now vindicated.

We live in a globalised world. During the last two years, the Group embarked on an aggressive programme of overseas acquisition and expansion starting with our neighbours, Indonesia and Australia, and with every intention of becoming a global mining organization. What we bring to the world is Malaysia's proven expertise and knowledge in alluvial tin mining, smelting and international marketing from the days when Malaysia was the world's largest producer. Today, we have positioned the MSC Group to become the world's third largest supplier of tin metal.

The past ten years since 1994, the year when MSC became a listed Company on the Malaysian Securities Exchange, have seen the Company consistently producing high rates of return on equity, healthy profits and strong cash flows, resulting in high dividends to shareholders, after providing for long-term growth objective. We believe the outlook for the industry and for the Group is healthy. Our report this year supplies the tangibles of performance that support our belief.

CHIEF EXECUTIVE OFFICER'S REPORT AND REVIEW OF THE GLOBAL TIN INDUSTRY cont'd

10 Year Financial Results

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	1994 - 2003
Turnover	(RM million)	318.2	422.2	394.3	374.9	701.1	742.1	575.0	582.6	719.5	783.4	5,613.3
Profit before taxation	(RM million)	16.1	17.6	17.1	17.5	25.3	24.8	27.5	33.7	39.7	53.2	272.5
Profit after taxation	(RM million)	11.2	12.4	11.9	12.4	17.9	25.7	19.3	23.3	26.3	37.2	197.6
Shareholders' Fund	(RM million)	85.4	91.0	93.0	100.8	121.0	133.2	144.5	157.0	193.3	206.9	206.9
Net dividends paid	(RM million)	9.9	9.5	6.8	6.8	8.1	10.9	11.8	9.7	12.5	13.5	99.5
Pre-tax return on average shareholders' fund	(%)	15	20	15	18	23	20	20	22	22	27	20



Premium grade 4-nines tin.



Solder products.



Tapping operation.

REVIEW OF MSC GROUP'S OPERATIONS

Butterworth Smelting Operations

Tin metal products bearing the MSC brand "Straits Refined Tin", remained in strong demand. The continuing shortage in the supply of feed materials to the Group's smelting plant at Butterworth partly contributed to the global supply deficit of tin metal in the year 2003.

Cost and capacity rationalization are the on-going focus of the management to ensure that the Butterworth operations remain market-driven, customer focused and profitable. Total production of tin metal for the year 2003 was 18,210 tonnes. Overall, the results for the year were satisfactory and Butterworth operations will continue to play a strategic role in achieving the overall objective of the Group's global tin business.



Pouring of tin for refining.



Tin refinery.

Indonesian Operations

2003 marked a highly successful second year for the Group's entry into the Indonesian tin mining and smelting business, following the acquisition of a 75% interest in PT Koba Tin in April 2002. The acquisition has realized significant synergistic benefits as a result of MSC's strong leadership in refining technology and capability in reducing smelting costs, its extensive global commercial and marketing network, and its expertise in alluvial tin mining operations. PT Koba Tin's core expertise and skills lie in geology and exploration, in alluvial mining using high capacity bucket dredge and sizeable earth moving equipment operations, minerals processing, smelting and resource management. These have been further developed and strengthened to position the Group to achieve continuous efficiency improvements in ongoing operations, and further expansion in the tin mining and smelting business.

The operations of PT Koba Tin's smelter were stretched to maximum capacity utilization during the year 2003. The significant improvement in operating efficiencies enabled the company to achieve a creditable 17% increase in metal production to 18,848 tonnes in 2003. In order to ensure an optimum and most cost efficient production over the longer term, the company undertook to expand the furnace and refining capacities with the desired flexibility to increase metal production up to 25,000 tonnes per year. Development and construction work started in the third quarter of 2003. The new facilities were completed within budget and successfully commissioned ahead of schedule in February 2004, at a total cost of RM12.9 million, and with zero accident or injury. The operating performance to-date has been remarkable and the results are within expectations. With the expansion in smelting capacity, it is anticipated that PT Koba Tin's metal production will be increased to about 20,000 tonnes for the year 2004.

PT Koba Tin currently operates within an area of 41,680 hectares under a Contract of Work (COW) agreement with the Government of the Republic of Indonesia. PT Koba Tin's exploration strategy is not only to replace the depletion of reserves from the on-going production by extending the life of the current operations and to find new and cost-effective reserves within the COW area, but also through new discovery to further enhance the company's reserves. In 2003, the results from the company's exploration programme were admirable. The company replaced more than the existing mined reserves, resulting in an increase of the company's total reserves and resources potential to 73,700 tonnes as at the end of the year (compared to 69,800 tonnes as at 31 December 2002).



Mining using scrapers at Ardlethan tin mine, Australia.

Australian Operations

The acquisition of a 30% equity interest in Marlborough Resources NL, Australia (MBG) was completed in April 2003. MBG operates an open pit alluvial tin mine in Ardlethan, New South Wales. The investment was made by subscribing new shares in MBG in April 2003 for Australian Dollar (AUD) 5.32 million, and subsequently by taking-up the Company's full entitlement to a non-renounceable rights issue in October 2003 for AUD 1.43 million. The funds raised from the rights issue were used to finance a new processing plant to improve operating efficiency and to undertake exploration needed to determine and define additional tin ore reserves and resources at Ardlethan. Pending the completion and successful start up of the new processing plant, expected in March 2004, MBG's operating and financial results continued to be disappointing. This is due to operating difficulties arising from severe drought conditions at the mine site, lower and inefficient recovery rates at the existing processing plant, and the appreciation of the AUD in relation to the US Dollar which, despite the improvement in the US Dollar tin price, adversely affected the AUD denominated sales proceeds. Ardlethan's mine production for the six months to December 2003 was 599 tonnes of tin-in-concentrates. MBG's tin concentrates are currently being smelted and refined at MSC's smelting plant in Butterworth. The Board of MBG has initiated an intensive programme with the intention to turn around MBG's production and profitability.

Tin-based Solder Business

The performance of MSC's 40% owned associated company, Redring Solder (Malaysia) Sdn. Bhd (Redring) was affected by the strong competition in the tin-based solder business for the global electronic industries which resulted in reduced operating margins. Redring's operations, however, still remained marginally profitable during the year under review.

Proposed Acquisition of a Malaysian tin mining interest

The proposed acquisition of a 25% equity interest in ZR Minerals Sdn. Bhd which was announced in March 2003, is still pending the approval of the relevant authorities. One of the conditions precedent is the renewal of the relevant mining leases in Klian Intan, Perak, operated by Rahman Hydraulic Tin Berhad (Under Administration) which expired on 31 December 2003. The lease renewal is still under consideration by the Perak State Government.



Papaya planted on overburden material.



Fish farm at Koba Tin.



Training on safety.



Primary school at Koba Tin complex.

**Sustainable Development –
Safety, Environment and Community Development**

Sustainable development has become the core of our operating principles. We are fully committed to provide strong leadership in safety, environmental stewardship and community development. This is reflected in the alignment of our employees' safety, environmental protection and community development programmes to the Group's commitment to operate in a socially responsible manner in communities where it operates. The Group's support ranges from broad employment and training opportunities to improved health and education facilities, and an awareness programme to promote sustainable and responsible mining. At PT Koba Tin, the Group firmly embraces the concept of comprehensive mine rehabilitation and multiple alternative land use, that is, to recycle mining land for agriculture and fish farming to strengthen and enhance the social and environmental quality of the surrounding communities.

REVIEW OF THE GLOBAL TIN INDUSTRY

Having reached historical record low levels in 2001-2, tin prices increased strongly in 2003 and have continued to rise in the first quarter of this year. The annual average London Metal Exchange cash price in 2003 was US\$4,896/tonne, 21% higher than the previous year. During the course of last year prices rose by more than 50% and by March 2004 had reached some US\$8,000/tonne.

Although it is possible that the liquidation of speculative long positions could result in a temporary fall in prices in the short-term, price prospects for the next few years remain generally positive. World consumption is growing, stimulated in particular by the strength of the Asian economies and the global move to high-tin, lead-free electronics solders. New supply is falling short of demand, following many years in which there has been little new investment or exploration activity worldwide. It is a challenge to leading tin producers like MSC to ensure that sufficient supplies are available in the long-run to meet growing world consumption requirements.

World Top 10 Tin Producers 2003

(*000 tonnes refined tin)

	Production	% of world	cumulative %
PT Timah (Indonesia)	45.1	16.4 %	16.4 %
Minsur (Peru)	39.1	14.2 %	30.6 %
MSC Group*	37.1	13.5 %	44.1 %
Yunnan Tin (China)	31.5	11.5 %	55.6 %
Thaisarco (Thailand)	15.2	5.5 %	61.1 %
Liuzhou China Tin (China)	14.0	5.1 %	66.2 %
CM Colquiri (Bolivia)	11.5	4.2 %	70.4 %
Metallo-Chimique (Belgium)	8.5	3.1 %	73.5 %
Mamore (Brazil)	7.5	2.7 %	76.2 %
Novosibirsk (Russia)	4.1	1.5 %	77.7 %

* MSC Group includes 100 % of PT Koba Tin production

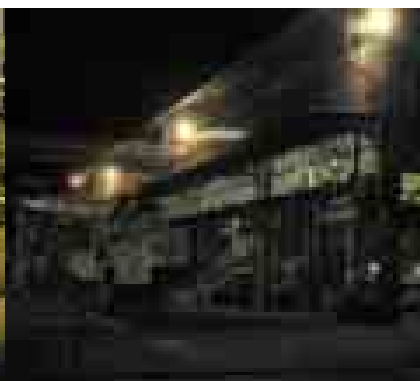
Data: CRU International



Gas cleaning plant.



Dredge bucket pins.



Night view of Koba Tin smelter.

Current Prices in context

The tin price rally in the last year or so is part of a bigger picture of generally strong and rising commodity prices. The development of a fundamental supply deficit since last year means that tin has out-performed other LME metals such as aluminium and zinc, but the whole set of non-ferrous metals has been buoyed up by several big common features.

The boom in the Chinese economy, creating a huge growth in demand for a wide range of raw materials, has been a major influence in many commodity markets, with Chinese imports of bulk commodities also resulting in much higher freight rates. This rise in demand has coincided with the emergence of global supply constraints resulting from lower levels of exploration and capital spending in the metals and mining industry since the mid 1990s. Exploration spending fell by more than 60% between 1997 and 2002 and only started to recover last year.

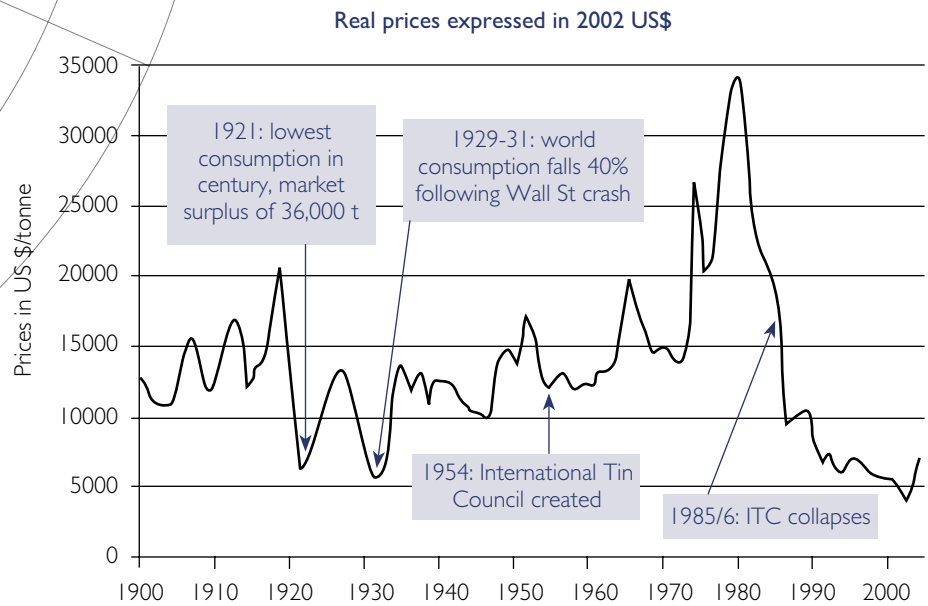
These general fundamental features were built on in the second half of last year by large scale investment fund buying of commodities. Investments in commodities have been promoted to a wider public as both offering high returns and diversifying risk as a complement in a portfolio to equities. Speculative buying appears to have been further stimulated by a fourth big feature – the rapid decline in the value of the US dollar.

It should be noted that although tin prices have risen rapidly recently, current prices are still very low by historical standards. If we adjust historical prices to take into account inflation, tin prices through most of the last century were equivalent to more than \$10,000/tonne in today's money. The depression in prices from the breakdown of the International Tin Council in 1985 through to 2002 was longer and deeper than slumps of the 1920s and 1930s. During this period world supply was heavily influenced by temporary booms in small-scale mining in Thailand, Brazil, China and most recently Indonesia. Small scale production will continue to be a feature of the tin business, but there is now also a need for larger scale investment in more substantial and sustainable operations.



Tin ingot casting at Koba Tin smelter.

Tin prices just above historical lows



Close-up view of tin bundles.

The Tin supply/demand position

CRU International estimates that world demand for tin exceeded supply by some 17,000 tonnes last year. A 5% rise in global demand this year is forecast and it is difficult to see how world production can be increased as much. The supply shortfall this year will therefore probably exceed 20,000 tonnes. Meanwhile visible stocks are being already below historical average levels, with most free metal now held in Singapore.

World consumption of refined tin exceeded 300,000 tonnes for the first time ever in 2003, with most of the growth in the market occurring in Asia. Asia now accounts for some 54% of global demand and this proportion is likely to continue to increase. Japanese tin imports have grown by almost 40% in the last two years, as Japanese electronics companies have been the first to adopt lead-free solders. However it is China which has emerged as the world's biggest national market. Chinese domestic consumption is now over 70,000 tpy, reflecting the boom in its economy. On top of this there are positive factors special to tin: export demand for electronic goods is very important, while the establishment of a large number of float glass production lines has also had a major impact.

World Supply/Demand Balances in Refined Tin (*000 tonnes refined tin)						CRU Forecast
	1999	2000	2001	2002	2003	2004
World						
World Production	246.7	268.9	272.2	267.0	274.9	284.0
DLA Sales	11.5	9.0	7.7	8.4	10.6	11.0
World Consumption	248.8	273.6	275.1	275.7	302.2	317.4
Global Balance	9.4	4.3	4.8	-0.3	-16.7	-22.4
Reported stocks						
LME	9.2	12.9	30.6	25.6	14.5	10.0
Producer	9.5	11.8	8.6	8.5	10.0	7.0
Consumer/other	13.7	14.0	12.5	11.5	12.0	8.0
Total	32.3	38.6	51.6	45.6	36.5	25.0
<i>World Stock Ratio (weeks consumption)</i>	6.8	7.3	9.8	8.6	6.3	4.1

Data: CRU International



Weighing of samples for analysis.



Field sample treatment.

CHIEF EXECUTIVE OFFICER'S REPORT AND REVIEW OF THE GLOBAL TIN INDUSTRY cont'd

World Production and Consumption of Refined Tin

('000 tonnes refined tin)

CRU
Forecast

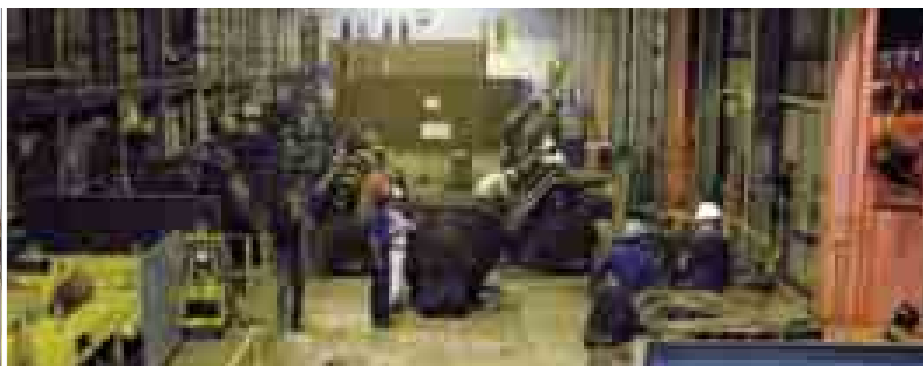
	1999	2000	2001	2002	2003	2004
Production						
China	90.8	112.4	105.1	86.3	100.0	105.0
Indonesia	48.3	46.4	44.6	59.6	64.0	65.0
Malaysia	28.9	26.2	30.4	30.9	18.2	20.0
Thailand	17.6	17.2	22.5	18.6	15.2	15.0
Bolivia	11.1	8.1	10.0	10.5	11.5	11.0
Brazil	12.8	13.8	12.3	10.4	8.7	8.5
Peru	18.2	23.7	25.9	35.9	39.1	40.0
Belgium	8.1	8.5	8.5	8.9	8.5	9.0
Russia	3.9	5.2	5.1	5.1	4.1	4.5
Other	6.9	7.2	7.8	5.3	5.5	6.0
Total World	246.7	268.9	272.2	271.5	274.9	284.0
Consumption						
China	38.0	51.6	62.1	57.7	73.7	81.0
Japan	23.2	25.2	21.5	26.8	29.8	31.0
Other Asia	45.9	50.8	48.1	55.3	56.5	58.0
USA	55.0	52.0	47.8	49.2	49.4	52.0
Other Americas	16.2	16.4	15.2	15.2	16.6	17.0
Europe	64.7	72.5	74.1	71.1	71.0	73.0
Other	5.8	5.0	6.2	5.0	5.2	5.4
Total World	248.8	273.6	275.1	280.2	302.2	317.4

Data: CRU International

The strength of the domestic market means that although Chinese production is again growing – increasing by some 15% in 2003 following a slump in 2001/2 as a result of low prices and an official clampdown on illegal mining in Guangxi province – tin export volumes are at only half the peak levels of a few years ago. Chinese net exports of refined tin fell 8% to 26,344 tonnes last year.

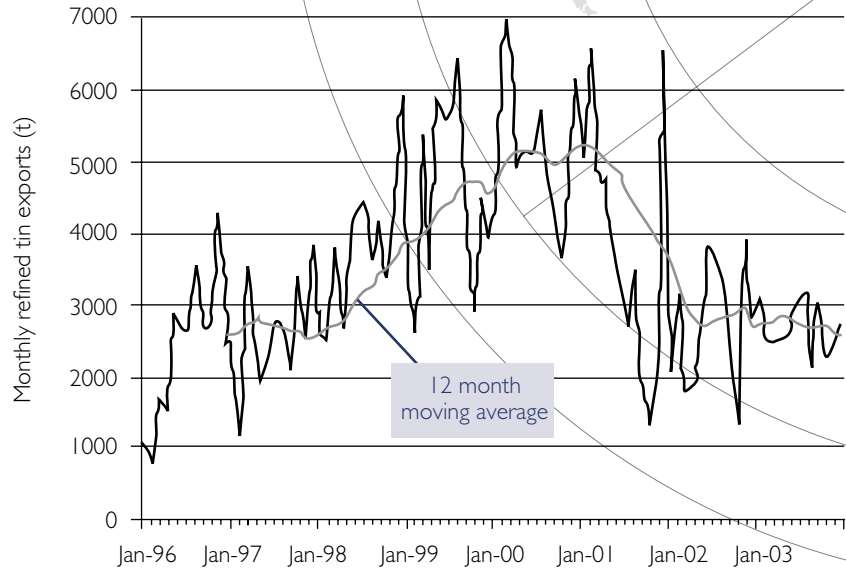


Six-lane tailings retreatment palong at Koba Tin.

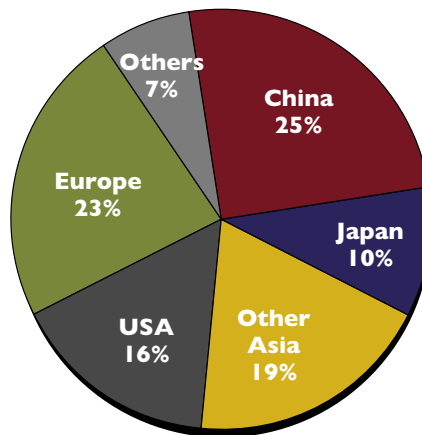


Welding shop.

Chinese tin exports remain steady



Asia accounts for 54% of world demand

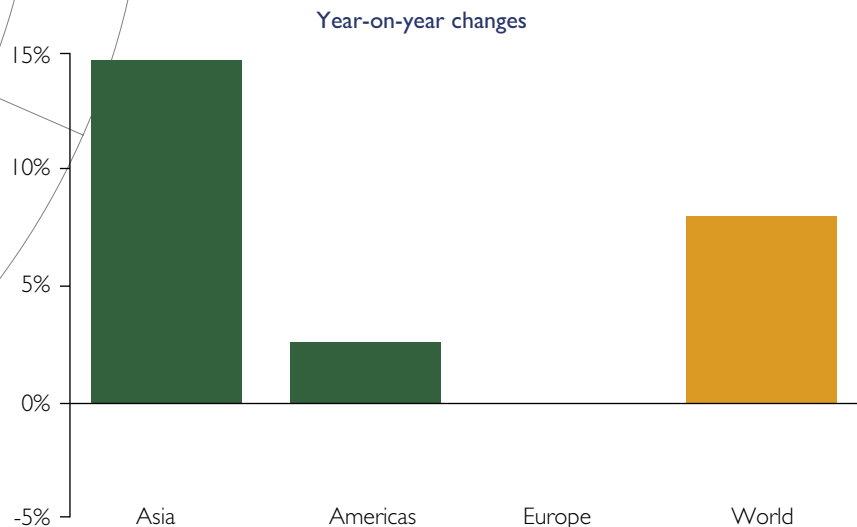


*Training session at Earth Moving
 Equipment workshop.*



MSC brand tin products.

World tin consumption growth 2003



Malaysian Tin Industry

Malaysian tin-in-concentrates production continued to decline and in 2003, the total annual production decreased by a further 19.0% to 3,358 tonnes. Despite repeated efforts to revive the local tin mining industry, the lack of support from State Governments for land access has thwarted any significant revival and production actually went down despite better tin price levels as existing mining units continue to deplete their resource. Domestic tin consumption remained stable at around the 4,000 tpy level. The local solder, pewter and tinplate sectors continued to be the main consumers.

Kuala Lumpur Tin Market

At the Kuala Lumpur Tin market, the average price for 2003 increased by 20% from an average of US\$4,064/tonne (RM15.44 per kg) in 2002 to US\$4,890/tonne (RM18.58 per kg). Market turnover declined by 4,750 tonnes to 12,426 tonnes in 2003.

The Kuala Lumpur Tin Market continues to provide efficient on-line electronic trading facilities in physical tin market with contracts denominated in US Dollars.



Strapped tin ingot bundles.



Exploration work in Koba Tin.

The need for investment in tin

After almost two decades of depressed market conditions and lack of significant new investments on exploration, the tin industry now needs to move quickly to increase supply. MSC has embarked on a major exploration programme in Indonesia to search for new tin deposits under a production sharing agreement with an Indonesian party. MSC's 75% subsidiary, PT Koba Tin also undertakes brownfield exploration within its Contract of Work Agreement area in Bangka Island, Indonesia to find new reserves to replace depletion of reserves from on-going production and to increase the company's reserves and resources for sustainable production. The only other major project due to come on stream in the next few years is the Rocha Sa mine in Brazil, owned by Paranapanema's Mamore tin subsidiary, but even in this case financing remains uncertain. MSC group is one of the four producers which now account for over half of world production. Our efforts to promote tin consumption through ITRI/Tin Technology must be matched by the development of new supplies to underpin this work.



Check drilling ahead of Bemban dredge.

GLOBAL INITIATIVES KEY TO A VIBRANT AND SUSTAINABLE INDUSTRY

The MSC Group is committed to a long-term, sustainable approach to building a healthy tin market. It does this partly through a very active involvement in the direction and funding of Tin Technology Ltd, the UK based organization which works on behalf of the tin industry worldwide.

Tin Technology is the only organization which represents the industry globally and it is supported by major producers and smelters. In addition to the MSC Group, other companies which support the organization include the world's two biggest single producers, Minsur (Peru) and PT Timah (Indonesia).

Tin Technology represents a strong industry commitment to the research, development, and commercialization of new applications for tin. It does this through a strategy which recognizes tin as an environmentally acceptable, sustainable resource. Research projects are carried out in collaboration with different industry sectors, universities and research institutes worldwide and by working throughout the supply chain. Support to industry users of tin is also provided through focused industry user groups, particularly in the key demand sectors of electronics soldering and tinplate.

CHIEF EXECUTIVE OFFICER'S REPORT AND REVIEW OF THE GLOBAL TIN INDUSTRY cont'd

A major tin industry success in which Tin Technology has played a pivotal role is the implementation of lead-free (and therefore high tin content) solders in the global electronics sector. The organization pioneered much of the work in this area which started in the 1980's and has gathered pace in response to market forces and legislation. These developments have already contributed to growing tin demand and ultimately will add some 30,000 tonnes annual consumption.

Tin Technology has recently moved into new custom built laboratories and has installed the most advanced equipment to support its research and technical activities. This has required substantial investment and resources. It now has a vibrant portfolio of new research projects involving diverse technologies and application sectors. This will ensure that tin is established as an innovative metal in the 21st century with a bright future. The organization also recognizes Asia as a major producing region for tin and also a very substantial consumer of the metal. This has resulted in agreements to collaborate with research institutes in Malaysia and Indonesia and also the forging of close links with the Chinese tin industry.

Tin Technology has access to 70 years of tin research and can access more than 40,000 technical papers through its electronic archives. It also has powerful networks and systems which provide an infrastructure for tracking emerging technologies, identifying opportunities for collaboration, and matching projects with funding. This maximizes the global effort on tin research.

As the current President of Tin Technology, I firmly believe that through strong collaboration regionally and globally, it can harness the resources to effectively develop major new and sustainable uses for tin. In this objective, it is fully supported by the MSC Group which believes such industry collaboration provides leadership, strategic direction and a cost effective means of building solid fundamentals and a healthy future for the industry.



Dato' Dr Mohd Ajib Anuar

Group CEO/Executive Director

23 March 2004



Tin Technology's new facility.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors fully appreciates the importance of adopting high standards of corporate governance within the Group. The Board views corporate governance as synonymous with three key concepts, namely transparency, accountability as well as corporate performance.

As such, the Board strives to adopt the substance and spirit behind corporate governance prescriptions and not merely the form. The Board is thus fully committed to the maintenance of high standards of corporate governance by supporting and implementing the prescriptions of the Principles and Best Practices set out in Parts 1 and 2 of the Malaysian Code on Corporate Governance (the "Code") respectively.

The Board is pleased to provide the following statements, which outline the main corporate governance practices that were in place throughout the financial year, unless otherwise stated.

STATEMENT OF PRINCIPLES

The following statement sets out how the Company has applied the Principles in Part 1 of the Code. The Principles are dealt with under the headings of Board of Directors; Directors' Remuneration; Shareholders; and Accountability and Audit.

A. BOARD OF DIRECTORS

Board Responsibilities

The Group acknowledges the pivotal role played by the Board of Directors in the stewardship of its direction and operations, and ultimately the enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for the overall corporate governance of the Group, including the strategic direction, establishing goals for Management and monitoring the achievement of these goals.

Meetings

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. During the financial year under review, the Board met on five (5) occasions, where it deliberated upon and considered a variety of matters including the Group's financial results, major investments, strategic decisions and the overall direction of the Group.

The Board receives documents on matters requiring its consideration in advance of each meeting. All proceedings from Board meetings are recorded and the minutes thereof signed by the Chairman of the meeting.

Details of Directors' attendances at meetings of the Board, Board Executive Committee ("EXCO") and Audit Committee during the financial year under review are as follows:

DIRECTOR	BOARD	EXCO	AUDIT COMMITTEE
Jeneral (B) Tun Ibrahim bin Datuk Ismail	5/5	5/5	Not applicable
Mr Choi Siew Hong	5/5	5/5	4/4
Mr Norman Ip Ka Cheung	5/5	5/5	4/4
Dato' Siew Nim Chee	3/5	Not applicable	Not applicable
Dato' Dr Mohd Ajib Anuar	5/5	5/5	Not applicable
Dato' Wira Syed Abdul Jabbar bin Syed Hassan	3/5	Not applicable	Not applicable
Dato' Ismail bin Shahudin	5/5	3/5	Not applicable
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii	3/5	Not applicable	3/4

Board Committees

The Board of Directors delegates certain responsibilities to the Board Committees, namely the Board Executive Committee, Audit Committee, Nominating Committee and Remuneration Committee, in order to enhance business and operational efficiency as well as efficacy.

All Board Committees have written terms of reference and operating procedures and the Board receives reports of their proceedings and deliberations, where relevant. The Chairman of the various Committees reports to the Board the outcome of the Committee meetings and such reports are normally incorporated in the minutes of the full Board meeting.

Board Balance

At the date of this statement, the Board consists of eight (8) members, comprising three (3) Independent Non-Executive Directors, one (1) Executive Director and four (4) Non-Executive Directors. The Directors, with their different backgrounds and specialization, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, marketing and operations. The brief profile of each Director is presented on pages 10 to 13 of this Annual Report.

There is a clear division of responsibilities at the head of the Company to ensure a balance of authority and power. The Board of Directors and the Board Executive Committee are led by Jeneral (B) Tun Ibrahim bin Datuk Ismail, a non-executive Chairman while the executive management of the Company is led by Dato' Dr Mohd Ajib Anuar, the Group Chief Executive Officer.

According to the Board Charter adopted by the Directors on 29 January 2003, the roles of Chairman and the Group Chief Executive Officer are formalized and clearly defined with their individual position descriptions. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient and relevant information on financial and non-financial matters to enable them to participate actively in Board decisions. The Group Chief Executive Officer is responsible for the day-to-day management of the business as well as the implementation of Board's policies and decisions.

Pursuant to Best Practices of the Code, the Board appointed Mr Choi Siew Hong on 29 January 2003 as the Senior Independent Non-Executive Director to whom concerns of Directors may be conveyed.

The current Board composition fairly reflects the investment of all shareholders in the Company.

Supply of Information

The Chairman ensures that all Directors have full and timely access to information with Board papers distributed in advance of meetings. Every Director has unhindered access to the advice and services of the Company Secretary. The Board believes that the current Company Secretary is capable of carrying out his duties to ensure the effective functioning of the Board. The Articles of Association specify that the removal of the Company Secretary is a matter for the Board as a whole.

Before the meetings of the Board and the Board Committees, appropriate documents which include the agenda and reports relevant to the issues of the meetings covering, where appropriate, the areas of strategic, financial, operational and regulatory compliance matters, are circulated to all the members to obtain further explanations, where necessary, in order to be properly briefed before the meetings.

The Directors meet, review and approve all corporate announcements, including the announcement of the quarterly financial reports, before releasing them to the Malaysia Securities Exchange Berhad ("MSEB").

The Board as a whole will determine, whether as a full Board or in their individual capacity, to take independent professional advice, where necessary and under appropriate circumstances, in furtherance of their duties, at the Group's expense. However, where necessary and under appropriate circumstances in furtherance of their duties, any Director may do so with the prior consent and approval of the Chairman.

Appointments to the Board

Nominating Committee

The Nominating Committee, during the financial year under review, comprised the following members:

Mr Choi Siew Hong	- Chairman, Independent Non-Executive Director
Dato' Wira Syed Abdul Jabbar bin Syed Hassan	- Non-Independent Non-Executive Director
Dato' Siew Nim Chee	Independent Non-Executive Director

The Nominating Committee is empowered by the Board and its terms of reference are to bring to the Board recommendations on the appointment of new Directors. The Committee also keeps under review the Board structure, size and composition as well as considering the Board succession planning. The Nominating Committee systematically assesses the effectiveness of the Board, Board Committees and the contribution of each individual Director on an annual basis. During the financial year, the Nominating Committee met once with the meeting attended by all its members.

Appointment Process

The Board, through the Nominating Committee's annual appraisal, believes that the current Board's composition brings the required mix of skills and core competencies required for the Board to discharge its duties effectively. Furthermore, the Board continuously reviews its size and composition with particular consideration on its impact on the effective functioning of the Board.

The Board appoints its members through a formal and transparent selection process. New appointees will be considered and evaluated by the Nominating Committee. The Committee will then recommend the candidates to be approved and appointed by the Board. The Company Secretary will ensure that all the necessary information is obtained and that all legal and regulatory obligations are met before the appointments are made.

Directors' Training

The Board, through the Nominating Committee, ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfill the duties of a Director appropriately. Although there is no formal training programme for Directors, they are brought to the location of the smelting plants, both in Malaysia and overseas, to ensure the Directors have a thorough understanding of the Group's operations. At the date of this Statement, all Directors have attended and successfully completed the Mandatory Accreditation Programme ("MAP") conducted by the Research Institute of Investment Analysts Malaysia (RIIAM). The Directors will also undergo the MSEB accredited Continuing Education Programme ("CEP") and other relevant training to further enhance their skills and knowledge.

Re-election

The Articles of Association provide that all Directors of the Company are subject to retirement and at least one-third of the Board shall retire by rotation at each Annual General Meeting of the Company. This provides an opportunity for shareholders to renew their mandate. The Directors to retire in each year are those who have been longest in office since their appointment or reappointment.

Directors over seventy (70) years of age are required to submit themselves for reappointment annually in accordance with Section 129 (6) of the Companies Act, 1965.

Board Executive Committee

The Board established a Board Executive Committee to focus on corporate governance and the operational performance of the Group. The Committee, during the financial year under review, comprised the following members:

Jeneral (B) Tun Ibrahim bin Datuk Ismail	- Chairman, Non-Executive Director
Mr Choi Siew Hong	- Independent Non-Executive Director
Mr Norman Ip Ka Cheung	- Non-Executive Director
Dato' Ismail bin Shahudin	- Non-Executive Director
Dato' Dr Mohd Ajib Anuar	- Executive Director

The Board Executive Committee met five (5) times during the financial year under review, examined the depth of the Group's business performance and agreed on recommendations to enhance and improve on operational matters affecting the Group. In addition, the Committee has been entrusted to explore and recommend to the Board new business ventures, expansion and diversification opportunities with the aim of increasing the Group's profit and growth.

B. DIRECTORS' REMUNERATION

Remuneration Committee

The Remuneration Committee, during the financial year under review, comprised the following members:

Mr Norman Ip Ka Cheung	- Chairman, Non-Executive Director
Dato' Siew Nim Chee	- Independent Non-Executive Director
Mr Choi Siew Hong	- Independent Non-Executive Director
Dato' Dr Mohd Ajib Anuar	- Executive Director

The Remuneration Committee met once during the financial year, attended by all its members. The Committee is responsible for recommending the remuneration framework for Executive Directors and senior management staff, including their remuneration packages. In formulating the recommended framework and levels of remuneration, the Committee has considered information prepared by independent consultants and survey data on the remuneration practices of comparable companies. The Executive Director does not participate in any way in determining his individual remuneration.

The Board, as a whole, determines the remuneration of Non-Executive Directors with the individual Director concerned abstaining from the decision in respect of his remuneration. Taking into account the performance of the Group and the responsibilities and performance of the Directors, Directors' fees are set in accordance with a remuneration framework comprising responsibility fees and attendance fees. The Company pays its Directors annual fee, which is approved annually by shareholders.

The policy adopted by the Remuneration Committee is to provide the remuneration package necessary to attract, retain and motivate the Executive Director of the quality required to manage the business of the Company and to align the interest of the Executive Director with those of the shareholders.

Remuneration Committee (cont'd)

Details of the nature and amount of each major element of the remuneration of Directors of the Company, during the financial year, are as follows:

CATEGORY	FEES (RM'000)	SALARIES AND OTHER EMOLUMENTS (RM'000)
Executive Director	20	701
Non-Executive Directors	380	–

The number of Directors whose remuneration fell within the following bands is shown below:

RANGE OF REMUNERATION	EXECUTIVE DIRECTOR	NON-EXECUTIVE DIRECTORS
RM550,001 to RM750,000	1	–
RM50,001 to RM100,000	–	3
RM50,000 and below	–	4

C. SHAREHOLDERS

The Company recognizes the importance of communicating with its shareholders and does this through the Annual Reports, Annual General Meetings (AGM) and Extraordinary General Meetings. At the AGM, the shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general.

In addition, the Company makes various announcements through the MSEB, in particular, the timely release of the quarterly results within two months from the close of a particular quarter. Summaries of the quarterly and full year's results and copies of the full announcement are supplied to shareholders and members of the public upon request. Members of the public can also obtain the full financial results and the Company's announcements from the MSEB's website.

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly announcement of the results to the shareholders and the Chairman's statement in the Annual Report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Directors' Responsibility Statement in respect of the Preparation of the Audited Financial Statements

The Board is responsible for ensuring that the financial statements of the Group give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of their results and cashflows for the year then ended. In preparing the financial statements, the Directors have ensured that applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been complied with.

In preparing the financial statements, the Directors have selected and applied consistently suitable accounting policies and made reasonable and prudent judgments and estimates.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

State of Internal Controls

The Statement on Internal Control furnished on pages 44 to 46 of this Annual Report provides an overview of the state of internal controls within the Group during the financial year under review.

Relationship with the Auditors

Key features underlying the relationship of the Audit Committee with the internal and external auditors are included in the Audit Committee's terms of reference as detailed on pages 39 to 41 of this Annual Report.

A summary of the activities of the Audit Committee during the financial year under review, including the evaluation of the independent audit process, are set out in the Audit Committee Report on pages 42 and 43 of this Annual Report.

STATEMENT OF COMPLIANCE

The Group has complied, throughout the financial year ended 31 December 2003, with all the Best Practices of corporate governance set out in Part 2 of the Code except for the following:

- Appointment of a Senior Independent Non-Executive Director to whom concerns may be conveyed was made on 29 January 2003; and
- With the adoption of the Board Charter on 29 January 2003, the Board has in place a formal schedule of matters specifically reserved to it for decision. Before this, it was the practice for the Board to deliberate on matters that involved overall Group strategy and direction, acquisition and divestment policy, approval of major capital expenditure, consideration of significant financial matters and the review of financial and operating performance of the Group. The Board Charter also explicitly formalizes and delineates the roles and functions of the Board, the Chairman of the Board, the Group Chief Executive Officer and the various Board Committees.

Date: 23 March 2004

TERMS OF REFERENCE

The Audit Committee (the "Committee") was established to act as a Committee of the Board of Directors (the "Board") to fulfill its fiduciary responsibilities. The authority, functions and duties of the Committee shall be extended to Malaysia Smelting Corporation Berhad (the "Company") and its subsidiary companies (the "Group").

1. Membership

The present members of the Committee comprises:

Mr Choi Siew Hong, Chairman (Independent Non-Executive Director)
Mr Norman Ip Ka Cheung (Non-Executive Director)
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii (Independent Non-Executive Director)

2. Composition

The Board shall elect and appoint Committee members from amongst their members, comprising no fewer than three (3) Directors, the majority of whom shall be Independent Non-Executive Directors. In this respect, the Board adopts the definition of "independent director" under the Malaysia Securities Exchange Berhad ("MSEB") Listing Requirements, which stipulate that at least one member of the Committee shall:

- be a member of the Malaysian Institute of Accountants ("MIA");
- if he is not a member of MIA, he must have at least three (3) years of working experience and:
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - he must be a member of the associations of accountants specified in Part II of the Accountants Act 1967;
- be a holder of a degree/masters/doctorate in accounting or finance and has at least three (3) years' post qualification experience in accounting or finance; or
- have at least seven (7) years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

If a member of the Committee resigns, dies or for any reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of the event appoint such number of new members as may be required to fill the vacancy.

The Chairman of the Committee shall be an Independent Non-Executive Director. No alternate Director of the Board shall be appointed as a member of the Committee.

3. Meetings

Meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate.

In order to form a quorum for a meeting, the majority of members present must be Independent Non-Executive Directors. In the absence of the Chairman, the members present shall elect a Chairman for the meeting from amongst the members present.

The Company Secretary shall be appointed Secretary of the Committee. The Secretary, in conjunction with the Chairman, shall draw up an agenda, which shall be circulated at least one (1) week before each meeting to members of the Committee. The minutes of all Committee meetings shall be circulated to members of the Board. The Chairman shall submit an annual report to the Board summarising the Committee's activities during the financial year and the related significant results and findings.

The Committee shall meet at least annually with the External Auditors without the presence of any executive Board member. In addition, Management, the Internal Auditor and the External Auditors may request for a private session with the Committee to discuss any matter of concern.

4. Authority

The Committee is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and employees are directed to co-operate with any request made by the Committee. The Committee can obtain, at the expense of the Company, outside legal or other independent professional advice if it considers necessary.

Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the MSEC Listing Requirements, the Committee shall promptly report such matter to the MSEC.

5. Responsibilities and duties

In fulfilling its primary objective, the Committee shall undertake the following responsibilities and duties:

- Review the Audit Committee's Terms of Reference as conditions dictate;
- Review with the External Auditors, the audit scope and plan, including any changes to the planned scope of the audit plan;
- Review the adequacy of the internal audit scope and plan, functions and resources of the internal audit function and that it has the necessary authority to carry out its work;
- Appoint Internal Auditors who will report functionally to the Audit Committee and review their performance on an annual basis;
- Review the external and internal audit reports to ensure that appropriate and prompt remedial action is taken by Management on major deficiencies in controls or procedures that are identified;
- Review major audit findings and the Management's response during the financial year with Management, External Auditors and Internal Auditors, including the status of previous audit recommendations;
- Review the assistance given by the Group's officers to the auditors, and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information;
- Review the independence and objectivity of the External Auditors and their services, including non-audit services and the professional fees, so as to ensure a proper balance between objectivity and value for money;
- Review the appointment and performance of External Auditors, the audit fee and any question of resignation or dismissal before making recommendations to the Board;

5. Responsibilities and duties (cont'd)

- Review the Internal Audit Charter, budget and staffing of the Internal Audit Department;
- Review the adequacy and integrity, including effectiveness, of internal control systems, management information system, and the Internal Auditors' and/or External Auditors' evaluation of the said systems;
- Direct and, where appropriate, supervise any special projects or investigation considered necessary, and review investigation reports on any major defalcations, frauds and thefts;
- Review the quarterly results and the year-end financial statements, prior to approval by the Board, focusing particularly on:
 - changes in or implementation of major accounting policy;
 - significant or unusual events; and
 - compliance with accounting standards and other legal requirements;
- Review procedures in place to ensure that the Group is in compliance with the Companies Act 1965, MSEC Listing Requirements and other legislative and reporting requirements;
- Review any related party transaction and conflict of interest situation that may arise within the Company or the Group, including any transaction, procedure or course of conduct that raises question on Management's integrity;
- Prepare reports, at least once a year, to the Board summarising the work performed in fulfilling the Committee's primary responsibilities; and
- Any other activities, as authorised by the Board.

Membership

The Directors who have served as members of the Audit Committee (the "Committee") during the financial year under review and as at the date of this report are:

Mr Choi Siew Hong	Chairman, Independent Non-Executive Director
Mr Norman Ip Ka Cheung	Non-Executive Director (Fellow of the Institute of Chartered Accountants, England and Wales)
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii	Independent Non-Executive Director (Fellow of the Institute of Chartered Accountants, England and Wales and member of Malaysian Institute of Accountants)

Terms of Reference

The Committee was established on 30 August 1994 to act as a Committee of the Board of Directors, with the terms of reference set out on pages 39 to 41 of this Annual Report.

Meetings

The Committee convened four (4) meetings during the financial year. Details of the members' attendances are shown in the Statement on Corporate Governance set out on page 33 of this Annual Report. The meetings were structured through the use of agendas, which were distributed to members with sufficient notification.

The Company Secretary was present at all the meetings. Representatives of the External Auditors, Messrs Ernst & Young, the Head of Internal Audit as well as the Group Chief Executive Officer/Executive Director, Group Chief Operating Officer, Smelting and the Group Chief Financial Officer also attended the meetings, where appropriate, upon invitation.

Summary of activities of the Committee during the financial year under review

The Committee carried out its duties in accordance with its terms of reference during the year. The main activities undertaken by the Committee were as follows:

- Reviewed with the External Auditors:
 - (a) Their scope of work and audit plan;
 - (b) The audited financial statements of the Group and the Company prior to submission to the Board for consideration and approval;
 - (c) Their management letter, including Management's response relating to the issues highlighted; and
 - (d) Without the presence of Management, the extent of co-operation of Management in providing required information, explanation and clarification and whether there had been any problems impinging on their independence and objectivity in the course of their audit;
- Reviewed with the Group Chief Executive Officer, the Group Chief Financial Officer and other Senior Management staff the unaudited quarterly financial statements before submission to the Board for consideration and approval for release to the Malaysia Securities Exchange Berhad;
- Reviewed the Internal Audit Department's resource requirements, programmes and plan for the financial year under review and the annual assessment of the Internal Audit Department's performance;
- Reviewed with the Internal Auditor, including external consultants who were engaged to conduct internal audit and enterprise risk management reviews of an overseas subsidiary company, and Senior Management staff the findings in the risk management review and the internal audit reports, including corrective actions taken or proposed to be taken by Management; and
- Considered and recommended to the Board audit fees payable to the External Auditors and the reappointment of External Auditors for the Board's submission to shareholders for approval at the Annual General Meeting;

Internal Audit Function

The Internal Audit Department is independent of the activities or operations of other operating units. In respect of the operations of an overseas subsidiary company, an independent firm of consultants was engaged to carry out risk-based internal audit in close liaison with the Head of Internal Audit of the Company. The principal role of the Internal Audit Department is to undertake regular and systematic reviews of the systems of internal control in order to provide reasonable assurance that such systems continue to operate satisfactorily and effectively. It is the responsibility of the Internal Audit Department to provide the Audit Committee with independent and objective reports on the state of internal control of the various operating units within the Group and the extent of compliance of the units with the Group's established policies and procedures as well as relevant statutory requirements.

Further details of the activities of the Internal Audit Department are set out in the Statement on Internal Control on pages 44 to 46 of this Annual Report.

Date: 23 March 2004

Introduction

Paragraph 15.27(b) of the Malaysia Securities Exchange Berhad Listing Requirements requires the Board of Directors of public listed companies to include in its annual reports a “statement about the state of internal control of the listed issuer as a group”. The Board is committed to maintaining a sound system of internal control in the Group and is pleased to provide the following statement, which outlines the nature and scope of internal control of the Group during the financial year under review.

Board Responsibility

The Board is ultimately responsible for the Group’s system of internal control, which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. Because of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter-alia, financial, operational and compliance controls and risk management procedures.

The Board has established an ongoing process for identifying, evaluating and managing significant risks faced by the Group. This process has been in place throughout the financial year under review. It has been regularly reviewed by the Board and accords with the Statement on Internal Control: Guidance for Directors of Public Listed Companies (the “Internal Control Guidance”).

Whilst the Board maintains ultimate control over risk and control issues, it has delegated to Management the implementation of the system of risk management and internal control within an established framework. The Board has established key policies and has carried out a specific assessment of the Group’s risk management and internal control systems.

Enterprise risk management framework

The Board fully supports the contents of the Internal Control Guidance and, through the Audit Committee, continually reviews the adequacy and effectiveness of the risk management processes in place within the various operating businesses in Malaysia and the Republic of Indonesia, with the aim of strengthening the risk management functions across the Group.

Management is responsible for the management of risks, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so in accordance with the policies adopted by the Board. Further, independent assurance is provided by the internal audit function, which operates across the Group.

The Board believes that maintaining a sound system of internal control is premised upon a clear understanding and appreciation of the following key elements of the Group’s enterprise risk management framework:

- A risk management structure, which depicts the lines of reporting and responsibility at the Board, Audit Committee and Management levels, has been established. The risk management structure enhances risk oversight and management, and integrates expectation on risk management into quarterly performance management and reporting;
- The Audit Committee, which is assisted by Internal Audit Function and external consultants, undertakes the responsibility to identify and communicate to the Board of Directors the critical risks (present and potential) the Group faces, their changes, and the management action plans to manage the risks;

Enterprise risk management framework (cont'd)

- Risk appetite (qualitative and quantitative) for the major business units in the Group have been determined so as to gauge acceptability of risk exposure;
- The Internal Audit Function has been entrusted to coordinate enterprise risk management within the Group and to provide clear leadership, direction and coordination of the group-wide application of risk management;
- The issuance of a Risk Management Policy and Procedure Document, which outlines the risk management framework for the Group and offers practical guidance to all employees on risk management issues;
- The Group management's implementation of a group-wide risk assessment process, which identifies the key risks facing each major business unit, the potential impact and likelihood of those risks occurring, the control effectiveness and action plans being taken to manage those risks to the desired level. A database of all risk and controls has been created, and information filtered to produce a detailed risk register, and individual risk profiles for the major business units; and
- Key management of each business unit has prepared action plans, with implementation time-scales to address any risk and control issues on an ongoing basis.

The Board considers that the enterprise risk management framework is robust, but will still subject the framework to continuous improvement, taking into consideration better practices and the changing business environment, where appropriate.

Internal Audit Function

The Group has in place an independent Internal Audit Department, which provides the Board with much of the assurance it requires regarding the adequacy and effectiveness of risk management, internal control and governance systems. To strengthen the Internal Audit Function, the Board appointed independent external consultants during the financial year to assist the Internal Audit Department in the review of the adequacy and effectiveness of internal control system in the business unit located in the Republic of Indonesia.

The Internal Audit Function independently reviews the risk identification procedures and control processes implemented by Management, and reports to the Audit Committee on a quarterly basis. The Internal Audit Department also reviews the internal controls in the key activities of the Group's businesses based on a rolling 3-year internal audit strategy and plan in line with the risk profiles of the major business units in the Group.

The Audit Committee considers reports from Internal Audit and from Management, before reporting and making recommendations to the Board in strengthening the internal control and governance systems. The Committee presents its findings to the Board on a quarterly basis.

Other risk and control processes

Apart from risk management and internal audit, the Board has put in place an organizational structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established, which provides for a documented and auditable trail of accountability. The procedures include the establishment of limits of authority coupled with the publication of the Management Staff Handbook and the periodically negotiated Collective Agreements, which highlight amongst others policies on health and safety, training and development, equality of opportunity, staff performance and serious misconduct. These procedures are relevant across the Group's operations and provide for continuous assurance to be given at increasingly higher levels of management and, finally to the Board. The process is reviewed by the internal audit function, which provides a degree of assurance as to the operations and validity of the systems of internal control. Planned corrective actions are independently monitored for timely completion.

The Group Chief Executive Officer also reports to the Board on significant changes in the business and the external environment. The Group Chief Financial Officer provides the Board with quarterly financial information, which includes pertinent key performance indicators. This includes, among others, the monitoring of results against budget, with variances being followed up and management action taken, where necessary. Where areas of improvement in the system are identified, the Board considers the recommendation made by the Audit Committee and the Management.

Weaknesses in internal controls that result in material losses

There were no material losses incurred during the financial year under review as a result of weaknesses in internal control. Management continues to take measures to strengthen the control environment.

Date: 23 March 2004