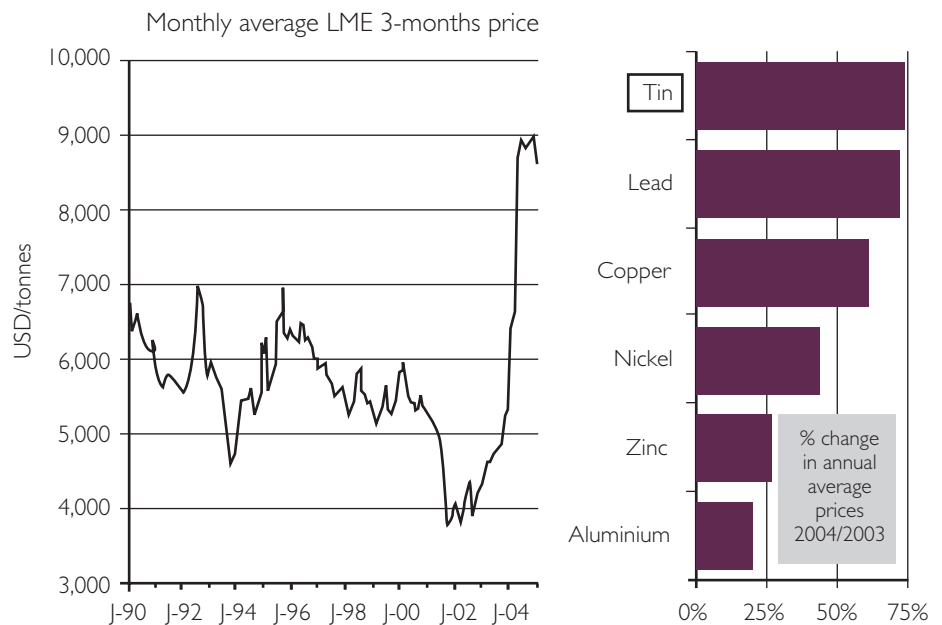




Prices and the Supply/Demand Position

The average London Metal Exchange (LME) cash price of tin in 2004 was USD8,513/tonne, an increase of 74% compared to the previous year. The rise followed a gain of 21% in 2003 and was larger than that recorded for any of the other LME traded metals. The significant increase in prices occurred between the final quarter of 2003 and the middle of last year. Subsequently prices stabilised at around USD8,500 – USD9,000/tonne, before declining at the very end of the year and in the first week of 2005.

Tin Price Movements Since 1990



4 Nines tin and tin concentrates.



Tin ingot bundles.

Last year's increase in prices may have been supported by speculative buying in the first half of the year but was nevertheless firmly based on fundamental changes in global supply and demand. CRU International Limited (CRU) estimates that global tin usage rose by 9.8% in 2004, following an 8.9% rise in 2003. Consumption continued to increase very strongly and visible inventories were rapidly depleted. CRU forecasts that world supply will fall short of consumption by around 5,000 tonnes in 2005, which would be a fourth consecutive year of supply deficit.

World Supply/Demand Balances in Refined Tin

('000 tonnes)						CRU Forecast
	2000	2001	2002	2003	2004	2005
World						
World Refined Production	268.9	272.1	268.3	281.1	316.3	333.9
DLA Sales	9.0	7.7	8.4	9.9	9.2	10.0
World Refined Consumption	275.0	276.8	279.2	304.0	333.8	349.0
Global Market Balance	2.9	3.0	-2.5	-13.0	-8.3	-5.1
Reported stocks						
LME	12.9	30.6	25.6	14.5	8.2	5.0
Producer	11.8	8.6	8.5	8.2	9.0	8.0
Consumer/others	14.0	12.5	11.5	12.0	12.0	11.0
Total	38.6	51.6	45.6	34.6	29.2	24.0
<i>World Stock Ratio (weeks consumption)</i>	7.3	9.7	8.5	5.5	4.5	3.6

Data: CRU



Premium Grade 99.99% tin.



Sample analysis using XRF at PT Koba Tin, Indonesia.

CRU estimates that world consumption in 2004 was in excess of 330,000 tonnes, more than 80,000 tonnes higher compared to 1999. A further rise to almost 350,000 tonnes is forecasted for 2005.

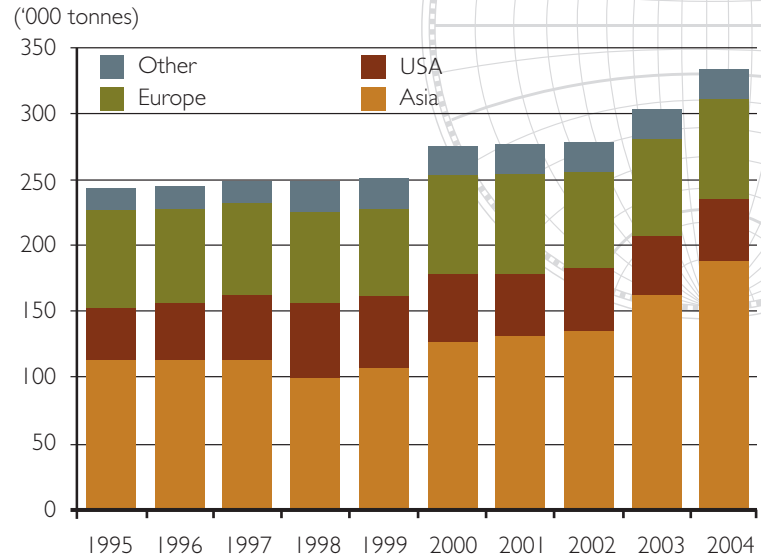
The rise in consumption in 2004 was due to the general good health of the world economy, the very rapid industrialisation of China and increased use of tin in electronics solders. The move to lead-free solders is adding about 10% to the size of the world market over 3 – 4 years and there are promising prospects in a number of new applications, including cement production. There has been no indication that higher prices have resulted in substitution away from tin in existing applications, although uncertainty about long-term availability may have an adverse effect on the promotion of new uses.

The world tin market is now highly Asia-focused. Asian countries accounted for some 57% of world usage last year and annual Asian tin demand has increased by almost 90,000 tonnes since the low point following the financial crisis of 1997/98. Last year Japanese consumption increased by 17% while Chinese consumption is estimated to have expanded by 24% to almost 95,000 tonnes, boosted by both the rising incomes of Chinese consumers and the re-location of manufacturing capacity from elsewhere in the world. The growth in the size of the Chinese market has resulted in a continuing fall in net exports of refined tin, despite the fact that Chinese production has also been rising. Chinese net exports of refined tin fell by 15% to 22,377 tonnes last year (this compares with an all-time peak of over 60,000 tonnes in 2000) and these were offset by large and rising net imports of concentrates (8,912 tonnes) and semis (19,189 tonnes).



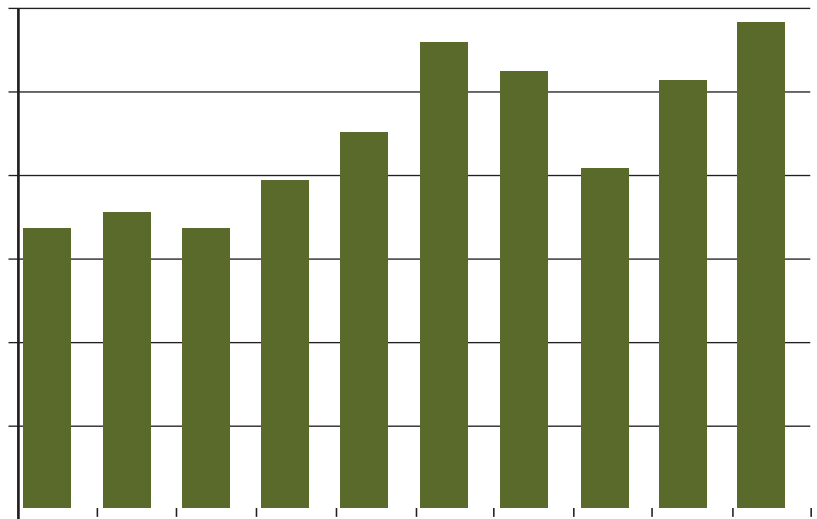
Analysing results at PT Koba Tin, Indonesia.

WORLD CONSUMPTION AT NEW RECORD LEVELS



Mineralogical evaluation at PT Koba Tin, Indonesia.

CHINESE SUPPLY SURPLUS SHRINKS





Stimulated by higher prices, world tin production has also been rising, with much of the supply response coming from small producers in Indonesia. The twelve leading tin companies shown below account for 80% of world output, but the majority of them rely on supplies of raw materials from a large number of small suppliers. Small mines were estimated to have accounted for 55% of world production last year.

Leading Tin Companies, 2004

(Annual production, tonnes refined tin)

	2003	2004	%change
Minsur (Peru)	39,122	40,222	2.8%
Yunnan Tin (China)	31,662	36,321	14.7%
PT Timah (Indonesia)	45,906	34,764	-24.3%
Malaysia Smelting Corporation	18,210	33,740	85.3%
PT Koba Tin	18,848	23,530	24.8%
Thaisarco (Thailand)	15,225	20,651	35.6%
Yunnan Chengfeng (China)	12,676	13,257	4.6%
Liuzhou China Tin (China)	13,143	11,887	-9.6%
Gejui Zi-Li (China)	14,080	11,858	-15.8%
CM Colquiri (Bolivia)	11,500	11,330	-1.5%
Metallo-Chimique (Belgium)	7,737	8,700	12.4%
Mamore/Paranapanema (Brazil)	7,654	7,393	-3.4%

Data: Companies, National Bureau of Statistics (China)



Engine maintenance at PT Koba Tin, Indonesia.



Genset major overhaul at PT Koba Tin, Indonesia.

World Production and Consumption of Refined Tin

('000 tonnes)

 CRU
Forecast

	2000	2001	2002	2003	2004	2005
Production						
China	112.4	105.1	81.8	103.1	117.2	124.0
Indonesia	46.4	44.6	59.6	64.8	61.0	65.0
Malaysia	26.2	30.4	30.9	18.3	33.7	36.0
Thailand	17.2	22.5	18.6	15.2	20.6	22.0
Bolivia	8.1	10.0	10.5	12.8	13.0	13.5
Brazil	13.8	12.2	11.7	10.6	10.5	11.5
Peru	23.7	25.9	35.9	39.1	40.2	39.0
Belgium	8.5	8.5	8.9	7.7	8.7	8.9
Russia	5.2	5.1	5.1	4.1	4.3	6.0
Others	7.2	7.8	5.3	5.4	7.1	8.0
Total World	268.9	272.1	268.3	281.1	316.3	333.9
Consumption						
China	51.6	62.1	53.2	76.8	95.0	102.0
Japan	25.2	21.5	26.8	28.8	33.8	35.0
Other Asia	50.8	48.1	55.0	57.2	60.0	62.0
USA	52.0	47.8	49.2	44.7	47.5	49.0
Other Americas	16.4	15.0	15.3	16.9	17.0	17.5
Europe	73.9	76.0	72.6	74.8	75.5	78.0
Others	5.0	6.2	7.0	4.7	5.0	5.5
Total World	275.0	276.8	279.2	304.0	333.8	349.0

Data: CRU



Monitoring powerhouse operations at PT Koba Tin, Indonesia.

Malaysian Tin Industry

Malaysian tin-in-concentrates production declined significantly in 2004 despite better tin prices. The total annual production decreased by about 18.2% to 2,746 tonnes of tin-in-concentrates. Continuing lack of support from the various State Governments in giving out new mining leases and closure of mining units due to depletion of reserves are the main factors contributing to the decline in Malaysian tin production.

Domestic tin consumption in 2004 increased by nearly 15% to about 4,600 tonnes tin with the solder, pewter and tin-plating industries continuing to be the major sectors of tin consumption in Malaysia.

Kuala Lumpur Tin Market

At the Kuala Lumpur Tin Market, the average price for 2004 increased significantly by nearly 74% from an average of USD4,890 per tonne (RM18.58 per kg) in 2003 to USD8,493 per tonne (RM32.27 per kg).

Market turnover also increased significantly by 6,897 tonnes to 19,323 tonnes in 2004.

Defense Logistics Agency (DLA) Tin Stockpile

As at 30 September 2004, US Geological Survey reported the uncommitted tin inventory of 25,100 tonnes. Under the Congress authorization of reducing the stockpile to zero and at a yearly disposal rate of 12,000 tonnes, the stockpile will be completely depleted or become an insignificant factor in the supply/demand equation before end 2006.

SUSTAINABLE DEVELOPMENT AT PT KOBA TIN, INDONESIA

As one of the
leading global integrated tin producers
in the world, the MSC Group of companies is firmly
committed in embodying **sustainable development
philosophy** as an integral part of its operations.

The MSC Group supports the call for a global transition to sustainable development, a vision based on achieving better quality of life for the world population today, while preserving and increasing the ability of future generations to achieve a higher quality of life for themselves.

As one of the leading integrated tin producers in the world, the MSC Group of companies is firmly committed in embodying sustainable development philosophy as an integral part of its operations.

The MSC Group's report on sustainable development efforts for the year focuses on three core areas - community development, health and safety of employees and environmental management - at MSC's 75% owned subsidiary in Indonesia, PT Koba Tin.



Fish farm in rehabilitated ex-mining land.

SUSTAINABLE DEVELOPMENT

AT PT KOBATIN, INDONESIA CONT'D



COMMUNITY DEVELOPMENT

PT Koba Tin engages itself in community level activities and fostering economic, social and cultural growth, making contributions that go towards meeting social needs of the community as well as protecting human health and amenity.

PT Koba Tin's community development efforts are mindful of protecting local character and distinctiveness, strengthening community and cultural identity whilst at the same time helping to improve leisure, recreation and community and cultural facilities.

Among the community development projects undertaken by PT Koba Tin in the recent years include :

- infrastructure development and maintenance programmes such as provision of integrated health services to the community as well as building and repairing of bridges and rural roads for the villages,
- building of educational infrastructure and facilities which include development of students' extracurricular activities, providing scholarship schemes as well as honorariums for teachers working in remote areas,
- community healthcare programmes especially in collaboration with existing local healthcare providers such as Koba Puskesmas (Community Health Centre), Health Affairs Service and Manpower Service for the Second Level Area of Bangka Tengah,
- youth and sports programmes which are expected to spur other youth programmes and encourage more sporting activities in the community, and
- introducing and supporting economic activities in post mining areas such as the Kajuara fresh water fish culture project which we are pleased to note, have been successfully taken over by the local community of Desa Perlang.



Educating the young.



Youth programme.



Community healthcare.

SUSTAINABLE DEVELOPMENT

AT PT KOBATIN, INDONESIA CONT'D



HEALTH & SAFETY OF EMPLOYEES

Providing a safe working environment is part of the MSC Group's guiding policy in all its global operations. Through global culture of safety performance, the Group consistently strives to achieve zero accident safety record.

For the period under review, safety procedures that have been in practice at PT Koba Tin, both at mine sites as well as the smelter, continued to be adhered and strengthened. These include equipping employees with personal protective equipment while at work, ensuring they were subject to regular medical check-ups and were extended proper health insurance by the company. The company also conducted safety audits at regular intervals to maintain high safety standards at all times.

In addition 'employee competency certification' programme had been introduced, aimed at increasing and matching the employee skills to the job requirement in order to achieve high quality standard of performance without compromising safety of employees.

In recognition of its efforts, PT Koba Tin secured first place in the Safety Award for 2003 (mid-size company category), sponsored by the Ministry of Energy and Mineral Resources of Indonesia.

In order to further enhance its overall efficiency and competitiveness, PT Koba Tin has embarked on ISO accreditation programme which includes the OHSAS 18001 (health and safety). The official accreditation is expected to be achieved in the third quarter of 2005.



Rabbling the furnace.



Round the clock hi-tech security.

SUSTAINABLE DEVELOPMENT

AT PT KOBATIN, INDONESIA CONT'D

ENVIRONMENT

PT Koba Tin's commitment in instilling as well as promoting environmentally friendly operations is demonstrated by its participation in the "PROPER" programme, an initiative on good environmental management organised by the Ministry of Environment of Indonesia.

Among the environmental management programmes that were implemented in 2004 include:

- rehabilitation programmes focused on improving some previously reclaimed areas by adding cover crops and local tree species using bio-organic, fertilizer-micoriza and "humic acid",
- preparation of seedlings for cover crops and local tree species (totalling 33,000) at PT Koba Tin Nursery,
- maintenance of reclaimed areas,
- greening of PT Koba Tin complex,
- research and development of integrated agriculture at Bemban Pilot Project,
- planting of herbs and plants at Bemban slime areas, and
- organising 'Greening Day' to create awareness of environmental concerns. During the 2nd Greening Day held in 2004, the Company symbolically donated 150 seedlings of local tree species and compost to the Bupati of Bangka Tengah and the Bupati of Bangka Selatan.



Integrated Agriculture Project.

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 six (6) 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	6/6	4/4	Not applicable
Mr Choi Siew Hong	6/6	4/4	4/4
Mr Norman Ip Ka Cheung	6/6	4/4	4/4
Dato' Siew Nim Chee	5/6	Not applicable	Not applicable
Dato' Dr Mohd Ajib Anuar	6/6	4/4	Not applicable
Dato' Wira Syed Abdul Jabbar bin Syed Hassan	6/6	Not applicable	Not applicable
Dato' Ismail bin Shahudin	6/6	3/4	Not applicable
Tuan Hj Ahmad Kamal bin Abdullah Al-Yafii	5/6	Not applicable	4/4

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-Independent 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 9 to 12 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 of the Company, 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 has appointed Mr Choi Siew Hong 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 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 Bursa Malaysia Securities Berhad ("Bursa Malaysia").

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 his 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 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 conducted by the Research Institute of Investment Analysts Malaysia. In addition, the Directors have been undergoing the Bursa Malaysia accredited Continuing Education Programme 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 (AGM) 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-Independent Non-Executive Director
Mr Choi Siew Hong	- Independent Non-Executive Director
Mr Norman Ip Ka Cheung	- Non-Independent Non-Executive Director
Dato' Ismail bin Shahudin	- Non-Independent Non-Executive Director
Dato' Dr Mohd Ajib Anuar	- Executive Director

The Board Executive Committee met four (4) 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-Independent 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.

STATEMENT ON CORPORATE GOVERNANCE CONT'D

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	772
Non-Executive Directors	375	–

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

RANGE OF REMUNERATION	EXECUTIVE DIRECTOR	NON-EXECUTIVE DIRECTORS
RM750,001 to RM800,000	1	–
RM50,001 to RM100,000	–	3
RM150,000 and below	–	4

C. SHAREHOLDERS

The Company recognizes the importance of communicating with its shareholders and does this through the Annual Reports, 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 Bursa Malaysia, in particular, the timely release of the quarterly results within two (2) 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 Bursa Malaysia'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 43 to 44 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 40 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 41 and 42 of this Annual Report.

STATEMENT OF COMPLIANCE

The Group has complied, throughout the financial year ended 31 December 2004, with all the Best Practices of corporate governance set out in Part 2 of the Code.

Date: 28 March 2005

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-Independent 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 Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), 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 3 years' post qualification experience in accounting or finance; or
- have at least 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 Listing Requirements of Bursa Malaysia, the Committee shall promptly report such matter to Bursa Malaysia.

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;
- 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, the Listing Requirements of Bursa Malaysia 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 questions 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.

AUDIT COMMITTEE REPORT

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-Independent 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 and 40 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 Bursa Malaysia Securities 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 review 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 43 and 44 of this Annual Report.

Date: 28 March 2005

STATEMENT ON INTERNAL CONTROL

Introduction

Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") requires the Board of Directors of public listed companies to include in its annual report 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. The Board regularly reviews this process, which 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;
- 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;

Enterprise risk management framework (cont'd)

- 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 engaged an independent firm of consultants 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 periodically. 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 the Internal Audit Function 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: 28 March 2005