



CHAIRMAN'S STATEMENT



Tuan Haji Mohamed Taib bin Ibrahim

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Muhibbah Group and Company for the financial year ended 31 December 2004.

KEY HIGHLIGHTS

Overall, the Group has improved its financial position as follows :

- Group revenue grew by 27% to RM966 million;
- Group profit before tax before exceptional items increased from RM33.6 million to RM65.8 million;
- Net tangible assets per share increased from RM1.68 in 2003 to RM1.70 in 2004.

The Group's outstanding order book as at end of 2004 stands at RM1 billion.

Beris Dam, Kedah built by
Muhibbah Engineering (M) Bhd



CHAIRMAN'S STATEMENT (continued)

The improved performance is mainly attributed to:

- the construction of the Sapangar Naval Base project for the Government of Malaysia.
- ITS Konsortium Sdn Bhd which is involved in the Integrated Transport Information System for Klang Valley and Multimedia Super Corridor .
- Muhibbah Petrochemical Engineering Sdn Bhd for its projects involving laying of gas pipelines for Diffra Oil Fields and provision of field service facilities in Sudan.
- Increase in profit from Favelle Favco Group of Companies
- Increase contribution from Societe Concessionnaire de l' Aeroport, which is involved in the concession of the Phnom Penh International Airport and the Siem Reap-Angkor International Airport in Cambodia.

DIVIDEND

The Board is pleased to recommend a first and final tax exempt dividend of 3% (2003:3% less income tax of 28%) in respect of the financial year under review subject to approval of the shareholders at the forthcoming Annual General Meeting. Total dividend payable net of income tax is RM4.3 million (2003:RM3.1 million).



Traffic Management Centre,
Technology Park

FINANCIAL PERFORMANCE

The Divisions performances are as follows:

Construction and Engineering

During the year, the Company completed the construction of a dedicated Palm Oil Terminal at Bintulu Port, the construction of Beris Dam, construction work for the Gerup Gerak Khas Camp at Mersing and the construction of toll plazas, administrative and other ancillary buildings at the Guthrie Expressway;

Amongst other notable projects awarded during the year are the construction of Container Terminal 4 and Container Terminal 5 and Access Bridge at Westport, Port Klang; and the construction of Independent Oil Terminal at Kuching, Sarawak.

In total, the Company has secured new contracts for projects amounting to RM291 million in year 2004/2005.



Palm Oil Terminal, Bintulu Port, Sarawak built by
Muhibbah Engineering (M) Bhd



Toll Plazas & Supervision Building for
Guthrie Corridor Expressway built by
Muhibbah Engineering (M) Bhd





CHAIRMAN'S STATEMENT (continued)

The proposed construction of the Royal Malaysian Naval Base at Teluk Sapangar, Kota Kinabalu, Sabah and the construction of the National Hydrographic Base in Pulau Indah, also for the Royal Malaysian Navy is continuing as scheduled. These projects are the major contributors to the Group's turnover and profit for year ended 2004.

ITS Konsortium, a 60% owned subsidiary of Muhibbah, is also one of the major contributors to the Group's current year results. In year 2004, ITS Konsortium completed a significant amount of work awarded by Dewan Bandaraya Kuala Lumpur for the Integrated Transfer Management System for the Klang Valley with a contract value of RM365 million.

Muhibbah Petrochemical Engineering Sdn Bhd ("MPE") has grown a few folds by clinching projects from GNPOC and WNPOC, who are major oil and gas concession companies in Sudan. MPE was awarded turnkey contracts for installation of piping, electrical, instrumentation, chemical injection skids and mechanical works for more than 100 oil wells coupled with the

installation of pipelines connecting the oil wells to the central gathering and processing facility. The Company's current outstanding order book stands at RM190 million.

Cranes

The Cranes Division secured RM260 million worth of projects in 2004 and has an outstanding order book of RM120 million as at year ended 2004. The Cranes Division's turnover has increased by 38% to RM267 million and has reported RM13.3 million profit after tax for the financial year 2004.

The surge in the world oil demand has increased the oil exploration activities of various oil and gas companies in the world. Favelle Favco Cranes has received continuous orders for its offshore oil and gas cranes from worldwide.

The Group has also announced and submitted a proposal to Securities Commission in 2004 seeking the listing of Favelle Favco Group on MESDAQ Market of Bursa Malaysia.



Favelle Favco Offshore Cranes on ENSCO 106 Project by Keppel FELS



Favelle Favco Offshore Cranes on a project for Japan Vietnam, Petroleum Company Limited



CHAIRMAN'S STATEMENT (continued)

Shipyards

The Shipyards Division has secured orders worth RM51 million to construct, supply vessel and commission handling tug supply vessel of 45 to 60 meters. The Shipyards Division is looking towards a more profitable year in 2005.



The Shanghai World Financial Center will be built by using Favelle Favco Tower Cranes

Manufacturing, Trading & Others

The Manufacturing, Trading and Other Divisions include manufacturing of aircraft maintenance docking system by Muhibbah Airline Support Industries Sdn Bhd, structural steel fabrication by Muhibbah Steel Industries Sdn Bhd and manufacturing of non-carbon required paper and laminated aluminium insulation foil by Ann Bee (M) Sdn Bhd. The manufacturing division has a total revenue of RM114 million, an increase from RM104 million in 2003.



60T Telescopic Boom

Favelle Favco Offshore Crane for oil and gas industry



CHAIRMAN'S STATEMENT (continued)

Associated Companies

The Group received contribution from two of its main associated companies with long term concession contracts. Roadcare (M) Sdn Bhd has been awarded a 15 year concession to maintain 5,000km of the Federal Road in the central states of Malaysia while Societe Concessionnaire de l' Aeroport, is involved in the concession of the Phnom Penh International Airport and the Siem Reap-Angkor International Airport in Cambodia.

INDUSTRY TREND AND ECONOMY DEVELOPMENTS

The Malaysian economy remained strong and expended with reported gross domestic product growth of 7.6% in year 2004; up from 5.3% achieved in the previous year. The economy of Malaysia is expected to experience further growth over the next few years. However, the construction sector saw a contraction in the present year.



Fabrication on Work of Offshore Supply Vessel By Muhibbah Marine Engineering for Oil & Gas Industry

Diesel and Jet Fuel Tank farm for Sepangar Naval Base by Muhibbah Petrochemical Engineering Sdn Bhd



FUTURE PROSPECTS

With the Group's order book in hand and contribution from its associated companies, the Group expects to deliver a reasonable result for its performance in the coming year.

The footprint of the Group in various industries and in all major parts of the world together with positive development in oil and gas construction industries and better crane sales and shipbuilding orders will enable the Group to improve its performance in the years ahead.

CORPORATE GOVERNANCE

The application of and compliance with the principles and best practices as set out in the Code on Corporate Governance, including a "Statement on Internal Control" has been disclosed in this Annual Report as per Listing Requirements of Bursa Malaysia.

The Board is committed to ensuring that good standards of corporate governance are practiced throughout the Group.



CHAIRMAN'S STATEMENT (continued)

BOARD OF DIRECTORS

I would like to represent the Board of Directors and the staff of the Company to extend our heartfelt condolence on the sad demise of our executive director, Mr. Othman bin Chut who passed away on 28 March 2004.

ACKNOWLEDGEMENTS AND APPRECIATION

I would like to thank the Board of Directors and employees of the Group for their undiminishing dedication which contributed to the Group's performance.

I would also like to take this opportunity to extend our sincere gratitude and thanks to our clients and the Government of Malaysia for their unflinching support.

To the shareholders of the Company, a note of thanks, for their confidence in our Company. We hope to get their continuous support in the coming years.

Tuan Haji Mohamed Taib bin Ibrahim
Chairman

Miri Project – Glass Walled Passenger Boarding Bridge by Muhibbah Airlines Support Industries Sdn Bhd



Aircraft Hangar Maintenance System by Muhibbah Airlines Support Industries Sdn Bhd



Typical substation and piping for oil well, completed by Muhibbah Petrochemical Engineering Sdn Bhd



Oil gathering manifolds for Field Surface Facilities Project, Sudan by Muhibbah Petrochemical Engineering Sdn Bhd



Oil receiving facilities for Difra project in Sudan completed by Muhibbah Petrochemical Engineering Sdn Bhd

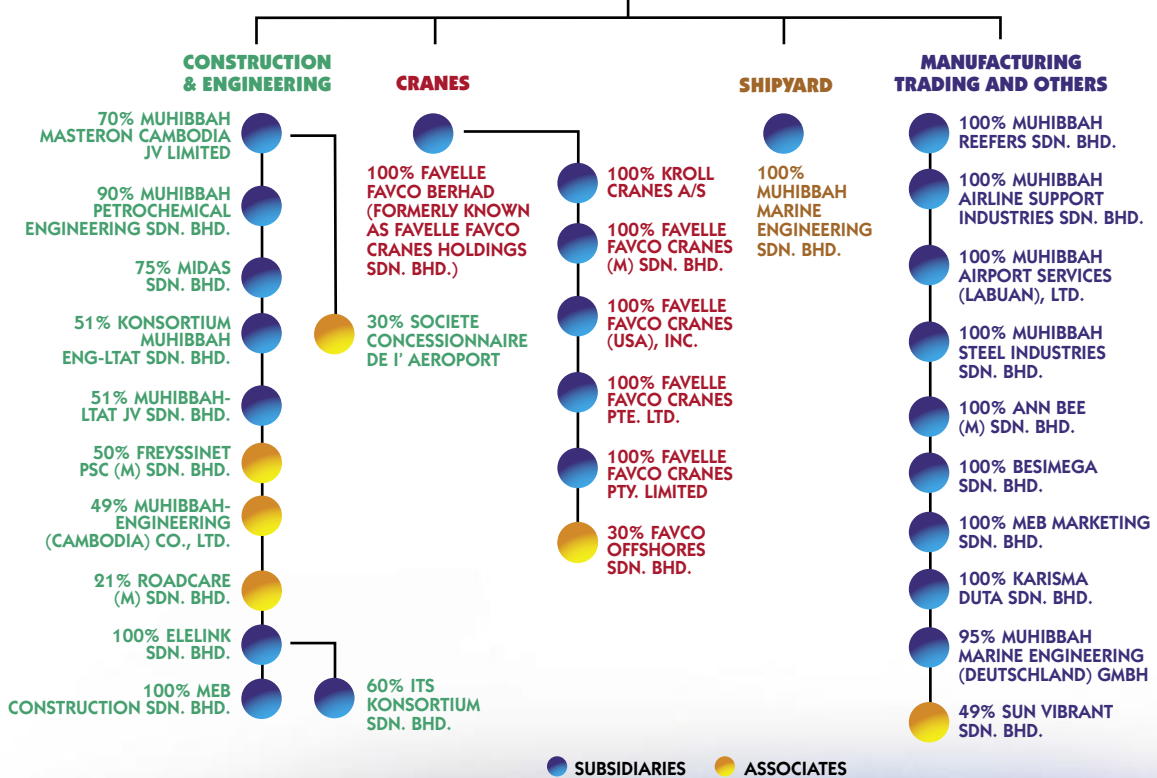




GROUP STRUCTURE AS AT 30 APRIL 2005



**MUHIBBAH
ENGINEERING (M) BHD.**
12737-K



DORMANT COMPANIES ARE EXCLUDED FROM THE ABOVE GROUP STRUCTURE



Sungai Terenas Bridge at Beris Dam built by Muhibbah Engineering (M) Bhd



PROFILE OF DIRECTORS

Tuan Haji Mohamed Taib bin Ibrahim

Aged 80, Malaysian

(Chairman, Independent Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Tuan Haji Mohamed Taib bin Ibrahim is the co-founder of Muhibbah Engineering (M) Bhd and has been an Independent Non-Executive Director of the Company since its inception on 4 September 1972. He was later appointed as Chairman of the Company on 22 May 1973, member of the Audit Committee on 31 December 1993 and on 21 February 2002 as Chairman of both the Nomination & Remuneration Committees.

He had an illustrious and colourful career when he was attached to the Education Department as organiser of schools. In 1967, he ventured into the private sector and helped set up Federal Flour Mills. His former positions in Federal Flour Mills were Administrative Manager and Alternate Director. He was also the Chairman of Kuantan Flour Mills Bhd. in 1984. His foray into the marine industry started in 1969 when he was appointed the first Company Secretary of Malaysian International Shipping Corporation. In 1977, he was nominated to lead Johor based Malaysian Shipyard and Engineering Bhd. as the Company's President and Chief Executive Officer, positions which he relinquished in 1988.

Datuk Zakaria bin Abdul Hamid

Aged 61, Malaysian

(Vice Chairman, Independent Non-Executive Director)

Member of the Audit Committee

Datuk Zakaria bin Abdul Hamid was appointed Vice Chairman of the Company on 20 February 2002 and member of the Audit Committee on 28 March 2003. He obtained a Bachelors of Arts with Honours Degree from the University of Malaya in 1969 and later furthered his studies in 1993 at the Royal College of Defence Studies in London. He started work in 1969 in the Government Service and later in the Prime Minister's Department. His last held position was Director General of when he retired in early 2002.

He is also a Director of Ranhill Berhad and Saujana Consolidated Berhad.

Mac Ngan Boon @ Mac Yin Boon

Aged 61, Malaysian

(Managing Director)

Member of the Remuneration Committee

Mac Ngan Boon is the co-founder and Managing Director of the Company since its inception on 4 September 1972. He has been a member of the Remuneration Committee since 21 February 2002.

He obtained a Bachelor of Engineering (Civil) Degree from the University of Western Australia in 1967. He has been a member of the Institute of Engineers Malaysia since 1978 and the Professional Engineer (Malaysia) since 1967. He started work as an engineer for a local construction company.

He has also been the Chairman of the Heavy Equipment and Machinery Manufacturers Association of Malaysia (HEMMAM) since 1998.





PROFILE OF DIRECTORS (continued)

Ooi Sen Eng

Aged 63, Malaysian
(Executive Director)

Member of the Audit Committee and Remuneration Committee

Ooi Sen Eng obtained his Bachelor of Engineering (Civil) Degree from the University of Malaya in 1966. He was admitted as a member of the Professional Engineer (Malaysia) in 1967 and later became a member of the Institute of Engineers Malaysia in 1978. He gained his early marine engineering construction experience from Zublin AG, a German construction company, where he worked for 6 years until he co-founded Muhibbah Engineering (M) Bhd in 1972. He was appointed Director on 26 May 1973, and a member of the Audit Committee and Remuneration Committee on 31 December 1993 and 21 February 2002 respectively.

Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor Aged 61, Malaysian
(Senior Independent Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor was appointed to the Board as an Independent Non-Executive Director on 19 April 2001. He was appointed a member of the Audit Committee as well as Senior Independent Non-Executive Director on 27 December 2001 in accordance with the Malaysian Code of Corporate Governance, and to whom concerns of the Group may be conveyed. Dato' Seri Ahmad Ramli was further appointed member of the Nomination and Remuneration Committees on 21 February 2002.

He had a distinguished and colourful career with the Royal Malaysian Navy and received numerous decorations both internationally and locally. He is a graduate of the Indonesia Naval Staff College, the United States Naval War College and United States Naval Post-Graduate School in Monterey. Apart from his Naval Professional Qualification, he also obtained a Masters Degree in Public Administration from Harvard University in 1982. He retired as the Chief of the Royal Malaysian Navy in 1999.

He is presently also a Director of Land & General Berhad and Affin Bank Berhad.



PROFILE OF DIRECTORS (continued)

Low Ping Lin

Aged 51, Malaysian

(Executive Director)

Low Ping Lin has held the position of Executive Director since 28 December 1993. He obtained a Bachelors Degree in Civil Engineering from the University of Melbourne, Australia in 1976 and is also a member of the Institute of Engineers, Malaysia. Upon graduation, he joined Jabatan Kerja Raya in the Roads Department. He joined Muhibbah Engineering (M) Bhd in 1980 as Project Engineer.

Dato' Raja Ahmad Zainuddin bin Raja Haji Omar

Aged 49, Malaysian

(Independent Non-Executive Director)

Member of the Remuneration Committee and Nomination Committee

Dato' Raja Ahmad Zainuddin bin Raja Haji Omar was appointed to the Board of Muhibbah Engineering (M) Bhd on 15 January 2001 and as a member of the Nomination and Remuneration Committees on 21 February 2002.

Dato' Raja Ahmad Zainuddin bin Raja Haji Omar has been actively involved in the political scene in Malaysia since 1982. From a Press Secretary to the Menteri Besar of Perak in 1982 till 1988 to a Political Secretary of the Menteri Besar of Perak from 1986 till 1999, he then moved on to become a Member of Parliament for the constituency of Larut from 1999. Before this, from 1990 to 1999, he was also Perak State Assemblyman for Batu Kurau.

Lim Teik Hin

Aged 64, Malaysian

(Non-Independent and Non-Executive Director)

Member of the Audit Committee

Lim Teik Hin was appointed to the Board of Muhibbah Engineering (M) Bhd on 28 March 2003 as a Non-Independent Non-Executive Director. He is a member of the Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants and CPA Australia. He graduated with an Accountancy Degree from Perth Technical College in 1966. He started his career with an accounting firm in Australia (L.A. Walker & Sons) and subsequently worked with KPMG (Penang) in Malaysia. He then joined Federal Aluminium (M) Bhd. as an Operations Manager. His last held position was Senior Manager in Muhibbah Engineering (M) Bhd.

Other Information of Directors

Any Family Relationship with any Directors and/or major shareholders of Muhibbah Engineering (M) Bhd

None of the Directors have any relationship with each other and/or major shareholders of Muhibbah Engineering (M) Bhd except Lim Teik Hin, who is the brother-in-law of Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of Muhibbah Engineering (M) Bhd.

Conflict of interest

None of the Directors have any conflict of interest with the Company.

List of Convictions for Offences within the past 10 years other than traffic offences

None of the Directors have been convicted for offences.





OTHER INFORMATION

1. SHARE BUYBACKS

During the financial year, there were no share buybacks by the Company.

2. AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMMES

During the financial year, the Company did not sponsor any ADR or GDR programmes.

3. IMPOSITION OF SANCTIONS AND/OR PENALTIES

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies except immaterial late filing fees imposed by the Companies Commission of Malaysia on the company's subsidiaries.

4. NON-AUDIT FEES

During the financial year, the external auditors were paid RM200,000 for the professional services rendered in connection with the proposed listing of Favelle Favco Group on MESDAQ Market of Bursa Malaysia.

5. PROFIT ESTIMATE, FORECAST OR PROJECTION

There was no material variance between the audited results of the financial year and the unaudited results previously announced. The Company did not make any release on the profit estimate, forecast or projections for the financial year.

6. PROFIT GUARANTEES

During the financial year, there were no profit guarantees given by the Company.

7. MATERIAL CONTRACTS

During the financial year there were no material contracts of the Company and its subsidiaries involving Directors' and major shareholders' interests.

8. CONTRACTS RELATING TO LOANS

There were no material contracts relating to loans by the Company involving Directors and major shareholders.

9. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

The particulars of employee share options of Muhibbah Engineering (M) Bhd is disclosed in page 33 and 34 of this Annual Report.





STATEMENT OF CORPORATE GOVERNANCE

INTRODUCTION

The Board of Directors (“the Board”) is committed towards ensuring that good standards of Corporate Governance are observed throughout the Group. Upholding integrity and professionalism in its management of the affairs of the Group, the Board aims to enhance business prosperity and corporate accountability with the ultimate objective of realising long-term shareholders’ value and safeguarding interests of other stakeholders.

BOARD OF DIRECTORS

Composition and Balance

An experienced Board consisting of members with a wide range of business, technical, financial and public service backgrounds, lead and control the Group. This brings insightful depth and diversity to the acute leadership and management of an eminent and evolutionary engineering business.

The Board is well balanced with Executive and Non-Executive Directors. Currently, the Board consists of eight (8) members, comprising four (4) Independent Non-Executive Directors, three (3) Executive Directors and one (1) Non-Independent and Non-Executive Director. Profiles of the Directors are presented on pages 13 to 15 of this Annual Report.

Board Meetings

Board meetings are held at regular intervals with additional meetings taking place when necessary. During the year, the Board met four (4) times to review the Group’s operations, review and approve the quarterly and annual financial statements and other matters requiring the Board’s approval. Details of the attendance of the Directors are as follows:

Name of Director	Attendance at Meetings in 2004
Tuan Haji Mohamed Taib bin Ibrahim	4/4
Datuk Zakaria bin Abdul Hamid	4/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Ooi Sen Eng	4/4
Low Ping Lin	4/4
Dato’ Raja Ahmad Zainuddin bin Raja Haji Omar	3/4
Vice Admiral (Rtd) Dato’ Seri Ahmad Ramli bin Haji Mohd Nor	4/4
Lim Teik Hin	4/4

The Executive Directors are generally responsible for making and implementing operational decisions whilst the Non-Executive Directors support the skills and experience of the Executive Directors, contributing to the formulation of policy and decision-making through their knowledge of and experience in other business sectors.

The roles of the Chairman and Managing Director are separated with a clear division of responsibilities between them to ensure balance of power and authority. The Chairman leads the strategic planning at the Board level, while the Managing Director is responsible for the implementation of the policies laid down and executive decision-making.

The Independent Non-Executive Directors are of the calibre necessary to provide an independent judgment on the issues of strategy, performance and resource allocation. They carry sufficient weight in Board decisions to ensure long-term interest of the shareholders, employees, customers and other stakeholders.

The Board has identified Vice Admiral (Rtd) Dato’ Seri Ahmad Ramli bin Haji Mohd Nor as the Senior Independent Non-Executive Director to whom concerns of the Group may be conveyed.





STATEMENT OF CORPORATE GOVERNANCE (continued)

Supply of Information

Due notice is given prior to each Board Meeting. Each Director is provided with the agenda and a full set of Board papers providing details on operational, financial, safety and corporate developments prior to each Board meeting with the aim of enabling the Directors to make well-informed decisions at the Board meetings. It is the primary responsibility of the Chairman of the Board to organise such information necessary for the Board to deal with the agenda and the Board had adopted a formal schedule of matters specifically referred to it for decision.

The appointment of the Company Secretary is based on the capability and proficiency determined by the Board. The Company Secretary is available at all times to provide the Directors with the appropriate advice and services and also to ensure that the relevant procedures and all applicable rules and regulations are complied with. The Articles of Association of the Company permits the removal of the Company Secretary by the Board of Directors as a whole.

In addition, the Directors have authority to access all information within the Company in furtherance of their duties and they are also empowered to seek external independent professional advice at the Company's expense, to enable them to make well-informed decisions.

Board Committees

The following committees have been established to assist the Board to discharge its duties and responsibilities. The Board has delegated certain powers and duties to these committees, which operate within the defined terms of reference.

(i) Audit Committee

The principal objective of the Audit Committee is to assist the Board in carrying out its statutory duties and responsibilities relating to accounting and reporting practices of the Group. This includes reviewing the quarterly financial results to be disclosed, the scope of works and management letter of the external and internal auditors.

The Audit Committee comprises five (5) members out of which three (3) are Independent Non-Executive Directors. Tuan Haji Mohamed Taib bin Ibrahim, an Independent Non-Executive Director, is the Chairman of this Committee.

The Audit Committee met five (5) times during the year.

A report detailing the membership, attendance, role and activities of the Audit Committee is presented on pages 23 to 26 of this Annual Report.



STATEMENT OF CORPORATE GOVERNANCE (continued)

(ii) Nomination Committee

The present members of the Nomination Committee are as follows:

Name of Committee Member	Designation
Tuan Haji Mohamed Taib bin Ibrahim	Chairman <i>(Independent Non-Executive Director)</i>
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member <i>(Senior Independent Non-Executive Director)</i>
Dato' Raja Ahmad Zainuddin bin Raja Haji Omar	Member <i>(Independent Non-Executive Director)</i>

The Nomination Committee met once during the financial year. The Nomination Committee reviewed the Board structure on the designation, roles and responsibilities of the individual Director of the Company to ensure that the Board has the required mix of skills, experience and other core competencies. The Nomination Committee also reviewed the existing balance, size and composition of the Board of Directors, and recommended appointments of new Directors to the Board. The Nomination Committee recommended to the Board the Directors who were due for retirement by rotation at the forthcoming Annual General Meeting.

(iii) Remuneration Committee

The present members of the Remuneration Committee are as follows:

Name of Committee Member	Designation
Tuan Haji Mohamed Taib bin Ibrahim	Chairman <i>(Independent Non-Executive Director)</i>
Mac Ngan Boon @ Mac Yin Boon	Member <i>(Managing Director)</i>
Ooi Sen Eng	Member <i>(Executive Director)</i>
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member <i>(Senior Independent Non-Executive Director)</i>
Dato'Raja Ahmad Zainuddin bin Raja Haji Omar	Member <i>(Independent Non-Executive Director)</i>

The Remuneration Committee met once during the financial year. The Remuneration Committee reviewed the remuneration packages and benefits of the Executive Directors to ensure the Company is able to attract high calibre executives to run the Company successfully. Directors do not participate in decisions on their own remuneration. At the same time, the Non-Executive Directors' fees were also reviewed and recommended for the Board's approval. The individual Non-Executive Directors concerned had abstained from discussions of their own remuneration packages.





STATEMENT OF CORPORATE GOVERNANCE (continued)

Appointments and Re-election

In accordance with the Company's Articles of Association, one third of the Directors (including the Managing Director) shall retire from office and be eligible for re-election at each Annual General Meeting and all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election. Directors appointed during the year will be subject to retirement and re-election by shareholders at the Annual General Meeting.

Directors who are over 70 years of age are required to submit themselves for re-appointment and re-election annually in accordance with Section 129 (2) and Section 129 (6) of the Companies Act, 1965.

Directors' Training

All the Directors of the company have attended the Mandatory Accreditation programme conducted by the Bursatra Sdn Bhd (formerly known as Bursa Malaysia Training Sdn Bhd) within the stipulated time frame under the Listing requirements.

As the continuous Education Programme (CEP) has been repealed by Bursa Malaysia with effect from 1 January 2005, the Board of Directors will assess the training needs of the Directors and ensure fulfilment of such training needs by the Board of Directors.

Regular continuing education programmes and seminars are organized for the Directors to help them keep abreast of latest developments in the industry and advances in Corporate Governance.

It is the practice of the Group, whereby, following the appointment of new Directors to the Board, an induction program is arranged to facilitate their understanding of the nature of the business, current issues within the Company, the corporate strategy, the expectations of the Company concerning input from Directors, the general responsibilities of Directors, operations of the Group as well as the products and services offered by the Group. New Directors are also introduced to senior management personnel and taken on visits to the Group's businesses.



STATEMENT OF CORPORATE GOVERNANCE (continued)

DIRECTORS' REMUNERATION

The details of the remuneration of the Directors of the Company for the financial year under review are as follows:

	Executive Directors	Non-Executive Directors	Total
	RM	RM	RM
Fees	114,000	180,000	294,000
Remuneration	1,162,780	-	1,162,780
Other emoluments	22,000	54,000	76,000
	<u>1,298,780</u>	<u>234,000</u>	<u>1,532,780</u>

The number of Directors in each remuneration band for the financial year 2004 are as follows:

Range of Remuneration	Executive Directors	Non-Executive Directors	Total
Below RM50,000	-	5	5
RM50,001 to RM100,000	1	-	1
RM100,001 to RM150,000	-	-	-
RM150,001 to RM200,000	-	-	-
RM200,001 to RM250,000	-	-	-
RM250,001 to RM300,000	-	-	-
RM300,001 to RM350,000	-	-	-
RM350,001 to RM400,000	-	-	-
RM400,001 to RM450,000	3	-	3
	<u>4</u>	<u>5</u>	<u>9</u>

INVESTORS AND SHAREHOLDERS RELATIONSHIP

The Board recognises the importance of maintaining effective communication with its investors and shareholders. An Investor Relations and Shareholder Communication Policy have been adopted by the Board to enable the Group and the Company to communicate effectively with its shareholders, major investors, other stakeholders and public generally.

Apart from the mandatory announcements of the Group's financial results and corporate developments to the Bursa Malaysia Securities

Berhad, the Group maintains a website (www.muhibbah.com.my) to allow all shareholders to gain access to information, business activities and recent developments of the Group and for feedback.

The Annual General Meeting is an important forum and primary channel where communications with shareholders can be effectively conducted. Shareholders are encouraged to attend and participate at the meeting by raising questions on resolutions proposed and to enquire about the Company's progress and performance. The Chairman and Directors are in attendance to respond to shareholders' queries during the meeting.



STATEMENT OF CORPORATE GOVERNANCE (continued)

ACCOUNTABILITY AND AUDIT

Financial Reporting and Statement of Directors' Responsibility

The Directors are responsible to ensure that the financial statements are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

The Board is responsible for ensuring that the financial statements for each financial year give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the results of operations, changes in equity and cash flows of the Group and the Company for the financial year.

In preparation of the financial statements, the Board has ensured that:

- i) Suitable accounting policies have been adopted and applied consistently;
- ii) Judgements and statements made are reasonable and prudent; and
- iii) Financial statements have been prepared on a going concern basis.

The Audit Committee assists the Board by overseeing that financial reporting reflects the substance of the business and transactions apart from being compliant with relevant standards and legislation.

The Board is responsible for ensuring that the Group and the Company keep accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and which enable them to ensure the financial statements comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

Relationship with the Auditors

Through the Audit Committee of the Board, the Group has established a transparent and appropriate relationship with the Group's auditors, both internal and external. Both the internal and external auditors are invited to attend the Audit Committee meetings to facilitate the exchange of views on issues requiring attention. The external auditors are also invited to attend meetings on special matters when necessary. In addition, the committee also meets the internal and external auditors without the presence of the management at least once a year.

Risk Management Framework and Internal Control

The Board acknowledges their responsibility for the Group's system of internal controls and for reviewing its effectiveness regularly via the internal audit department which provides support to the Audit Committee in discharging its duties with respect to the adequacy and integrity of the system of internal control within the Group.

A Statement on Internal Control outlining the internal controls within the Group is presented on page 27 of this Annual Report.

Compliance Statement

The company has applied the Best Practices in Corporate Governance as set out in part 2 of the Malaysian Code on Corporate Governance to the extent as set out above.





AUDIT COMMITTEE REPORT

MEMBERSHIP AND MEETINGS

Details of the membership of the Audit Committee and attendance of meetings are as follows:

Name of Committee Member	Designation	Attendance at Meetings in 2004
Tuan Haji Mohamed Taib bin Ibrahim	Chairman (<i>Independent Non-Executive Director</i>)	5/5
Datuk Zakaria bin Abdul Hamid	Member (<i>Independent Non-Executive Director</i>)	5/5
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member (<i>Senior Independent Non-Executive Director</i>)	5/5
Ooi Sen Eng	Member (<i>Executive Director</i>)	4/5
Lim Teik Hin	Member (<i>Non-Independent and Non-Executive Director</i>)	5/5

The Audit Committee held five meetings during the financial year ended 31 December 2004. The Group's Chief Financial Officer and Internal Auditor attended all meetings. Other members of senior management attended some of these meetings upon invitation by the Chairman of the Committee. The Group's external auditors attended one meeting during the year.

SUMMARY ACTIVITIES

During the year, the Audit Committee carried out its duties as set out in the terms of reference. These include:

- (i) Reviewing the quarterly results and year end financial statements before submission to the Board of Directors for consideration and approval for announcement to the Bursa Malaysia Securities Berhad.
- (ii) Reviewing with external auditors, the result of the annual audit and the audit report including the Management response to the findings of the external auditors.
- (iii) Reviewing the adequacy and relevance of the scope of work and functions of the external auditors and making recommendations to the Board on the appointment of the external auditor and the determination of the audit fees.
- (iv) Reviewing the adequacy and relevance of the scope, function and risk based on audit plan and results of the internal audit processes with the Internal Audit Department.
- (v) Reviewing and discussing the internal audit status report and considering whether or not appropriate action was taken on the recommendations of the internal audit function.





AUDIT COMMITTEE REPORT (continued)

INTERNAL AUDIT FUNCTION

The Group has a well-established Internal Audit Department, which reports to the Audit Committee and assists the Board in monitoring and managing risks and internal control. The department carries out its duties impartially and independently of the activities reviewed. It has the principal responsibility of carrying out audits on the operations within the Group and provides general assurances to the management and Audit Committee. The internal audit reports highlighting any deficiencies or findings are discussed with management and the relevant action plans are agreed upon and implemented. Significant findings are presented in the Audit Committee Meetings for consideration and reporting to the Board. A follow-up audit review is also conducted to determine whether all audit recommendations are effectively implemented.

In addition, the Internal Audit Department also provides the necessary assistance and manpower for any special assignments or investigations requested by the management from time to time, with the approval of the Audit Committee.

The Group has implemented a structured risk assessment and management framework on the operations. The implementation of this framework and monitoring process also forms the basis for continually improving the risk management process in the context of the Group's overall objectives. The Internal Audit Department is continuously facilitating the exercise for all the business units within the Group and advising the Risk Management Committee on the internal controls to better manage the risks identified.

Other main activities performed by the Internal Audit Department are as follows:

- Site visits, inspections and reviews;
- Assess and advise on the Group's Corporate Governance practices and compliances.

TERMS OF REFERENCE

Objectives

The principal objective of the Committee is to assist the Board of Directors in carrying out its statutory duties and responsibilities relating to accounting and reporting practices of Muhibbah Engineering (M) Bhd and its subsidiaries.

In addition, the Committee shall:

- evaluate the quality of the audits performed by the internal and external auditors;
- provide assurance that the financial information provided by management is relevant, reliable and timely;
- oversee compliance with laws and regulations and observance of a proper code of conduct; and
- determine the adequacy of the Company's internal control system.

Membership

The Board shall appoint the Audit Committee comprising at least three directors, the majority of whom shall be Independent Directors. The Chairman of the Committee, who is an Independent Director, shall be appointed by the Board. No alternate Director can be a member of the Committee.

At least one member of the Audit Committee must be a member of the Malaysian Institute of Accountants or have similar qualifications as prescribed in Part I or Part II of the First Schedule of the Accountants Act 1967.

The quorum for each meeting shall be two members where a majority of the members present must be Independent Directors.

If a member of the Audit Committee ceases to be a member with the result that the number of members is reduced to two, the Board of Directors shall within 3 months of the event appoint such number of new members as may be required to fill the vacancy.





AUDIT COMMITTEE REPORT (continued)

Attendance at meetings

The Committee shall hold at least two regular meetings per year and such additional meeting as the Chairman shall decide in order to fulfil its duties.

The Company Secretary shall act as Secretary of the Committee.

The Committee may invite any person to be in attendance at any particular Audit Committee meeting to assist it in its deliberations.

Authority

The Audit Committee is authorised by the Board:

- to investigate any matter within its terms of reference;
- to have the resources which are required to perform its duties;
- to have full and unrestricted access to any information pertaining to the Company;
- to have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- to be able to obtain independent professional or other advice;
- to be able to convene meetings with the external auditors, excluding the attendance of the executive member(s) of the Committee, whenever deemed necessary.

Duties

The duties and scope of work of the Committee shall be:

1. To review the following and report the same to the Board of Directors:
 - with the external auditors, the audit plan, their evaluation of the system of internal controls and the audit reports on the financial statements.
 - the assistance given by the employees to the external auditors.
 - the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work.
 - the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function.
 - the quarterly results and year end financial statements before submission to the Board of Directors for approval, focusing particularly on changes in or implementation of major accounting policy changes, significant and unusual events and compliance with accounting standards and other legal requirements.
 - any related party transactions and conflict of interest situations that may arise within the Group or Company including any transaction, procedure or course of conduct that raises questions of management integrity.
 - the appointment of the external auditors and audit fees, and any questions of resignation or dismissal.
2. To recommend the nomination of a person or persons as External Auditors.





AUDIT COMMITTEE REPORT (continued)

3. To ensure that the Audit Committee Report is prepared at the end of each financial year for inclusion in the Annual Report of the Company. The Audit Committee Report shall comprise:
 - the composition of the Audit Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise).
 - the terms of reference of the Audit Committee.
 - the number of Audit Committee meetings held during the financial year and details of attendance of each Audit Committee member.
 - a summary of the activities of the Audit Committee in the discharge of functions and duties for that financial year of the Company.
 - the existence of an internal audit function or activity and where such a function or activity does not exist, an explanation of the mechanisms that exist to enable the audit committee to discharge its functions effectively.
4. To promptly report to the Bursa Malaysia Securities Berhad any matters reported by the Audit Committee to the Board of Directors which have not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad.

Proceedings of the Audit Committee

Calling of meetings

The members may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, provided that they shall have a minimum of two meetings in a financial year. The Secretary shall on the requisition of a member summon a meeting of the Audit Committee.

Notice of meeting

Notice of a meeting of the Audit Committee shall be given to all the members in writing via facsimile, hand delivery or by courier service. Unless otherwise determined by the Audit Committee from time to time, seven (7) days' notice shall be given, except in the case of an emergency where shorter notice may be given.

Voting and proceeding of meeting

The decision of the Audit Committee shall be by a majority of votes and the determination by a majority of the members shall for all purposes be deemed a determination of the Audit Committee. In case of an equality of votes, the Chairman of the meeting shall have a second or casting vote.

Circular Resolutions signed by all the members shall be valid and effective as if it had been passed at a meeting of the Audit Committee.

Keeping of minutes

The members shall cause minutes to be made of all meetings of the Audit Committee. Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.

Custody, production and inspection of minutes

The minutes of meetings of the Audit Committee shall be kept by the Secretary at the registered office of the Company, and shall be open to the inspection of any member of the Committee or any member of the Board of Directors.

Review of Audit Committee

The Board shall review the term of office and performance of the Audit Committee and each of its members at least once every three (3) years to determine whether the Audit Committee and members have carried out their duties in accordance with their terms of reference.



STATEMENT OF INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining a system of internal control and for reviewing adequacy and integrity to safeguard shareholders' investment and the Group's assets. The system of internal control covers not only financial controls but operational and compliance controls and risk management.

The key processes of the Group's internal control system include the following:

- Clearly defined delegation of responsibilities to the Board Committee and the management and the operating units of the Group. Clearly defined authority limits have been established for all aspects of the businesses. These delegations of responsibilities and authority limits are subject to periodic review throughout the year as to their implementation and for the continuing suitability;
- Policies, objectives and environmental procedures for key business processes are formalized and documented for each significant operating units. The Corporate Environment & Quality Assurance Department conducts routine Internal Quality Audits and Internal Environmental Audits and ongoing monitoring to ensure operational processes are in accordance with the ISO 9001 : 2000 Quality Management System and ISO 14001 : 1996 Environmental Management System respectively;
- Internal audit department carries out audits based on audit plans approved by the Audit Committee to ensure adequacy and integrity of the system of internal control and reports to the Audit Committee;
- Subsequent follow-up reviews on recommendations and outstanding issues are conducted by the Internal Audit and reported to the Audit Committee to ensure that recommendations and issues have been implemented and resolved accordingly;
- Regular and comprehensive information is provided to management, covering financial performance and key business indicators;

- The issuance of a Risk Management Policies and Procedures Manual which outlines the risk management framework for the Group offers practical guidance to all employees on risk management issues;
- Submission of quarterly risk management reports to the Risk Management Units for reporting to the Group Risk Management Committee; and
- A consolidated risk profile of the Group together with a summary of key risks and actions to mitigate these risks, is discussed in the Risk Management Committee meetings before being submitted to the Board for consideration.

The Board is continuing its ongoing process of identifying, assessing and managing key business, operational and financial risks faced by its business units. The Group is progressively developing risk management practice in significant subsidiaries.

The Board has overall responsibility for the Group's system of internal control, which aims to:

- safeguard shareholders' investments and the Group's assets;
- ensure that proper accounting records are maintained; and
- ensure that the financial information used within the business and for publication is reliable.

The internal control system is also designed to provide reasonable assurance of the effective operations and compliance with laws and regulations, but any system of internal control can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board through the Audit Committee has reviewed the effectiveness of the Group's system of internal control. The Board is of the view that there were no significant breakdown or weakness in the system of internal control of the Group that may result in material losses incurred by the Group for the financial year ended 31 December 2004. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.

