

MANAGING DIRECTOR'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report and Accounts of MWE Holdings Berhad and the Group for the financial year ended 31 December 2003

FINANCIAL RESULTS

During the year under review, the Group chalked up fine improvements in both revenue and profit. Revenue increased from RM490.9 million in the previous year to RM556.3 million, posting an increase of RM65.4 million or 13.2%. The increase in revenue is mainly attributed to the improved performance of the Electronics Division. On the back of the improved performance, the Group registered a profit before taxation of RM30.3 million as compared to a loss of RM2.3 million over the previous year. However, after accounting for taxation and minority interests, the Group reported a net profit of RM8.4 million as compared to a loss of RM18.5 in the previous year.

At the company level, profit before taxation was higher at RM4.5 million as compared to RM3.7 million reported in the previous year. The increase in profit is principally due to lower finance costs arising from loan refinancing.

DIVIDEND

The Board is recommending a final dividend of 2.0% less tax of 28% (2002: 1% less tax) for the financial year ended 31 December 2003. If approved by the Shareholders at the forthcoming Annual General Meeting, the dividend will be paid on 9 August 2004 to shareholders registered on the Register of Members on 16 July 2004.

REVIEW OF OPERATIONS

TEXTILE DIVISION

The performance of the Textile Division for the year under review improved substantially as compared to year 2002. The profit before taxation for the Division recorded a significant increase of 470% from RM1.0 million registered in the previous year to RM5.7 million despite the decline in the turnover from RM129.2 million to RM120.0 million. The strong performance of the Textile Division, principally from the garments section, is largely due to concerted efforts by the management in ensuring maximum efficiency through enhancement of customer services, better marketing strategy and cost savings via supplier negotiations.

Our Vietnam operations, United Sweethearts Garment (Vietnam) Co. Ltd. showed an improvement with a loss before taxation of RM0.5 million as compared to a loss before taxation of RM1.1 million recorded in year 2002. With the quota



restriction imposed by USA against Vietnam effective 1 May 2003 coupled with the pending entry of Vietnam into the World Trade Organization, the Division expects complexity and uncertainty in marketing activities. Extra cost may be incurred in the Vietnam operations. Hence, the Division will strive to maintain the optimum level of operations at its plant in Vietnam through a matrix of pricing strategy and production planning for both quota and non-quota items.

The trading of yarns in the spinning and textile section contributed a slight profit despite the high production costs, which resulted from increases in raw cotton and yarn prices.

Generally, 2004 is expected to be a testing year for the Textile Division in view of the tight import quota to the European Community and USA for garments manufactured in Malaysia. The significant price hike for raw materials such as cotton, polyester staple fiber, yarn as well as plastic and carton packing materials have made the market place more challenging. To meet these challenges, the Division has taken measures to improve efficiency, product quality and timely delivery that will enhance our competitive edge and maintain our performance in the coming years.



ELECTRONICS DIVISION

For the year under review, the Division reported a substantial increase of 16% in revenue to RM374.3 million as compared to the RM323.0 million recorded in the previous year. Consequently, the profit before tax increased by 43% to RM38.8 million as compared to the previous year of RM27.2 million. A substantial portion thereof was contributed by the PI Electronics Group based in Hong Kong, which is involved in the design and manufacture of electronic power conversion units.



The lighting section also turned in a commendable performance, which saw sales revenue rising from RM46.4 million to RM74.4 million in the year under review. The section recorded profit before taxation of RM9.5 million as compared to the previous year of RM4.0 million. The encouraging performance is attributable to its forays into international markets such as Bangladesh, Indonesia and Thailand coupled with cost reduction initiatives put in place by the management team.



The pager section reported a doubling of its revenue from RM28.7 million to RM57.4 million in the reporting year, thus recording a profit before taxation of RM4.5 million against a loss of RM1.2 million in the previous year. This is primarily due to efforts securing new clientele, which has brought about higher economies of scale and hence gross margin.

PROPERTY DIVISION

During the year, MWE Advanced Structure Sdn Bhd ("MWEAS"), the Group's construction arm was awarded a development contract valued at RM69.8 million to build a seven storey commercial/recreational podium complex with four levels of car park and two blocks of twenty-one storey service apartments consisting of 320 units situated at Sri Hartamas, Kuala Lumpur. The construction work has since commenced in November 2003.

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The construction work for the 68 units and 92 units of medium-high and high-cost condominiums in Shah Alam is progressing smoothly and is targeted for completion in the first quarter of year 2005. Other current development undertaken by the Division in the Klang Valley, which is also progressing well, is at the Monterez Golf Resort that comprises 18 units of semi-detached houses..

Driven by the short supply and increase in the price of steel bars and steel related products, MWEAS has responded with operational planning by adopting cost-cutting measures and stringent materials control at site to minimise wastage and improve price competitiveness.

Ribuan Wangsa Sdn Bhd, our 50% associated company, sold all 862 units in two high-rise blocks of low medium-cost apartments at its development project located in Jelutong, Penang. The said development comprises Sri Wangsa I and Sri Wangsa II is anticipated to complete and hand over to purchasers sometime end of year 2005.

The overall office rental and occupancy rates in Penang have shown a decline within the reporting year, in view of the oversupply in the commercial properties sector. Our MWE Plaza has recorded a decline of 5% to 93% in its occupancy rate whereas Prime Plaza has maintained its rate at 51%. The decline is also due to logistic reasons whereby tenants moved into their own premises.

LEISURE DIVISION

2003 was a difficult year for Monterez Golf & Country Club ("MGCC"). The slowdown in the domestic economy coupled with unfavourable weather conditions and the ongoing road construction leading to the club had affected the performance of MGCC. MGCC anticipates that its business activities can be enhanced with the expected completion of the Guthrie Corridor Expressway by the third quarter of 2004. Several innovative marketing and sales initiatives will be implemented by MGCC during the current financial year to expand its membership base.

INDUSTRIAL DIVISION

Our subsidiary company, Quasar Industrial Vehicles Sdn Bhd ("QIV") is primarily involved in the sales, marketing, distribution and service of Renault trucks and spare parts. At the domestic front, Renault trucks especially the Kerax model has made a strong presence in the logging sector in East Malaysia especially Sarawak and established a reputation for being strong, well-built and able to perform economically in the tough Borneo jungles. During the year, QIV successfully launched Renault Premium and Renault Midlum, which were well accepted for haulage of containers and general cargo sector.

In addition, QIV will focus on vehicles where Renault has already established a niche for itself in timber trucking as well as developing other special purpose vehicles for fire fighting, military applications and transportation of petroleum.

ASSOCIATED COMPANIES

During the year, the Group's associated companies showed an improvement in profit before taxation of RM2.0 million as compared to a loss of RM2.8 million reported last year. This turnaround is principally due to the write-back of impairment losses by our foreign associated company and also higher profit contribution from our 50% associated company, Ribuan Wangsa Sdn Bhd.

PROSPECTS

The prospects for 2004 are expected to be positive albeit challenging. The Group will continue to adopt a vigilant approach towards our core businesses. Greater emphasis will be placed on achieving operational and management efficiency to ensure that the Group will be resilient in managing the uncertainties prevailing in the global markets.

At the same time, the Board will also be continuously seeking opportunities to expand both its domestic and overseas operations to augment Group profitability.

ACKNOWLEDGEMENTS

The Board wishes to place on record its appreciation to Allahyarham Tan Sri Datuk A. Samad Bin Idris, our Chairman, who passed away peacefully on 15 October 2003. His dedication and diligence exhibited during his tenure as Chairman of the Company are highly commendable.

During the year, Dato' Low Hock Peng retired as a Director of the Company. The Board would like to express its appreciation for his invaluable contributions and guidance to the Group.

To all our valued clients, government authorities, business associates and bankers, I would like to express my gratitude and appreciation for your endless support and confidence placed throughout the year.

I would like to thank the management and staff for their dedication, efforts and commitment, which has contributed positively to the Group results during the year.

Also not forgetting to thank our loyal shareholders for their unwavering support and confidence, which has encouraged us to strive for better Group performance in the coming financial years.

On behalf of the Board

TANG KING HUA
Managing Director

30 April 2004



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of MWE Holdings Berhad recognises the importance of maintaining good standard of corporate governance. The application of the principles and the extent of compliance with the best practices set out in the Malaysian Code on Corporate Governance ("the Code") by the Company are as follows:-

1. THE BOARD OF DIRECTORS

The Board & Board Balance

The composition of the Board reflects a balance with a mix of technical, administrative and business experiences that has been vital to the direction of the Group.

Currently, the Board has 7 members, comprising 2 non-independent & non-executive directors, 3 independent & non-executive directors, the managing director and the executive director. The number of independent & non-executive directors make up more than 1/3 of the membership of the Board and their presence provided fair and independent view to the Board. The Board also delegates specific responsibilities to various committees such as Audit Committee, ESOS Committee, Remuneration Committee and Nomination Committee to assist in discharging their duties. The brief profiles of all directors are given in pages 9 to 10.

The respective roles of the Chairman and the Managing Director are clearly defined, so as to ensure that there is a balance of power and authority. The Chairman is responsible for ensuring Board effectiveness and conduct, whilst the Managing Director has overall responsibility for the operating units, organisational effectiveness and implementation of Board policies and decisions. The presence of Independent Non-Executive Directors fulfill a pivotal role in the corporate accountability. Although all the Directors have an equal responsibility for the Group's operations, the role of these Independent Non-Executive Directors is particularly important as they provide unbiased and independent view, advice and judgement.

Board of Meetings

The Board met 5 times during the year 2003, whereat it reviewed and approved various issues including the Group's quarterly financial results, the performance of the subsidiaries, the business plan and strategy of the Group and corporate proposals. The Board also reviewed the adequacy of the Group's internal control system, identified addressed principal risks in the Group's through the powers delegated to the Audit Committee.

The details of attendance of each Director at the Board of Directors' Meetings held during the financial year ended 31 December 2003 are set out as follows:-

Directors	Attendance
Tang King Hua	5/5
Lim Kong Yow	5/5
Datuk Surin Upatkoorn	5/5
Lawrence Lim Swee Lin	5/5
Dato' Ahmad Hasmuni bin Hj. Hussein	5/5
Dato' Shahbudin bin Imam Mohamad	5/5
Tan Chor Teck	5/5
Tan Sri Datuk A. Samad bin Idris (Demise on 15 October 2003)	2/4
Dato' Low Hock Peng (Retired at Annual General Meeting held on 23 June 2003)	2/3

The agenda for Board meetings, together with the detailed reports and proposition papers to be tabled at the Board meetings, are circulated to all the Directors for their perusal and consideration prior to each Board meeting.

Senior Management staff as well as advisers and professionals appointed to advise on corporate proposals, were invited to attend Board meetings to provide the Board with their views and explanations on certain agenda items tabled to the Board, and to furnish clarification on issues that may be raised by the Directors.

Supply of Information

All Directors are supplied with necessary information on a timely basis to carry out their duties. Information given is inclusive of but not limited to financial figures, yearly budgets, business plans, list of directors' dealings, legal issues, project papers, draft circular etc. for discussion in Board Meetings as well as other occasions.

The Directors have full access to the senior management and the advice and services of the Company Secretary. In addition, the Directors may also seek independent professional advice, at the Company's expense, if any.

Appointment to the Board

Nomination Committee was set up on 28 August 2002 to ensure the process of nominating and appointing new members to the Board is fair and transparent. Currently, the Committee comprises the following members:-

1. Dato' Ahmad Hasmuni bin Hj Hussein (Independent Non-Executive Director)
2. Dato' Shahbudin bin Imam Mohamad (Independent Non-Executive Director)
3. Tan Chor Teck (Independent Non-Executive Director)

The Board, through the Nomination Committee, reviews annually its required mix of skills and experience and other qualities, including core competencies of all Directors to ensure the effectiveness of the Board as a whole and the committees of the Board.

Re-election of Directors

In accordance with the Company's Articles of Association, all Directors are subject to election at the first Annual General Meeting after their appointment.

The Articles also provide that at least one third of the Directors are subject to re-election by rotation at each Annual General Meeting. Directors over 70 years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

Directors' Training

All the Directors have attended the Mandatory Accreditation Programme conducted by the Research Institute of Analysts Malaysia, an affiliate company of Bursa Malaysia Securities Berhad ("BMSB"). The Directors will continue to undergo other relevant training programmes for further enhance their skills and knowledge as well as the latest statutory and/or regulatory requirements on a continuous basis in compliance with Practice Note No. 15/2003 of the BMSB Listing Requirements on the Continuing Education Programme.

Directors' Remuneration

The Remuneration Committee currently comprises the following members:-

1. Dato' Ahmad Hasmuni bin Hj Hussein (Independent Non-Executive Director)
2. Tan Chor Teck (Independent Non-Executive Director)
3. Lim Kong Yow (Executive Director)

STATEMENT ON CORPORATE GOVERNANCE

The Committee is entrusted with the responsibility of developing the policy on Executive Directors' remuneration package and recommending to the Board the remuneration and compensation of Managing Director and Executive Directors.

The determination of the remuneration package of the Non-Executive Directors shall be a matter for the Board as a whole, with the Director concerned abstaining from deliberation and voting on decisions in respect of his remuneration.

Directors' fees are approved by the shareholders together with the Audited Financial Statements of the Company at the Annual General Meeting.

The aggregate remuneration of Directors paid or payable to all Directors of the Company by the Company and the Group categorised into appropriate components for the financial year are as follows:-

	COMPANY		GROUP		
	Fees RM	Meeting Allowance RM	Salary/Fee RM	Bonus RM	Total RM
Executive Directors	30,000	5,000	801,786	111,418	948,204
Non-Executive Directors	60,000	14,000	120,000	-	194,000
Total	90,000	19,000	921,786	111,418	1,142,204

The number of Directors of the Company who served during the financial year and whose total remuneration from the Group falling within the respective bands are as follows:-

	Number of Directors	
Range of Remuneration	Executive	Non-Executive
Up to 50,000	-	5
50,001 - 100,000	-	1
100,001 - 200,000	1	-
200,001 - 300,000	-	-
300,001 - 400,000	1	-
400,001 - 500,000	1	-

Audit Committee

The composition, terms of reference and activities of the Audit Committee are set out in the Audit Committee Report.

The Audit Committee meets at least twice a year with the external auditors to discuss the annual financial statements and their audit findings. It also meets with the external auditors whenever it deems necessary.

In addition to the duties and responsibilities set out under its terms of reference, the Audit Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Company's internal control and risk management systems.

2. RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Company recognises the importance of regular and timely dissemination of information to shareholders and investors of the Company via annual report and financial statements, circulars to shareholders, quarterly financial reports and the various announcements made during the year. These will enable the shareholders, investors and members of the public to have an overview of the Group's performance and operations.

Shareholders and members of the public can obtain the Company's latest announcements via the Bursa Malaysia Securities Berhad website at www.bursamalaysia.com.

3. ACCOUNTABILITY AND AUDIT

Financial Reporting

In presenting the annual financial statement and quarterly announcements to shareholders, the Board takes responsibility in conveying a balanced and understandable assessment of the Group's position and prospects.

The Directors consider that in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards which the Board considers to be applicable have been followed, subject to any explanations and material departures disclosed in the notes to the financial statements.

Internal Controls

The Board acknowledges that it is responsible for maintaining a sound system of internal controls, which provides reasonable assessment of effective operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines. A statement on Internal Control of the Group is set out on Page 25 of the Annual Report.

Relationship with the Auditors

Through the Audit Committee, the Group has established a close and transparent relationship with the Company's external auditors. The external auditors report to the Audit Committee and the Management on any weaknesses in the internal control systems and any non-compliance of accounting standards that come to their attention in the course of their audit.

4. OTHER INFORMATION

Share Buybacks

During the year, there was no share buyback by the Company.

Options, Warrants or Convertible Securities

There were 157,400 Irredeemable Convertible Loan Stocks converted to 157,400 ordinary shares of RM1.00 each during the year.

Imposition of Sanctions/Penalties

There were no material sanctions and/or penalties imposed on the Company and its subsidiary companies, directors or management by the relevant regulatory bodies.

Non-audit Fees

There were no non-audit fees paid to the external auditors for the financial year ended 31 December 2003.

Profit Estimate, Forecast or Projection

There were no variances of 10% or more between the results for the financial year and the unaudited results and the profit forecast previously made or released by the Company.

Profit Guarantee

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

Material Contracts involving Directors/Substantial Shareholders' interests

During the year, there were no material contracts on the Company and its subsidiaries involving directors or substantial shareholders' interest.

Contracts Relating to Loans

There were no contracts relating to loans by the Company in respect of the material contracts involving directors' and major shareholders' interests.

Revaluation of Landed Properties

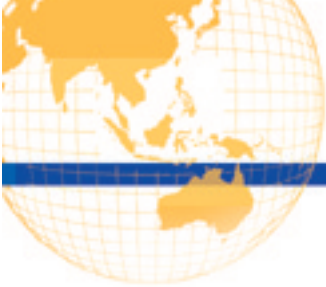
The Company does not have a revaluation policy on landed properties.

Recurrent Related Party Transactions of a Revenue of Trading Nature ("RRPT")

Following the reorganisation of the Electronics Division of the Company which was completed in early April 2003, DG Technologies (M) Sdn Bhd has become a wholly-owned subsidiary of Daviscomms (S) Pte Ltd, thus the RRPTs between the said companies have ceased.

American Depositary Receipt (ADR) or Global Depositary Receipt (GDR) Programme

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



AUDIT COMMITTEE

DATO' AHMAD HASMUNI BIN HJ. HUSSEIN

Chairman - Independent Non-Executive Director (appointed as Chairman w.e.f. 20 November 2003)

TAN SRI DATUK A. SAMAD BIN IDRIS

Chairman - Independent Non-Executive Director (Demise on 15 October 2003)

TAN CHOR TECK

Independent Non-Executive Director (Appointed w.e.f. 22 April 2004)

DATO' SHAHBUDIN BIN IMAM MOHAMAD

Independent Non-Executive Director

LIM KONG YOW

Executive Director

TERMS OF REFERENCE

The terms of reference of the Audit Committee have been amended and revised in consistent with the current Listing Requirements of the Bursa Malaysia Securities Berhad.

OBJECTIVES :-

- i. assist in the fiduciary duties of the Board in matters pertaining to business ethics, policies, financial management, internal control, accounting policies and financial reporting of the Company and its subsidiaries.
- ii. maintain and enhance a line of communication and independence between the Group and the external auditors.
- iii. ensure a system of internal control which will mitigate the likelihood of fraud or error.

COMPOSITION OF AUDIT COMMITTEE

The members of the Audit Committee shall be appointed by the Board from amongst its members which shall fulfil the following requirements:-

- i. the Audit Committee shall be composed of no fewer than 3 members;
- ii. the majority of the Audit Committee shall be independent directors; and
- iii. at least one member of the Audit Committee:-
 - a) must be a member of the Malaysian Institute of Accountants; or
 - b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

The Board must ensure that no alternate director is appointed as a member of the Audit Committee.

The members of the Audit Committee shall elect a Chairman from amongst their members who shall be an independent director.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of the above requirements, the Board must fill the vacancy within 3 months.

AUTHORITY

The Audit 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 all employees are directed to cooperate with any request made by the committee.

The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Audit Committee is authorised to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the Audit Committee shall include the following:-

1. review the following and report the same to the Board of Directors of the Company:-
 - a) the audit plan with the external auditors;
 - b) evaluation of the system of internal controls with the external auditors;
 - c) audit report with the external auditors;
 - d) the assistance given by the employees of the Company to the external auditors;
 - e) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, 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;
 - f) the engagement of Internal Audit Services Provider;
 - g) any related party transactions and conflict of interest situations that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - h) any letter of resignation from the external auditors of the Company; and
 - i) whether there is reason (supported by grounds) to believe that the Company's external auditors are not suitable for re-appointment;
2. recommend the nomination of a person or persons as external auditors;
3. promptly report to the Bursa Malaysia Securities Berhad on a matter reported by it to the Board which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of the Bursa Malaysia Securities Berhad;
4. perform any other function that may be agreed upon by the Committee and the Board.

MEETINGS AND REPORTING PROCEDURES

Meeting shall be held at least four times a year. The external auditors may request a meeting if they consider this necessary.

The quorum shall consist of a majority of Committee members who must be independent directors.

In the absence of the Chairman of the Committee, the members of the Committee present shall elect one of the independent directors to chair the meeting. A resolution put to vote shall be decided by a majority of votes of the members present, each member having one vote.

Other directors and employees may attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

The Secretary shall be responsible in conjunction with the Chairman, for drawing up the agenda and circulating it to the committee members prior to each meeting. The Secretary will also be responsible for keeping the minutes of meetings for the Committee, and circulating them to the Committee members and to other members of the Board as the Committee deems necessary.

The Company Secretary will act as the Secretary of the Committee.

The Committee convened five (5) meetings during the financial year ended 31 December 2003 and the attendance record is as follows:-

	26/2/2003	29/4/2003	29/5/2003	20/8/2003	20/11/2003
Dato' Ahmad Hasmuni bin Hj. Hussein	✓	✓	✓	✓	✓
Tan Sri Datuk A. Samad bin Idris (Demise on 15 October 2003)	✓	✓	X	X	Not Applicable
Dato' Shahbudin bin Imam Mohamad	✓	✓	✓	✓	✓
Lim Kong Yow	✓	✓	✓	✓	✓

ACTIVITIES

During the year under review, the Audit Committee undertook the following activities:

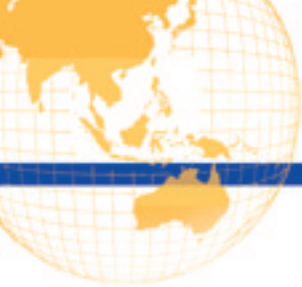
- Reviewed the quarterly unaudited financial results announcements before recommending them for the Board's approval. The review and discussions were conducted with the Group Financial Controller of the Company.
- Reviewed the audited financial statements for the financial year ended 31 December 2003 with the external auditors prior to submission to the Board for their consideration and approval.
- Reviewed significant related party transactions entered into by the Group.
- Reviewed the revised Audit Committee Chapter in compliance with the Listing Requirements of the Bursa Malaysia Securities Berhad.
- Discussed the formation of the Internal Audit Department for maintaining a sound system of internal controls within the Group.

INTERNAL AUDIT FUNCTION

During the year, the Group outsourced its internal audit function to a reputable professional services firm with international affiliation which is independent from the activities of the Company and reports directly to the Committee, who in turn decides on the remit of the internal audit function.

The scope of the internal audit encompasses the audits of all the companies within the Group over a period of (3) years per cycle. The Audit Committee have received several reports from the Internal Auditors on the audit work, recommendations and management's responses prior to the Committee meetings. During the year, it had carried out the audits according to the audit plan, which had been approved by the Audit Committee.

The final internal audit reports undertaken during the year were forwarded to the Management for necessary corrective and preventive actions as recommended. The Management is responsible for ensuring that the actions are implemented within the required time frame.



STATEMENT ON INTERNAL CONTROL

The Board is pleased to make the following disclosures pursuant to Paragraph 15.27 (b) of the Bursa Malaysia Securities Berhad Listing Requirements, which 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".

BOARD RESPONSIBILITY

The Board recognises its overall responsibility in promoting good corporate governance and maintaining a sound system of internal control and the need to regularly review its adequacy and integrity. Such system covers not only financial controls but also controls relating to operational and compliance to applicable laws, regulations, rules, directives and guidelines. It should be noted that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. The system by its nature can provide only reasonable but not absolute assurance against material misstatement or loss.

RISK MANAGEMENT FRAMEWORK

The Board understands that in order to achieve a sound system of internal control, it is necessary to provide a control environment and framework that is conducive to the group's objective. Therefore, the Board has initiated an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is being reviewed annually and with additional reviews carried out as and when required.

ASSURANCE ON INTERNAL CONTROL TO THE BOARD

The responsibility for reviewing the adequacy and integrity of the internal control system has been delegated by the Board to the Audit Committee. In turn, the Audit Committee assesses the adequacy and integrity of the internal control system through independent reviews conducted on reports it received from external auditors, the internal audit function and management.

During the financial years, the Group outsourced its internal audit function to a reputable professional services firm with international affiliation. Since the appointment of the internal audit function, periodic internal audit reviews have been carried out in accordance with the audit plan approved by the Audit Committee to assess the adequacy and integrity of the Group's system of internal control. Areas of improvement of internal controls have been identified and action plan based on the proposed improvements have subsequently been implemented.

The Board currently does not regularly review the internal control systems of its associate companies, as the Board does not have any direct control over their operations. Notwithstanding this, the Group's interest is served through representation on the Board of the associate companies. This representation also provides the Board with information for timely decision-making on the continuity of the Group's investments based on the performance of the associated companies.

KEY ELEMENTS OF INTERNAL CONTROL

The key elements of the Group's internal control system include, inter alia:-

1. A clearly defined organisational structure with clear lines of accountability and authority sets out decisions that are required to be taken at the appropriate levels including matters that require the Board's approval.
2. The Audit Committee reviews the quarterly financial reports, annual financial statements and, the internal audit plan on a periodic basis. Discussions with Management were held to deliberate on the actions that are required to be taken to address internal control matters identified by the outsourced internal audit function.
3. Regular internal audit visits to assess the effectiveness of internal controls, to monitor compliance with procedures, to review and assess risks the Group's operations are exposed to and to assess the integrity and reliability of financial information.

KEY ELEMENTS OF INTERNAL CONTROL (cont'd)

4. A comprehensive business planning and budgeting process which establishes plans and targets against which performance is monitored on an on-going basis. The business planning process of the Group determines business objectives, examines strengths, weaknesses, opportunities, threats and key business risks, from which action plans are formulated thereon.

The Board is of the view that the system of internal controls is satisfactory and nothing has come to the attention of the Board which would result in any material losses, contingencies or uncertainties that would required separate disclosure in this annual report. The Board will continue to take active measures to strengthen the existing internal control systems and control environment after taking into consideration the changes in the business environment the Group operates in.