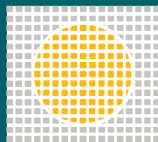




A Member Of



SUNRIGHT

annual report 2002

KESM INDUSTRIES BERHAD (13022-A)

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To Our Shareholders

For the past two years, the industry has undergone the steepest and longest decline in the semiconductor history which in turn brought about very tough and challenging environment for managing our businesses in the financial year 2002. Despite being at the lowest of its “down” cycle, KESM has performed well. I am pleased to report that, notwithstanding, the industry challenges, we: -

- delivered a profit of RM5.1 million or 30.1 sen per share on revenues of RM47 million;
- increased net worth to RM82.5 million from RM77.8 million compared with the previous corresponding year;
- maintained our position as the largest Malaysian Company specializing in “burn-in and test” with the continuing support of our major customers who are leaders in their respective markets;
- proposed a bonus issue which upon completion would increase the paid-up capital base via the capitalization from past reserves.

CHAIRMAN'S STATEMENT

CURRENT YEAR DEVELOPMENTS

The semiconductor industry which started 30 years ago in Malaysia has seen many “up” and “down” cycles. The reason they are called “cycles” is that sooner or later they will swing the other direction. We are confident of the next upswing. This will be driven by video, voice and data access just as PC and handset products drove all the recent growth cycles.

What is unique about our business, is that during the “down” cycle, our customers who are leaders in their respective markets, continue to spend on research and development. Albeit this slowdown, the technological race must continue. Market leaders will relentlessly find ways to make their devices smaller, better and cheaper. For these new advanced chips to operate reliably, they must be “burned-in” and “tested”. During the downturn, production volumes are scaled down, however demand for advanced chips continue to increase as new devices are being introduced. As can be seen in our past performances we have demonstrated our strength to remain resilient at every “down” cycle. We have been able to match our cost structure to the level of sales. We have succeeded in maintaining a profitable position in all the three electronic “down” cycles.



Despite being at

the lowest of its “down” cycle,

KESM has performed well...

This outsourcing will accelerate

in the coming years and

the opportunities for

KESM will continue to grow.



Another uniqueness of our business is that we are well insulated from the threat of losing business to China. A number of our customers listed in the U.S. Fortune 500, such as Intel, Motorola and National Semiconductor have established their manufacturing operations in China. Yet they continue to maintain their presence in Malaysia for strategic reasons. To keep their operations in Malaysia at an optimal level, our customers continue to introduce advanced processes for making new devices in Malaysia and transfer “matured” products out to China. Consequently, our volume shift is less sensitive and less apparent, as compared to those in other manufacturing service industry in the country.

OUTLOOK

More electronic manufacturers are outsourcing the fabrication of chips, assembly/test and burn-in of chips as well as assembly of the semiconductor onto printed circuit board. This outsourcing trend will accelerate in the coming years and the opportunities for KESM will continue to grow. We completed our new factory expansion of 4,500 sq. metres in Kuala Lumpur on January 2001 when the electronic downturn started. This space has progressively been built up and new capacities are readily filled. We will continue to invest on equipment with advance capability to match our customers’ needs as they bring more sophisticated devices to Malaysia for manufacturing. Two months ago, we concluded a major contract with Motorola on their product transfers from various countries to Malaysia. This award will enhance our performance in 2003. We are rapidly ramping up our production capacity. Our growing revenues would further increase our shareholders’ value. However, no one can be certain of the economic impact with the eroding confidence of the US Stock market and fears about the impending war in Iraq which will continue to cloud our future. One thing can be certain, we remain committed to making KESM successful.

DIVIDEND

During the year, a first and final dividend of 4.5% less tax at 28%, amounting to RM550,800 was paid in respect of the previous financial year.

The Directors will recommend a first and final dividend for the financial year under review at a later stage upon completion of the Proposed Bonus Issue.

APPRECIATION

We are proud of our employees who have responded so positively to the challenges of FY 2002. To remain profitable, we undertook comprehensive cost restructuring measures within the KESM Group. Reduced costs to match lower revenue means painful measures such as pay cuts and leaner workforce. All these efforts augur well as the Group responded decisively to weather the steepest downturn. On behalf of the KESM Group, we wish to thank our shareholders and other stakeholders for their continuing support.

Samuel Lim

Executive Chairman & CEO

28 October 2002

BOARD OF DIRECTORS



■ Samuel Lim Syn Soo

SAMUEL LIM SYN SOO

Aged 48, Singaporean • Non-Independent Executive Director

Mr. Samuel Lim was appointed to the Board on 6 September 1986. He is the Executive Chairman and Chief Executive Officer of the Company. Mr. Lim is also a member of the Option Committee. He holds a Diploma in Industrial Engineering (Canada) and was a registered engineer with WOFAC Association.

Mr. Lim has more than 30 years experience in the semiconductor and electronics industry. He held various senior positions in engineering, manufacturing and marketing in multi-national corporations, before co-founding KESM. He led the Company to be publicly listed in Malaysia. Mr Lim invented solutions to "burn-in and test" of individual chip and was awarded three patents. He also sits on the Board of all the companies in Sunright Limited Group.

Mr. Lim's holdings in the securities of the Company are as follows: -

	Direct Shareholdings	Indirect Shareholdings
Ordinary Shares of RM1.00 each	Nil	8,330,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)
Share options of RM1.00 each	60,000	Nil



■ Kenneth Tan Teoh Khoon

KENNETH TAN TEOH KHOON

Aged 45, Singaporean • Non-Independent Executive Director

Mr. Tan was appointed to the Board on 20 January 1992. He is responsible for the strategic direction, new business initiatives and financial management of the Group. Mr. Tan is also a member of the Audit Committee and Option Committee of the Company. An accountant by training, he graduated with a Bachelor of Accountancy degree from the National University of Singapore in 1981. He is a registered accountant with the Institute of Certified Public Accountants of Singapore and is also a qualified chartered secretary from the Institute of Chartered Secretaries and Administrators, United Kingdom. Mr. Tan started his career with an international accounting firm in Singapore and subsequently worked in the manufacturing, packaging and property industries. He joined Sunright Limited in 1987.

Mr. Tan is currently an executive director of Sunright Limited and also sits on the Board of several other private limited companies in Singapore, Hong Kong, Malaysia, Taiwan, China and USA.

Mr. Tan's holdings in the securities of the Company are as follows: -

	Direct Shareholdings	Indirect Shareholdings
Share options of RM1.00 each	60,000	Nil

LIM MEE ING

Aged 51, Singaporean • Non-Independent Non-Executive Director

Ms. Lim was appointed to the Board on 19 February 1990. She holds a Diploma from the Institute of Bankers, and has more than 17 years of working experience in the banking profession before her retirement in 1990. From 1973 to 1990, she worked with the Singapore Branch of Barclays Bank PLC in various senior positions. Prior to her exit, she was responsible for marketing the global securities and custodian services of the bank. Ms. Lim was also a director of Barclays Bank (S) Nominees Pte Ltd from September 1982 to March 1990. She was a member of the Committee on Securities Industry of the Association of Banks in Singapore from September 1987 to March 1990.

Ms. Lim is currently a non-executive director of Sunright Limited and also sits on the Board of several other private limited companies in Singapore, Malaysia, China and Philippines.



Lim Mee Ing

DR NORRAESAH HAJI MOHAMAD

Aged 54, Malaysian • Independent Non-Executive Director

Dr. Norraesah was appointed to the Board on 20 October 1991. She is also the Chairman of the Audit Committee of the Company. Dr. Norraesah holds a Doctorate Degree in Economics Science (International Economics and Finance) from the University of Paris I, Pantheon-Sorbonne, France in 1986. She has over 29 years of working experience in banking, consultancy and international trade and commerce.

Dr. Norraesah worked with the International Trade Division of the Ministry of Trade and Industry (now known as the Ministry of International Trade and Industry) from 1972 to 1985, starting as an Assistant Director and later promoted to Senior Assistant Director. Between October 1987 to September 1988, she was with the Finance Division of the Federal Treasury holding the post of Principal Assistant Secretary. From October 1988 to October 1990, she was the Communication Manager of ESSO Production Malaysia Inc. and subsequently, took the position of Managing Director with a consultant firm providing financial advisory services. From 1991 to 1998, she was appointed as the Chief Representative of Credit Lyonnais Bank in Malaysia.

She is currently the Group Chairman of MIDAS Group of Engineering Colleges and also sits on the Board of Siah Brothers Corporation Berhad and Malaysian Oxygen Berhad, both companies are listed on the Main Board of the Kuala Lumpur Stock Exchange and several other private limited companies in Malaysia.

Dr Norraesah's holdings in the securities of the Company are as follows: -

	Direct Shareholdings	Indirect Shareholdings
Ordinary Shares of RM1.00 each	3,000	353,000



Dr Norraesah Haji Mohamad



■ Encik Ahmad Riza Bin Basir

ENCIK AHMAD RIZA BIN BASIR

Aged 42, Malaysian • Independent Non-Executive Director

Encik Ahmad Riza was appointed to the Board on 28 July 1994 and is also a member of the Audit Committee of the Company. A lawyer by training, he graduated with a Bachelor of Arts in Law (Honours) degree from the University of Hertfordshire, Hertford, United Kingdom and Barrister At Law (Lincoln's Inn), London in 1984 and was called to the Malaysian Bar in 1986.

He is currently the Executive Chairman of Fima Corporation Berhad and Non-executive Chairman of Syarikat Kayu Wangi Berhad, and a Director of Kumpulan Fima Berhad, Nationwide Express Courier Services Berhad, Ladang Perbadanan-Fima Berhad, Jerneh Asia Berhad, John Hancock Life Assurance (M) Berhad and United Plantations Berhad. Encik Riza also sits on the Board of several other private limited companies in Malaysia.



■ Tuan Haji Zakariah Bin Yet, Ams, Amn

TUAN HAJI ZAKARIAH BIN YET, AMS, AMN

Aged 47, Malaysian • Non-Independent Non-Executive Director

Tuan Haji Zakariah was appointed to the Board on 27 January 1995. He holds a Diploma in Banking Studies from UITM, a Post Graduate Diploma in Engineering Business Management and a Master of Science in Engineering Business Management from the University of Warwick, United Kingdom. Tuan Haji Zakariah has been working with Lembaga Tabung Haji since 1979 and was involved in finance, administration, investment and branch office operation. He is currently the Senior General Manager (Services) of TH Travel & Services Sdn. Bhd., a subsidiary of Lembaga Tabung Haji. Previously, he was the General Manager of TH Global & Services Sdn. Bhd., also a subsidiary of Lembaga Tabung Haji.



■ Mr. Yong Chee Hou, Michael

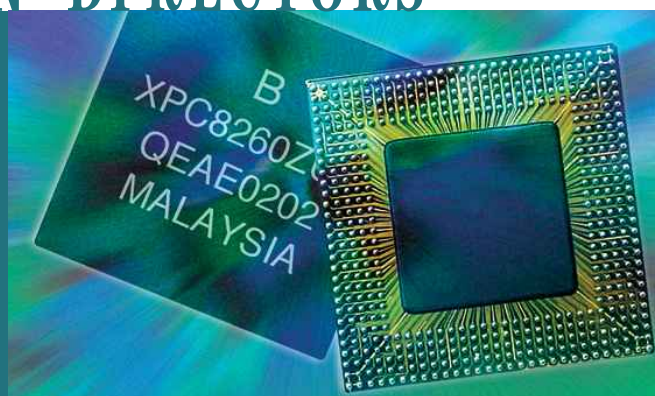
MR. YONG CHEE HOU, MICHAEL

Aged 46, Malaysian • Independent Non-Executive Director

Mr. Yong was appointed to the Board on 11 January 2002 and is also a member of the Audit Committee of the Company. He graduated from the University of Hull, United Kingdom with a Bachelor of Science (Hons) Degree in Economics and Accounting and qualified as a member of the Institute of Chartered Accountants in England and Wales. He is a member of Malaysian Institute of Accountants. He has spent over 9 years in accountancy profession. Mr. Yong is also a director of Latitude Tree Holdings Berhad, and a private limited company.

OTHER INFORMATION ON DIRECTORS

“ We remain the
largest burn-in service provider... ”



1 FAMILY RELATIONSHIP

None of the Directors have any family relationship with other Directors except for Ms. Lim Mee Ing, who is the spouse of Mr. Samuel Lim.

2 CONFLICT OF INTEREST

None of the Directors have any conflict of interest with the Company except for Messrs Samuel Lim, Kenneth Tan Lim Mee Ing and Dr Norraesah Haji Mohamad who are deemed to be interested in any transactions or contracts that the Group made or proposed to make with Sunright Limited Group.

3 CONVICTIONS OF OFFENCES

None of the Directors have been convicted of any offence within the past ten (10) years other than traffic offence, if any.

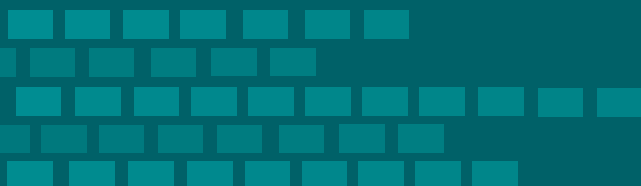
4 DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2002

Name of Directors	No. of Meetings Attended	Percentage %
Mr. Samuel Lim Syn Soo	5 out of 5	100
Mr. Kenneth Tan Teoh Khoon	5 out of 5	100
Ms. Lim Mee Ing	4 out of 5	80
Dr Norraesah Haji Mohamad	4 out of 5	80
Encik Ahmad Riza Bin Basir	4 out of 5	80
Tuan Haji Zakariah Bin Yet	4 out of 5	80
Yong Chee Hou	3 out of 5	NA*

* Appointed on 11 January 2002

CORPORATE INFORMATION

Board of Directors	Samuel Lim Syn Soo Kenneth Tan Teoh Khoon Lim Mee Ing Dr. Norraesah Haji Mohamad Ahmad Riza Bin Basir Tuan Haji Zakariah Bin Yet Yong Chee Hou	<i>(Executive Chairman & Chief Executive Officer)</i> <i>(Executive Director)</i> <i>(Non-Independent Non-Executive Director)</i> <i>(Independent Non-Executive Director)</i> <i>(Independent Non-Executive Director)</i> <i>(Non-Independent Non-Executive Director)</i> <i>(Independent Non-Executive Director)</i>
Audit Committee	Dr. Norraesah Haji Mohamad Kenneth Tan Teoh Khoon Ahmad Riza Bin Basir Yong Chee Hou	<i>(Chairman)</i> <i>(Member)</i> <i>(Member)</i> <i>(Member)</i>
Company Secretaries	Lim Phooi Kee (MIA 2759) Leong Oi Wah (MAICSA 7023802)	
Registered Office	10th Floor-Tower Block Kompleks Antarabangsa Jalan Sultan Ismail 50250 Kuala Lumpur MALAYSIA Tel: 03-2145-4337 Fax: 03-2141-5757	
Registrars	Signet Share Registration Services Sdn. Bhd. 11th Floor-Tower Block Kompleks Antarabangsa Jalan Sultan Ismail 50250 Kuala Lumpur MALAYSIA Tel: 03-2145-4337 Fax: 03-2142-1353	
Auditors	Ernst & Young Chartered Accountant Level 23A, Menara Millenium Jalan Damanlela Pusat Bandar Damansara 50490 Kuala Lumpur MALAYSIA	
Stock Exchange Listing	Kuala Lumpur Stock Exchange Second Board	
Stock Name	KESM	
KLSE Stock No.	9334	



OTHER INFORMATION

1 REMUNERATION OF DIRECTORS

The aggregate Directors' remuneration paid or payable or otherwise made available to all Directors of the Company during the financial year are as follows: -

	(RM'000) Fees	(RM'000) Salaries & Other Emoluments
Executive	38	234
Non-Executive	71.4	-

The number of Directors whose remuneration falls in each successive band of RM50,000 are :-

	Executive Director	Non-Executive Director
Less than RM50,000	-	5
RM50,000 to RM100,000	-	-
More than RM100,000	2	-

2 SHARE BUYBACKS

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

3 OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

During the financial year, 23,000 shares were exercised pursuant to the exercise of options.

During the financial year, the Company did not issue any warrants or convertible securities.

4 AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMME

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

5 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.

6 NON- AUDIT FEES

During the financial year, the Company did not pay any non-audit fees to the external auditors.

7 PROFIT ESTIMATE, FORECAST OR PROJECTION

There was no variance between the results for 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.

8 PROFIT GUARANTEES

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

9 MATERIAL CONTRACTS

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

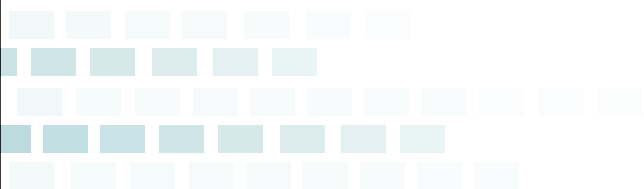
10 CONTRACTS RELATING TO LOANS

There were no contracts relating to loans by the Company in respect of the abovesaid item.

11 REVALUATION POLICY ON LANDED PROPERTIES

The carrying amounts of the landed properties at valuation are regularly reviewed such that the carrying amounts at balance sheet date are not materially different from their fair values.

Where properties are revalued, any surplus on revaluation is credited to the asset valuation reserve. A decrease in net carrying amount arising on revaluation of properties is charged to the income statement to the extent that it exceeds any surplus held in reserve relating to previous revaluation of the same class of properties.



CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") is committed to ensuring that good corporate governance practice is observed throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group. Towards this end, the Board will continue to evaluate the status of the Group's corporate governance procedures, introduce various measures and implement the best practices in so far as they are relevant to the Group, having regard to the nature of the Group's businesses and the size of its business operations.

Pursuant to paragraph 15.26 of the Listing Requirements of the Kuala Lumpur Stock Exchange ("KLSE"), the statement below sets out how the Group has applied the Principles of the Malaysian Code of Corporate Governance ("the Code") and the extent of compliance with the Best Practices of good corporate governance as set out in Part 1 and Part 2 of the Code.

BOARD OF DIRECTORS

Board Composition and Balance

The Company is led and managed by an experienced Board comprising members who have a wide range of experience in accounting, banking, finance, manufacturing, marketing, legal and business in other related and unrelated industries. The wide spectrum of skills and experience gives added strength to the leadership, thus enabling the Company to rest firmly in the charge of an accountable and competent Board.

As at the date of this report, the Board comprises the following :-

Executive directors (including the Executive Chairman/Chief Executive Officer)	2/7	(28.6%)
Independent non-executive directors	3/7	(42.8%)
Non-independent non-executive directors	2/7	(28.6%)

The profile of each director is presented on pages 4 to 6 of this Annual Report.

During the year under review, the Company has appointed Mr. Yong Chee Hou as an independent non-executive director to comply with paragraph 15.10(1)(c) of the Listing Requirements of KLSE.

The presence of independent non-executive directors fulfills a pivotal role in corporate governance accountability. Although all the directors have equal responsibilities for the Group's operations, the role of the independent non-executive directors is particularly important as they provide an unbiased and independent view, advice and judgement to take into account the interest, not only of the Group but also of shareholders and employees.

The strength of the Board is further enhanced by the appointment of Dr Norraesah Haji Mohamad as the senior independent non-executive director of the Board to whom concerns may be conveyed.

In view of the nature of the business and the size of the business operations of the Group, the Executive Chairman also assumes the responsibilities of Chief Executive Officer ("CEO"). Although the roles are combined, the Board is of the view that there are sufficient independent directors on the Board to ensure fair and objective deliberations at board meetings and who are capable of exercising independent judgements. The Chairman/CEO always abstains from all deliberations and voting on matters, which he is directly or deemed, interested. All related party transactions involving him are dealt with in accordance with the provisions of the Listing Requirements of KLSE. Moreover, the senior independent non-executive director is available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman/CEO.

The Board is of the opinion that its current composition and size constitute an effective Board to the Company.

Re-election

In accordance with the Company's Articles of Association, one third of the Board is required to retire at every Annual General Meeting ("AGM") and be subject to re-election by shareholders. Newly appointed directors shall hold office until the next following AGM and shall then be eligible for re-election by shareholders.

Board Meetings

The Board meets on a scheduled basis, at least five (5) times a year to approve quarterly and annual financial results, recurrent related party transactions, annual budgets and any other matters that require the Board's approval. Due notice is given for all scheduled meetings.

The number of board meetings held and the details of attendance of each individual director in respect of the meetings held during the year under review are set out on page 7 of this Annual Report. All directors attended more than 50% of the Board meetings.

The Board is fully aware and acts on its specifically reserved matters for decision to ensure that the direction of the Company is firmly in its hands.

DIRECTORS' TRAINING

All the directors had attended the Mandatory Accreditation Program prescribed by KLSE and will attend similar training programs annually to further enhance their skills and knowledge where relevant.

As an integral element of the process of appointing new directors, an orientation and education program had been approved by the Board, during the year under review. From time to time during the normal proceedings of the meetings, the directors also receive further briefings particularly on relevant new laws and regulations from the management, company secretaries and auditors.



SUPPLY OF INFORMATION

Prior to each Board and Audit Committee meeting, every directors are given an agenda and a set of papers containing reports and information relevant to the agenda items to facilitate active participation and informed decision making. The papers are issued in sufficient time to enable the directors to obtain further information and explanations, where necessary, so that they are properly briefed before the meetings. At each meeting, apart from receiving financial-oriented information from the management, the Board is also kept updated on the activities, operations and other performance factors affecting the Group's business and performance. Matters requiring any decision are in practice thoroughly discussed and deliberated by the Board. There is active and unrestricted participation by independent directors in the deliberations and decisions of the Board. All directors can and do have opportunity to call for additional clarification and information to assist them in their decision-making.

Directors have access to all information within a Company whether as a full board or in their individual capacity, in furtherance of their duties.

The Board has also approved an agreed procedures for directors to seek independent professional advice, if necessary, at the Company's expense.

In addition, all directors have full access to the advice and services of the company secretaries who are responsible for ensuring that Board meeting procedures are followed and that all applicable rules and regulations are complied with.

The Board believes that the current company secretaries are capable of carrying out their duties to fulfill their functions effectively. The Articles of Association of the Company permit their removal and appointment of a successor only by the Board as a whole.

DIRECTORS' NOMINATION

Currently, the entire Board deals with the appointment of directors. The Board has not set up the Nomination Committee as the Board believes that given its current size and composition, appointment of new directors can be effectively dealt with by the entire Board. No smaller committee is recommended as the Company believes that all members must be equally responsible for the duties of such a committee.

The Board will deliberate on the above during the normal proceedings of the meeting of directors.

DIRECTORS' REMUNERATION

The Board, as a whole, determines the remuneration of each director and the directors do not participate in the decisions regarding their own remuneration packages. The Board has not set up a Remuneration Committee after taking into account that there are only two salaried executive directors. Similar to directors' nomination, the Board will deliberate on the remuneration of directors during the normal proceedings of the meeting of directors.

All directors are paid directors' fees as approved by the shareholders at AGM, based on the recommendation of the Board. For the year under review, none of the directors received fees of more than RM50,000 each.

As a guide, the Company seeks out prevailing market practices to determine the remuneration packages for Directors. Details of directors' remuneration are set out on page 9 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee of the Board has been in existence since 1994 and currently comprises four (4) directors, a majority of whom is independent. Dr Norraesah Haji Mohamad, who is an independent non-executive director is the Chairman of this Committee. During the year under review, the Board had appointed an additional member to the Committee so as to fulfill the requirement stipulated in paragraph 15.10(1)(c) of the Listing Requirements of KLSE.

The composition and terms of reference of the Committee are set out on pages 19 to 22 of this Annual Report.

INTERNAL AUDIT FUNCTION

The internal audit team of an independent public accounting firm carries out the internal audit function of the Group. The responsibilities of the internal auditors include conducting audits, submitting findings and the provision of independent report to the Audit Committee on the Group's systems of internal control. The internal audit team is thus independent of the activities it audits. It maintains its impartiality, proficiency and due professional care by having its plans and reports submitted directly to the Audit Committee.

Details of the activities carried out by the internal auditors during the year under review are stated on page 18 of this Annual Report.



ACCOUNTABILITY AND AUDIT

Financial Reporting

In presenting the annual financial statements and quarterly results announcements, the directors aim to present a balanced and understandable assessment of the Company's and of the Group's position and prospects to all shareholders. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

The directors' responsibility statement is set out on page 25 of this Annual Report.

Internal Control

The Board is aware that it has the overall responsibility for the Group's system of internal controls. It will continue to maintain a sound system of internal controls to safeguard shareholders' investment and the Company's assets. However, such systems can only provide reasonable but not absolute assurance against material misstatement or loss.

The Statement on Internal Control presented on pages 23 to 24 of this Annual Report provides an overview of the state of internal controls within the Group.

Relationship with the Auditors

The Company maintains a transparent relationship with the auditors in seeking their professional advice and towards ensuring compliance with the accounting standards.

The external auditors have continued to report to members of the Company on their opinion which is included as part of the Company's financial reports with respect to their audit on each year's statutory financial statements.

From time to time, the auditors highlighted to the Audit Committee and Board on matters that require the Board's attention. The report by the Audit Committee on the review of the audit reports is set out on page 18 of this Annual Report.

RELATIONS WITH SHAREHOLDERS

During the year under review, the Board had formalized a Shareholders' Communication and Investor Relations Policy.

Shareholders and investors are kept informed of all major developments and performance of the Group through announcements via the KLSE Link, the press (where appropriate), Company's annual reports and other circulars to shareholders.

Full use is made of the AGM and Extraordinary General Meetings (“EGM”) to inform shareholders of current developments and to provide shareholders with an opportunity to raise questions. During the meeting, the Chairman and Board members are prepared to respond to all queries and provide sufficient clarification on issues and concerns raised by the shareholders. The external auditors are also present to provide their professional and independent clarification on issues and concerns raised by the shareholders. Status of all resolutions proposed at the AGM and EGMs is submitted to the KLSE at the end of the meeting day.

Notices of each meeting are issued in a timely manner to all shareholders whose names appear on the Company’s Register of Depositors supplied by the Malaysian Central Depository. Each items of special business included in the notice of AGMs is accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of issues involved.

Throughout the year, the executive directors, who are responsible for investor relations of the Company, meet with analysts and institutional investors. Presentations based on permissible disclosures are made to explain the Group’s strategies, performance and activities. Price sensitive and any information that may be regarded as undisclosed material information about the Group is however not disclosed in these exchanges until after the prescribed announcement to the KLSE has been made.

The Company also maintains a website (www.kesmi.com) through which shareholders and members of the public in general can gain access to information about the Group.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

Apart from the dual roles held by the Executive Chairman/CEO and the setting up of a Nomination Committee and a Remuneration Committee, the Board considers that the Company has substantially complied with the Best Practices as set out in the Code throughout the financial year ended 31 July 2002.

This statement is made in accordance with the resolution of the Board of Directors at its meeting held on 26 September 2002.



AUDIT COMMITTEE'S REPORT

The Audit Committee ("the Committee") of KESM Industries Berhad is pleased to present the Audit Committee's Report for the financial year ended 31 July 2002 ("Year 2002").

MEMBERS OF THE AUDIT COMMITTEE

During the financial year, the Board appointed another independent non-executive director, Mr. Yong Chee Hou, who is a member of the Malaysian Institute of Accountants, as a member of the Committee.

The Committee currently comprises the following directors : -

Chairman	: Dr Norraesah Haji Mohamad	<i>Independent Non-Executive Director</i>
Members	: Mr. Kenneth Tan Teoh Khoon	<i>Executive Director</i>
	: Encik Ahmad Riza Bin Basir	<i>Independent Non-Executive Director</i>
	: Mr. Yong Chee Hou	<i>Independent Non-Executive Director</i>

The Committee is governed by the Terms of Reference as set out on pages 19 to 22 of this Annual Report.

MEETINGS DURING THE YEAR

The Committee met four (4) times in Year 2002. By invitation, all the other Board members, the head of finance and the company secretary were present at all the meetings. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice.

The meeting attendance record of the Committee members is as follows :

Name of Member	Designation	No. of Meetings held during the year	No. of Meetings attended	Percentage %
Dr Norraesah Haji Mohamad	Chairman	4	4	100
Mr. Kenneth Tan Teoh Khoon	Member	4	4	100
Encik Ahmad Riza Bin Basir	Member	4	3	75
Mr. Yong Chee Hou	Member	4	2	50*

* Appointed on 11 January 2002

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During Year 2002, the Committee: -

1. reviewed the external auditors' reports in relation to the audit .
2. discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2001 to be presented to the Board of Directors for approval.
3. recommended the re-appointment of the external auditors.
4. reviewed, discussed and recommended the unaudited quarterly results of the Group to be presented to the Board of Directors for approval.
5. reviewed and recommended related party transactions of the Group to be presented to the Board of Directors for ratification and approval.
6. reviewed and discussed the internal auditor's reports.
7. reviewed and approved revision to internal audit scope for a subsidiary company.

INTERNAL AUDIT ACTIVITIES

The internal audit team of an independent public accounting firm undertakes the internal audit function of the Company.

The internal audit function has an important value added role in providing independent and objective assurance designed to assist the Company in accomplishing its objectives of attaining a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes. Its functions are guided by a risk-based audit methodology augmented with authority and responsibilities approved by the Committee.

During the financial year, in accordance to the audit plan approved by the Committee, the internal auditors presented to the Committee, audit reports concerning areas on cash investment, procurement planning and inventory management. To monitor and ensure that audit recommendations have been effectively implemented, follow-up audit reviews reports were also presented to the Committee.



TERMS OF REFERENCE OF AUDIT COMMITTEE

1. CONSTITUTION

Pursuant to the revamped Listing Requirements issued by the Kuala Lumpur Stock Exchange (“the KLSE”) on 22 January 2001, the Audit Committee (“the Committee”) has, on 24 July 2001, recommended to the Board the adoption of these Revised Terms of Reference.

The Board has, on 24 July 2001, resolved to adopt these Revised Terms of Reference, for the Committee to carry out the responsibilities and functions prescribed in Part C of Chapter 15 of the Listing Requirements of the KLSE.

2. COMPOSITION / QUORUM

The Committee shall be appointed by the Board from amongst the directors of the Company and shall consist of not less than 3 members, of which the majority shall be independent directors of the Company; and effective 1 January 2002 at least one member of the Committee: -

- a) must be a member of the Malaysian Institute of Accountants; or
- b) if he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least 3 years' working experience and: -
 - (i) he/she must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (ii) he/she must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

In the event that a member of the Committee resigns, dies or for any other reason ceases to be a member resulting in non-compliance of any of the requirements above, the Board shall, within 3 months of that event, appoint such number of new members as may be required to fill the vacancy.

Alternate directors shall not be appointed as members of the Committee.

3. TERMS OF MEMBERSHIP

Members of the Committee shall be appointed for an initial term of 3 years after which they will be eligible for re-appointment.

The appointment and performance of the members shall be subject to review by the Board at least once every 3 years to determine whether such members have carried out their duties in accordance with this terms of reference.

4. CHAIRMAN

The members shall elect a Chairman from among their number who shall be an independent director.

5. SECRETARY

The Company Secretary or his or her nominee shall be the Secretary of the Committee. In his or her absence, the Chairman shall appoint the Secretary.

6. MEETINGS

The Committee shall meet at least four times a year.

The notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed shall be forwarded to each member of the Committee and any other persons who may be required to attend, not fewer than 3 days prior to the date of the meeting.

In addition, the Committee Chairman may convene a meeting of the Committee if requested to do so by any member, or the internal or external auditors to consider any matter within the scope and responsibilities of the Committee or at the Committee Chairman's discretion.

Meetings of the Committee shall be held at any place within or out of Malaysia.

Members of the Committee may participate in a meeting of the Committee by means of telephone or other electronic means and all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

The Committee may establish any regulations from time to time to govern its administration.

7. ATTENDANCE AT MEETINGS

The quorum for meetings of the Committee shall consist of 2 members of which the majority present must be independent directors.

In the absence of the Committee Chairman and/or appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

The head of finance, the head of internal audit (where such a function exists), and a representative of the external auditors shall normally attend meetings. The Committee may invite other Board members or any person to be in attendance to assist it in its deliberations. However, at least once a year the Committee shall meet with the external auditors without executive Board members present whenever deemed necessary .

8. RESOLUTIONS IN WRITING

A resolution in writing signed whether in original or by facsimile, by the requisite members of the Committee who are sufficient to form a quorum, shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more members.

9. AUTHORITY AND RIGHTS

The Committee is authorised by the Board to investigate any activity within its terms of reference and shall :-

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company and its subsidiaries;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary. In practice, should any expenditure in connection therewith be expected to exceed RM30,000 in total, the Committee should consult with the Chairman of the Board, or the Board, before proceeding;
- f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary;
- g) have the authority to report any matter to the KLSE if it 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.

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10. DUTIES

The functions of the Committee are to assist the Board to fulfil its responsibilities in relation to the Group's financial reporting and to examine the adequacy of the Group's internal control systems and corporate governance.

The duties of the Committee shall be: -

- (1) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).
- (2) To review the external auditor's management letter and management response.
- (3) review the following and report the same to the Board :-
 - (a) with the external auditor, the audit plan, scope and nature of audit for the Company and of the Group, and ensure co-ordination where more than one audit firm is involved;
 - (b) with the external auditor, his evaluation of the system of internal controls of the Company and of the Group;
 - (c) with the external auditor, his audit report, and any matter the external auditor may wish to discuss (in the absence of management where necessary);
 - (d) the assistance given by the employees to the external and internal auditors;

- (e) 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;
- (f) the internal audit programme, processes, results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendation of the internal audit function;
- (g) the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on :-
 - (i) changes in or implementation of major accounting policy or practice changes;
 - (ii) significant and unusual events;
 - (iii) significant audit adjustments arising from the audit;
 - (iv) the going concern assumption; and
 - (v) compliance with accounting standards, stock exchange and other legal requirements;
- (h) 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 of management integrity;
 - (i) any letter of resignation from the external auditors of the Company;
 - (j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment; and
- (4) consider the major findings of internal investigations and management's response.
- (5) recommend the nomination of a person or persons as external auditor.
- (6) convene a meeting of the Committee to consider any matter the external auditor believes should be brought to the attention of the directors or shareholders.
- (7) ensure that the Committee Chairman attends the AGM to respond to any shareholder questions on the Committee's report and activities; and
- (8) to undertake such other responsibilities as may be agreed to by the Board, or as may be required by law.

11. REPORTING PROCEDURE

- 11.1 The Secretary shall be responsible for keeping the minutes of meeting of the Committee, circulating them to the members, the Board and the auditors who attended the meeting, and for ensuring compliance with KLSE requirements. 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.
- 11.2 The Committee shall submit a report to the Board as at the end of each financial year within 3 months from the said date to the Board for inclusion in the Company's annual report. The report of the Committee shall comprise paragraphs 15.16(3)(a) to (e) of the Listing Requirements of the KLSE.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

The Board is pleased to make the following disclosures pursuant to Paragraph 15.27(b) of the Kuala Lumpur Stock Exchange 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'S DISCLOSURE ON RISK MANAGEMENT

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that had been in place for the financial year ended 31 July 2002, and that the process is regularly reviewed by the Board and accords with The Statement on Internal Control - Guidance For Directors of Public Listed Companies.

BOARD'S RESPONSIBILITY

In accordance with Principle D II in Part 1 of the Malaysian Code on Corporate Governance, the Board is committed to maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets. Accordingly, the Board acknowledges its responsibility for the Group's overall system of internal control which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. However, it should be noted that due to the limitations that are inherent in any system of internal control such a system is designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives. Accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

REVIEW PROCESS FOR INTERNAL CONTROL SYSTEM

In view of the size and nature of the Group's operations, it is not cost justifiable for the Group to maintain an in-house function for the review of the Group's internal control system, which forms part of the internal audit function.

The Group's internal audit function is outsourced to a reputable international accounting/audit firm. The internal auditor reports directly to the Audit Committee. Being an independent third party, the internal auditor is able to perform the internal audit function with impartiality, proficiency and due professional care.

The internal audit function facilitates the Board in carrying out its responsibility to review and evaluate the adequacy and integrity of the Group's internal control systems. The full Board through the Audit Committee meets to review, discuss, and direct actions on matters pertaining to the internal auditor's report, which among other matters, include findings relating to the adequacy and integrity of the internal control system of the Group. Internal audits are carried out annually to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risk exposures over key business systems and processes and in controlling the proper conduct of business within the Group.

The internal auditor adopts a risk-based approach and prepares its audit strategy and plan based on the risk profiles of the business units of the Group. The audit plan is presented to the Audit Committee for approval annually. The resulting reports from the audits undertaken are reviewed by the Audit Committee and then forwarded to the operational management for attention and necessary corrective actions. The operational management is responsible for ensuring the corrective actions on reported weaknesses are taken within the required time frame.

ADDITIONAL INFORMATION

Apart from internal audit, the Board has put in place an organisation 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 monitoring and management of the Group is delegated to the two Executive Board members and senior operational management. The Executive Board members through their day-to-day involvement in the business operations and regular attendance at senior management level meetings, manage and monitor the Group's financial performance, key business indicators, operational effectiveness and efficiency, discuss and resolve significant business issues and ensure compliance with applicable laws, regulations, rules, directives and guidelines. These senior management meetings serve as a two-way platform for the Board, through the Executive Board members, to communicate and address significant matters in relation to the Group's business and financial affairs and provide update on significant changes in the business and the external environment which result in significant risks.

Internal control procedures are set out in a series of standard operating practice manuals and business process manuals to serve as a guidance for proper measures to be undertaken and are subject to regular review, enhancement and improvement.

CONCLUSION

The Board is of the opinion that the system of internal control that has been instituted throughout the Group was satisfactory and has not resulted in any material losses that would require disclosure in the Group's annual report. Notwithstanding this, the Board will continue to review the control procedures to ensure the effectiveness and adequacy of the internal control system of the Group.

This statement is made in accordance with the resolution of the Board of Directors dated 26 September 2002.



DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the report of the auditors set out on page 31, is made pursuant to paragraph 15.27(a) of the Listing Requirements of the Kuala Lumpur Stock Exchange, to explain the responsibilities of the Directors in relation to the preparation of the annual financial statements.

The Directors are required by law to prepare financial statements for each financial year which 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 the results and cash flows of the Group and of the Company for the financial year then ended.

The Directors consider that, in preparing the financial statements of the Group and of the Company for the year ended 31 July 2022, the Group and the Company have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors also confirm that after making reasonable enquiries to the best of their knowledge and belief, there are no other facts the omission of which would make any statement or information therein misleading.

The Directors also took steps to ensure that the Group and the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the year ended 31 July 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, the provision of semiconductor burn-in services and the assembly of electronic components. The principal activities of its subsidiary companies are the provision of semiconductor burn-in and testing of semiconductor integrated circuits and assembly of electronic components.

There have been no significant changes in the nature of these activities during the year.

FINANCIAL RESULTS

	GROUP RM'000	COMPANY RM'000
Profit after taxation	5,269	10,939

There were no material transfers to or from reserves or provisions during the year other than that disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDEND

During the year, a first and final dividend of 4.5% less tax at 28%, amounting to RM550,800 was paid in respect of the previous financial year as proposed in the Directors' Report of that year.

The Directors will recommend a first and final dividend for the current financial year at a later stage upon completion of the Proposed Bonus Issue.

INCREASE IN SHARE CAPITAL

During the financial year, the issued and paid up share capital of the Company was increased from RM17,000,000 to RM17,023,000 as a result of the issue of 23,000 new ordinary shares of RM1.00 each to eligible executives who have exercised their options under the Company's Executives' Share Option Scheme (ESOS).

EXECUTIVES' SHARE OPTION SCHEME

The Company's Executives' Share Option Scheme (ESOS) for eligible full-time employees and executive directors of the Company and its subsidiary companies was approved by shareholders at an Extraordinary General Meeting held on 7 September 2000. The ESOS became effective on 5 December 2000 when the last of the requisite approvals was obtained and is valid for a period of five (5) years expiring on 4 December 2005.

The maximum number of new shares which may be subscribed on the exercise of options granted under the ESOS shall not, in aggregate, exceed ten percent (10%) of the total issued and paid-up ordinary share capital of the Company at any point of time during the existence of the scheme.

The Option Price is determined according to the Bye-Laws of the ESOS and shall be the higher of:

- (a) the weighted average of the mean market price of the shares of the Company for the five (5) market days immediately preceding the date of offer; or
- (b) the par value of the share.

The persons to whom the options have been granted do not have any right to participate by virtue of such options in any share issue of any other company.

During the year, a total of 189,000 new options over ordinary shares of RM1.00 each in the Company were granted to eligible employees of the Group pursuant to the ESOS at an Option Price of RM6.16 per share. Of this total, 188,000 options had been accepted and the names of employees are disclosed in Note 28 to the financial statements.

The particulars of the options granted to eligible employees as at 31 July 2002 are as follows:

	Option Price RM	Granted	Number of Options Accepted	Exercised
First Option	5.48	461,000	457,000	23,000
Second Option	6.16	189,000	188,000	-
		650,000	645,000	23,000

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PROPOSED BONUS ISSUE AND INCREASE IN AUTHORISED SHARE CAPITAL

During the year, the Company announced a proposed bonus issue of up to a maximum of 26,388,000 new ordinary shares of RM1.00 each to be credited as fully-paid on the basis of 3 new shares for every 2 existing shares held at an entitlement date to be determined and announced at a later date.

The Proposed Bonus Issue is to be effected by capitalising an amount of up to a maximum of RM26,388,000 from the retained profit of the Company.

The new shares to be issued pursuant to the Proposed Bonus Issue shall, upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of the Company except that they shall not be entitled to any dividends, rights, allotments or other distributions which may be declared prior to the date of allotment of the new ordinary shares.

The Company also announced a proposed increase in authorised share capital from RM25,000,000 comprising 25,000,000 shares of RM1.00 each to RM50,000,000 comprising 50,000,000 shares of RM1.00 each to accommodate the increase in the issued and paid-up share capital of the Company pursuant to the Proposed Bonus Issue.

SUBSEQUENT EVENT

Subsequent to the financial year end, a total of 190,000 new options over ordinary shares of RM1.00 each in the Company were granted to eligible employees of the Group pursuant to the ESOS at an Option Price of RM5.86 per share.

Accordingly, the maximum number of new shares to be issued pursuant to the Proposed Bonus Issue will increase from 26,388,000 new shares to 26,664,000 new shares assuming full exercise of the outstanding options.

DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

Samuel Lim Syn Soo
 Kenneth Tan Teoh Khoon
 Lim Mee Ing
 Dr Norraesah Haji Mohamad
 Ahmad Riza Bin Basir
 Tuan Haji Zakariah Bin Yet
 Yong Chee Hou (Appointed on 11.1.2002)

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

The following Directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act 1965, interests in shares in the Company as stated below:

	No. of ordinary shares of RM1 each			At 31.7.2002
	At 1.8.2001	Bought During the financial year	Sold	
Dr Norraesah Haji Mohamad				
- Direct interest	3,000	-	-	3,000
- Indirect interest	353,000	-	-	353,000
Samuel Lim Syn Soo				
- Deemed interest	8,330,000	-	-	8,330,000

The following Directors who held office at 31 July 2002 are deemed to have interest in the shares of the Company by virtue of options granted under the Company's Executives' Share Option Scheme:

	Option Price	At 1.8.2001	Options to subscribe for ordinary shares of RM1 each		At 31.7.2002
			Granted	Exercised	
Samuel Lim Syn Soo	RM5.48	20,000	-	-	20,000
	RM6.16	-	20,000	-	20,000
Kenneth Tan Teoh Khoon	RM5.48	20,000	-	-	20,000
	RM6.16	-	20,000	-	20,000

Since the end of the previous financial year, no Director has received or become entitled to receive any benefits (other than a benefit included in the aggregate amount of emoluments and fees received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which a Director is a member or with a company in which the Director has a substantial financial interest.

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) it necessary to write off any debts or the amount of provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements and consolidated financial statements misleading or inappropriate.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made; and
 - (ii) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

On behalf of the Board,

SAMUEL LIM SYN SOO
Director

KENNETH TAN TEOH KHOON
Director

26 September 2002
Kuala Lumpur, Malaysia

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965 and Statutory Declaration pursuant to Section 169(16) of the Companies Act 1965

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT 1965

We, SAMUEL LIM SYN SOO and KENNETH TAN TEOH KHOON, being two of the Directors of KESM INDUSTRIES BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 32 to 50 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of:

- (i) the financial position of the Group and of the Company as at 31 July 2002 and of the results of the business of the Group and of the Company for the year then ended; and
- (ii) the cash flows of the Group and of the Company for the year ended 31 July 2002.

On behalf of the Board,

SAMUEL LIM SYN SOO
Director

KENNETH TAN TEOH KHOON
Director

26 September 2002
Kuala Lumpur, Malaysia

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT 1965

I, Lim Siew Yen, being the person primarily responsible for the financial management of KESM INDUSTRIES BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 32 to 50 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovementioned LIM SIEW YEN in Malaysia on 23 October 2002

Before me,

CHOKE KAH TONG
Commissioner for Oaths

LIM SIEW YEN

REPORT OF THE AUDITORS

to the Members of KESM Industries Berhad (Incorporated in Malaysia)

We have audited the financial statements set out on pages 32 to 50. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 July 2002 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries for which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in the form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The Auditors' Reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

ERNST & YOUNG

AF:0039

Chartered Accountants

See Huey Beng

1495/03/03(J)

Partner

Kuala Lumpur, Malaysia

26 September 2002

INCOME STATEMENTS

for the year ended 31 July 2002

	Note	GROUP		COMPANY	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Revenue	3	46,963	50,169	29,311	23,314
Other operating income		284	528	508	564
Total operating income		47,247	50,697	29,819	23,878
Raw materials and consumables used		(10,072)	(7,141)	(409)	(404)
Staff costs (excluding directors' emoluments)		(13,156)	(17,309)	(5,733)	(7,452)
Depreciation of property, plant and equipment		(12,052)	(10,365)	(6,600)	(6,843)
Other operating expenses		(9,749)	(11,434)	(5,580)	(7,161)
Total operating expenses		(45,029)	(46,249)	(18,322)	(21,860)
Profit from operating activities	4	2,218	4,448	11,497	2,018
Interest income	5	889	1,070	536	561
Interest expense	6	(1,296)	(1,354)	(860)	(979)
Profit before taxation		1,811	4,164	11,173	1,600
Taxation	7	3,458	(928)	(234)	(478)
Profit after taxation		5,269	3,236	10,939	1,122
Minority interest		(145)	259	-	-
Profit after taxation and minority interest		5,124	3,495	10,939	1,122
Earnings per share (sen)					
- Basic	8	30	21		
- Diluted	8	30	21		
Dividend per share (sen)	9	4.5	4.5		

The annexed notes form an integral part of these financial statements.

BALANCE SHEETS

as at 31 July 2002

	Note	GROUP		COMPANY	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
PROPERTY, PLANT AND EQUIPMENT	10	51,516	61,303	25,177	31,131
SUBSIDIARY COMPANIES	11	-	-	4,715	4,715
CURRENT ASSETS					
Other investments	12	3,541	2,226	3,541	2,226
Inventories	13	4,316	2,265	77	77
Trade and other receivables	14	11,879	9,621	4,843	4,111
Tax recoverable		2,400	2,169	247	183
Amounts due from subsidiary companies	15	-	-	2,910	7,170
Deposits with licensed banks	16	33,343	30,079	19,942	8,402
Cash and bank balances		1,194	1,965	394	892
		56,673	48,325	31,954	23,061
CURRENT LIABILITIES					
Trade and other payables	17	5,013	6,331	1,655	3,138
Current portion of long term loans	20	5,286	6,687	2,666	5,618
		10,299	13,018	4,321	8,756
NET CURRENT ASSETS		46,374	35,307	27,633	14,305
		97,890	96,610	57,525	50,151
Financed by:					
SHARE CAPITAL	18	17,023	17,000	17,023	17,000
RESERVES	19	65,439	60,763	32,405	21,914
		82,462	77,763	49,428	38,914
MINORITY INTEREST		742	597	-	-
LONG TERM LIABILITIES					
Hire purchase payables	17	-	596	-	528
Long term loans	20	7,714	7,035	2,300	4,912
Deferred taxation	21	6,972	10,619	5,797	5,797
		97,890	96,610	57,525	50,151

The annexed notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2002

	Non-distributable						Total RM'000
	Share Capital	Share Premium	Asset Revaluation Reserve	Reserve on Consolidation	Merger Relief Reserve	Retained Profit	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
GROUP							
At 1 August 2000							
As previously stated	17,000	-	5,885	430	-	50,953	74,268
Prior year adjustment (Note 26)	-	-	-	-	-	551	551
As restated	17,000	-	5,885	430	-	51,504	74,819
Profit after taxation and minority interest	-	-	-	-	-	3,495	3,495
Dividend	-	-	-	-	-	(551)	(551)
At 31 July 2001	17,000	-	5,885	430	-	54,448	77,763
Exercise of options to subscribe for ordinary shares in the Company							
	23	103	-	-	-	-	126
Profit after taxation and minority interest	-	-	-	-	-	5,124	5,124
Dividend	-	-	-	-	-	(551)	(551)
At 31 July 2002	17,023	103	5,885	430	-	59,021	82,462

COMPANY

At 1 August 2000							
As previously stated	17,000	-	2,347	-	1,215	17,230	37,792
Prior year adjustment (Note 26)	-	-	-	-	-	551	551
As restated	17,000	-	2,347	-	1,215	17,781	38,343
Profit after taxation and minority interest	-	-	-	-	-	1,122	1,122
Dividend	-	-	-	-	-	(551)	(551)
At 31 July 2001	17,000	-	2,347	-	1,215	18,352	38,914
Exercise of options to subscribe for ordinary shares in the company							
	23	103	-	-	-	-	126
Profit after taxation and minority interest	-	-	-	-	-	10,939	10,939
Dividend	-	-	-	-	-	(551)	(551)
At 31 July 2002	17,023	103	2,347	-	1,215	28,740	49,428

The annexed notes form an integral part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 July 2002

	GROUP		COMPANY	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	1,811	4,164	11,173	1,600
Adjustments for:				
Loss/(gain) on disposal of property, plant and equipment	2	(3)	9	(3)
Depreciation of property, plant and equipment	12,052	10,365	6,600	6,843
(Gain)/loss on disposal of quoted shares	(18)	106	(18)	106
Provision for diminution in value of quoted shares	-	495	-	495
Dividend income	(92)	(77)	(10,092)	(77)
Interest expenses	1,296	1,354	860	979
Interest income	(889)	(1,070)	(536)	(561)
Operating profit before working capital changes	14,162	15,334	7,996	9,382
Changes in working capital:				
Inventories	(2,051)	(1,293)	-	(31)
Receivables	(2,258)	375	(732)	337
Subsidiary companies	-	-	4,260	(2,400)
Payables	(721)	(4,691)	(945)	(3,240)
Cash generated from operations	9,132	9,725	10,579	4,048
Tax paid	(420)	(2,989)	(298)	(925)
Interest paid	(1,296)	(1,354)	(860)	(979)
Interest received	889	1,070	536	561
Net cash generated from operating activities	8,305	6,452	9,957	2,705
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment in quoted shares	(1,492)	(209)	(1,492)	(209)
Proceeds from disposal of quoted shares	195	663	195	663
Dividend income	92	77	10,092	77
Purchase of property, plant and equipment	(2,278)	(21,193)	(658)	(5,235)
Proceeds from disposal of property, plant and equipment	11	3,367	3	3,366
Net cash (used in)/generated from investing activities	(3,472)	(17,295)	8,140	(1,338)
CASH FLOWS FROM FINANCING ACTIVITIES				
Hire purchase payables	(1,193)	(1,982)	(1,066)	(1,815)
Drawdown of new term loans	7,736	7,087	-	6,800
Repayment of term loans	(8,458)	(7,244)	(5,564)	(5,715)
Issue of new shares	126	-	126	-
Dividend paid	(551)	(551)	(551)	(551)
Net cash used in financing activities	(2,340)	(2,690)	(7,055)	(1,281)
Net change in cash and cash equivalents	2,493	(13,533)	11,042	86
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	32,044	45,577	9,294	9,208
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	34,537	32,044	20,336	9,294
Cash and cash equivalents at end of year comprise:				
Deposits with licensed banks	33,343	30,079	19,942	8,402
Cash and bank balances	1,194	1,965	394	892
	34,537	32,044	20,336	9,294

The annexed notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 July 2002

1. GENERAL INFORMATION

The principal activities of the Company are investment holding, the provision of semiconductor burn-in services and the assembly of electronic components. The principal activities of its subsidiary companies are the provision of burn-in and testing of semiconductor integrated circuits and assembly of electronic components.

The registered office of the Company is at 10th Floor - Tower Block, Kompleks Antarabangsa, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia.

The principal place of business of the Company is located at Lot 4, Jalan SS 8/4, Sungei Way Free Industrial Zone, 47300 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The financial statements are expressed in Ringgit Malaysia.

The financial statements were approved by the Board of Directors on 26 September 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF ACCOUNTING

The financial statements of the Group and of the Company are prepared under the historical cost convention, modified to include the revaluation of certain property, plant and equipment and comply with applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board.

b) BASIS OF CONSOLIDATION

The Group financial statements incorporate the financial statements of the Company and all its subsidiary companies to 31 July 2002. The subsidiaries are consolidated using either the acquisition or merger method of accounting.

i) Under the acquisition method of accounting, the results of a subsidiary company acquired or disposed during the year are included from the date of acquisition or up to date of disposal. At the date of acquisition, the fair values of the subsidiary's net assets are determined and these values are reflected in the Group financial statements.

The net difference between the acquisition cost and attributable fair value of net assets acquired is reflected as goodwill or reserve on consolidation as appropriate. Goodwill or reserve on consolidation is dealt with through reserve.

ii) Under the merger method of accounting, the results of a subsidiary company are included as if the company has been combined throughout the current and previous financial years. Merger deficit arising is eliminated against revenue reserve in the year in which the merger method of accounting is applied.

Merger reserve or deficit being the difference between the cost of acquisition over the nominal value of the share capital of the subsidiary company, as appropriate, is dealt with through reserve.

c) REVENUE RECOGNITION

Revenue is recognised upon passage of title to the customer which generally coincides with the delivery, or the rendering of service to the customer.

Interest income is recognised on an accrual basis.

Dividend income from a subsidiary company is accrued on the basis of the dates dividends are declared by the subsidiary company.

2. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

d) SUBSIDIARY COMPANIES

Investments in subsidiary companies are stated at cost and provision is made for permanent impairment in values.

e) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the property, plant and equipment to working condition for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs are charged to the income statement. When property, plant and equipment are sold or retired, their cost or valuation and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the income statement.

The carrying amounts of the property, plant and equipment at valuation is reviewed regularly such that the carrying amounts at balance sheet date are not materially different from their fair values.

Where property, plant and equipment are revalued, any surplus on revaluation is credited to the asset revaluation reserve. A decrease in net carrying amount arising on revaluation of property, plant and equipment is charged to the income statement to the extent that it exceeds any surplus held in reserve relating to previous revaluation of the same class of property, plant and equipment.

f) DEPRECIATION

Depreciation is calculated on the straight line method to write off the cost or valuation of property, plant and equipment over their estimated useful lives.

Buildings	-	20 years
Leasehold improvements	-	5 years
Plant, machinery and test equipment	-	1.5 to 5 years
Motor vehicles	-	5 years
Office equipment, furniture and fittings and computers	-	3 to 10 years

No depreciation is provided on capital work-in-progress. Long term leasehold land which has unexpired lease period exceeding 50 years is also not depreciated as its economic life and residual value are such that the depreciation is not significant. Short-term leasehold land is amortised evenly over the unexpired lease period.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use but no further charge for depreciation is made in respect of these assets.

g) HIRE PURCHASE

Property, plant and equipment acquired under hire purchase contracts are capitalised in the financial statements and are depreciated in accordance with the policy set out in (f) above. The corresponding outstanding obligations due under the hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. Finance expenses are charged to the income statement over the period of the respective agreements.

h) SHORT TERM INVESTMENTS

Quoted investments are stated at the lower of cost and market value, determined on an aggregate basis. Unquoted investments are stated at cost and provision is made for any permanent diminution in the value of investments. Dividend income is accounted for when declared by the investee companies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials on a weighted average basis and in the case of finished products, includes direct labour and attributable production overheads based on normal level of activity. Net realisable value represents the estimated selling price less anticipated cost of disposal and after making allowance for damaged, obsolete and slow-moving items.

j) RECEIVABLES

Known bad debts are written off and specific provision is made for any debt considered to be doubtful of collection. In addition, an estimate is made on doubtful debts based on a review of all outstanding amounts at year end.

k) PAYABLES

Payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not billed to the Company.

l) FOREIGN CURRENCIES

Transactions arising in foreign currencies during the year are recorded at rates closely approximating those ruling on the transaction dates. Foreign currency monetary assets and liabilities are reported in Ringgit Malaysia at the exchange rates ruling at the balance sheet date. All exchange differences are dealt with through the income statement.

m) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method whereby the tax charge for the year is based on the disclosed book profit after adjusting for all permanent differences. The amount of taxation deferred on account of all timing differences is reflected in the deferred taxation account. Deferred tax benefits which represent future savings in tax are not recognised unless there is reasonable expectation of their realisation.

Where there is intention to dispose of revalued assets, the deferred tax relating to such assets is recognised through a transfer from the related revaluation surplus. No provision is made of this tax effect where the Group intends to hold such assets for the foreseeable future.

n) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and bank balances, demand deposits and other short term highly liquid investments, which are readily convertible to cash with insignificant risk of changes in value, net of outstanding bank overdrafts.

3. REVENUE

Revenue for the Group and Company are analysed as follows:

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Burn-in/testing services	32,690	39,371	19,311	23,043
Sales and assembly of electronic equipment	14,273	10,798	-	271
Dividend from a subsidiary	-	-	10,000	-
	46,963	50,169	29,311	23,314

4. PROFIT FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
(a) This is arrived at after charging/(crediting):				
Directors' fees	575	210	109	100
Directors' remuneration	234	396	234	396
Auditors' remuneration	93	93	40	40
Rent of equipment	45	54	-	-
Provision for doubtful debts	216	42	-	-
Depreciation of property, plant and equipment	12,052	10,365	6,600	6,843
Loss/(gain) on disposal of property, plant and equipment	2	(3)	9	(3)
Rental income from a subsidiary	-	-	(361)	(270)
(Gain)/loss on disposal of quoted shares	(18)	106	(18)	106
Gross dividends from other investments	92	77	92	77
Provision in diminution in value of quoted shares	-	495	-	495

	GROUP		COMPANY	
	2002	2001	2002	2001
(b) Employee information				
Number of employees (excluding directors) during the year	Between 803 and 1,015	Between 950 and 1,154	Between 348 and 404	Between 427 and 559

5. INTEREST INCOME

	GROUP		COMPANY	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Interest income from:				
- deposits with licensed banks	889	1,070	282	171
- loan to subsidiary	-	-	254	390
	889	1,070	536	561

6. INTEREST EXPENSE

Interest expense on:				
- term loans	1,000	824	713	660
- hire purchase contracts	161	319	147	304
- loan from minority shareholder	135	203	-	-
- others	-	8	-	15
	1,296	1,354	860	979

7. TAXATION

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Malaysian taxation based on results for the year:				
- Current	495	624	234	257
- Deferred	-	724	-	221
	495	1,348	234	478
Over provision in prior years				
- Current	(306)	(316)	-	-
- Deferred	(3,647)	(104)	-	-
	(3,458)	928	234	478

The effective tax rate of the Company for the year is lower than the statutory tax rate mainly due to the tax exempt dividend received from a subsidiary company and reinvestment allowance claimed by the Company.

The write back of deferred tax is due to the successful claim on Reinvestment Allowance from Inland Revenue Board by a subsidiary company.

8. EARNINGS PER SHARE

	GROUP	
	2002	2001
	RM'000	RM'000
Profit after taxation and minority interest (RM'000)	5,124	3,495
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	17,009	17,000
Adjustment for conversion of options under ESOS to ordinary shares ('000)	- *	- *
	17,009	17,000
Basic earnings per share (sen)	30	21
Diluted earnings per share (sen)	30	21

* The number of shares under options is not taken into account in the computation of diluted earnings per share because its effect on the basic earnings per share is anti-dilutive.

9. DIVIDEND

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Dividend in respect of prior years				
Proposed first and final dividend of 4.5% less tax at 28% for 2001 paid in 2002 (2001: 4.5% less tax at 28% for 2000 paid in 2001)	551	551	551	551

10. PROPERTY, PLANT AND EQUIPMENT

GROUP	Long term leasehold land	Short term leasehold land	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Capital work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net Book Value									
At 1 August 2001	3,908	2,530	20,060	387	27,219	87	777	6,335	61,303
Additions	-	-	-	50	1,680	-	254	294	2,278
Disposals/write-offs	-	-	-	-	-	-	(13)	-	(13)
Reclassification	-	-	73	-	6,335	-	-	(6,408)	-
Depreciation charge	-	(60)	(1,160)	(140)	(10,368)	(52)	(272)	-	(12,052)
At 31 July 2002	3,908	2,470	18,973	297	24,866	35	746	221	51,516
At 31 July 2002									
Cost	-	-	5,199	1,285	110,786	984	3,967	221	122,442
Valuation	3,908	2,701	18,102	-	-	-	-	-	24,711
Accumulated depreciation	-	(231)	(4,328)	(988)	(85,920)	(949)	(3,221)	-	(95,637)
Net book value	3,908	2,470	18,973	297	24,866	35	746	221	51,516
At 31 July 2001									
Cost	-	-	5,126	1,244	103,116	1,012	3,781	6,335	120,614
Valuation	3,908	2,701	18,102	-	-	-	-	-	24,711
Accumulated depreciation	-	(171)	(3,168)	(857)	(75,897)	(925)	(3,004)	-	(84,022)
Net book value	3,908	2,530	20,060	387	27,219	87	777	6,335	61,303
Depreciation charge for 2001									
	-	57	971	158	8,574	154	451	-	10,365

COMPANY	Long term leasehold land	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Capital work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net Book Value								
At 1 August 2001	3,908	10,455	213	15,259	35	507	754	31,131
Additions	-	-	29	479	-	77	73	658
Disposals/Write-offs	-	-	-	-	-	(12)	-	(12)
Reclassification	-	73	-	754	-	-	(827)	-
Depreciation charge	-	(608)	(90)	(5,749)	(10)	(143)	-	(6,600)
At 31 July 2002	3,908	9,920	152	10,743	25	429	-	25,177
At 31 July 2002								
Cost	-	4,185	790	51,178	494	2,288	-	58,935
Valuation	3,908	8,102	-	-	-	-	-	12,010
Accumulated depreciation	-	(2,367)	(638)	(40,435)	(469)	(1,859)	-	(45,768)
Net book value	3,908	9,920	152	10,743	25	429	-	25,177
At 31 July 2001								
Cost	-	4,112	770	49,948	494	2,254	754	58,332
Valuation	3,908	8,102	-	-	-	-	-	12,010
Accumulated depreciation	-	(1,759)	(557)	(34,689)	(459)	(1,747)	-	(39,211)
Net book value	3,908	10,455	213	15,259	35	507	754	31,131
Depreciation charge for 2001								
	-	420	104	5,963	73	283	-	6,843

10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The net book value of leasehold land and buildings carried at valuation comprises:

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Long term leasehold land				
- at 1999 valuation	3,908	3,908	3,908	3,908
Short term leasehold land				
- at 1999 valuation	2,470	2,530	-	-
Buildings				
- at cost	4,784	4,965	3,966	4,096
- at 1999 valuation	14,189	15,095	5,954	6,359
	18,973	20,060	9,920	10,455

The net book value of leasehold land and buildings if carried at cost less depreciation are as follows:

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Long term leasehold land	274	274	274	274
Short term leasehold land	225	230	-	-
Buildings	12,412	13,315	5,485	5,861

The leasehold land and buildings directly employed in the operations of the Group and Company were revalued by the Directors based on independent valuations by professional valuers using the open market for existing use basis. The apartments of the Group utilised by employees for accommodation has not been revalued. The title deed in respect of the Company's leasehold land has yet to be issued by the authorities. The strata titles to certain units of apartments with an aggregate net book value of RM539,207 (2001: RM571,815) have yet to be issued to a subsidiary company.

The aggregate net book values of plant, machinery and test equipment under hire purchase contracts for the Group and the Company amounted to RM2,431,000 (2001: RM4,124,000) and RM2,187,000 (2001: RM3,735,000), respectively.

The aggregate net book values of plant, machinery and test equipment of the Group and the Company of RM9,319,000 (2001: RM7,147,000) and RM3,068,000 (2001: RM7,147,000), respectively are pledged as security for term loans granted to the Group and the Company.

During the year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM2,278,000 (2001: RM21,426,000) and RM658,000 (2001: RM5,235,000), respectively. Cash payments of RM2,278,000 (2001: RM21,193,000) and RM658,000 (2001: RM5,235,000) were made to purchase property, plant and equipment by the Group and the Company, respectively during the year.

11. SUBSIDIARY COMPANIES

	GROUP	
	2002	2001
	RM'000	RM'000
Unquoted shares, at cost	4,715	4,715

The subsidiary companies are:

Name of Company	Country of Incorporation	Principal Activities	Equity Interests	
			2002	2001
			%	%
KESP Sdn Bhd	Malaysia	Provision of semiconductor burn-in and cold testing services and assembly of electronic components	100	100
KESM Test (M) Sdn Bhd	Malaysia	Testing of semiconductor integrated circuits	65.38	65.38

12. OTHER INVESTMENTS

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Shares quoted in Malaysia, at cost	3,541	2,721	3,541	2,721
Less: Provision for diminution in value	-	(495)	-	(495)
	3,541	2,226	3,541	2,226
Market value	3,890	2,312	3,890	2,312

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13. INVENTORIES

At cost

Raw materials	2,688	1,521	-	-
Consumables	370	222	77	77
Work-in-progress	1,245	138	-	-
Finished goods	13	384	-	-
	4,316	2,265	77	77

14. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Trade receivables	10,998	8,437	4,183	3,553
Less: Provision for doubtful debts	(257)	(42)	-	-
	10,741	8,395	4,183	3,553
Non-trade receivables				
- Others	576	435	430	286
- Amounts due from related parties	120	83	59	65
- Prepayments	313	574	97	121
- Deposits	129	134	74	86
	11,879	9,621	4,843	4,111

Related parties refer to the substantial corporate shareholder, Sunright Limited, in which certain Directors have financial interests, and its subsidiary companies.

Amounts due from related parties are unsecured, non-interest bearing and have no fixed term of repayment.

15. AMOUNTS DUE FROM SUBSIDIARY COMPANIES

Amounts due from subsidiary companies are mainly in respect of management fees, rental and interest receivable and a loan of RM2,594,685 (2001: RM3,902,285) which are unsecured, bear interest at commercial rates and have no fixed term of repayment.

16. DEPOSITS WITH LICENSED BANKS

Fixed deposits amounting to RM5,883,837 (2001: RM9,141,000) and RM2,929,616 (2001: RM6,262,000) are pledged to banks as security for credit facilities granted to the Group and to the Company, respectively.

17. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Trade payables	993	1,491	31	546
Non-trade payables				
- Amounts due to related parties	435	31	190	29
- Directors' fees accruals	575	210	109	100
- Accrual for operating cost	1,481	2,311	508	624
- Other non-trade accruals	574	795	79	502
- Hire purchase payables	(a) 596	1,193	528	1,066
- Others	359	300	210	271
	5,013	6,331	1,655	3,138

Related parties refer to the substantial corporate shareholder, Sunright Limited, in which certain Directors have financial interests, and its subsidiary companies.

Amounts due to related parties are unsecured, non-interest bearing and have no fixed term of repayment.

(a) Hire purchase payables

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Within one year	657	1,352	582	1,212
After one year and not later than five years	-	657	-	582
	657	2,009	582	1,794
Future finance charges	(61)	(220)	(54)	(200)
Present value of hire purchase liabilities	596	1,789	528	1,594
Present value of hire purchase liabilities:				
Within one year	596	1,193	528	1,066
After one year and not later than 5 years	-	596	-	528
	596	1,789	528	1,594
Hire purchase creditors	596	1,789	528	1,594
Amounts payable within 12 months	(596)	(1,193)	(528)	(1,066)
Amounts payable after 12 months	-	596	-	528

18. SHARE CAPITAL

	GROUP/COMPANY		GROUP/COMPANY	
	2002	2001	2002	2001
	Number ('000)	Number ('000)	RM'000	RM'000
Authorised:				
Ordinary shares of RM1 each	25,000	25,000	25,000	25,000
Issued and fully paid:				
Ordinary shares of RM1 each				
As at 1 August	17,000	17,000	17,000	17,000
Exercise of options to subscribe for ordinary shares in the Company	23	-	23	-
As at 31 July	17,023	17,000	17,023	17,000

During the financial year, the issued and paid up share capital of the Company increased from RM17,000,000 to RM17,023,000 as a result of the issue of 23,000 new ordinary shares of RM1.00 each to eligible executives who have exercised their options under the Company's Executives' Share Options Scheme (ESOS).

19. RESERVES

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Distributable:				
Retained profit	59,021	54,448	28,740	18,352
Non-distributable:				
Share premium	103	-	103	-
Asset revaluation reserve	5,885	5,885	2,347	2,347
Reserve on consolidation	430	430	-	-
Merger relief reserve	-	-	1,215	1,215
	65,439	60,763	32,405	21,914

The Company has sufficient tax credits and tax exempt income to distribute approximately RM5,600,000 (2001: RM2,570,000) and RM11,509,000 (2001: RM1,509,000), respectively out of its retained profit as dividends without having to incur additional tax. Any distribution of dividend in excess of these amounts will attract tax charge at the prevailing statutory tax rate.

Deferred tax liabilities amounting to RM117,000 (2001: RM117,000) which relate to the asset revaluation reserve has not been accounted for in the financial statements as the Company has no intention to dispose of its long term leasehold land, short term leasehold land and buildings in the foreseeable future.

20. LONG TERM LOANS

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Term loans				
- secured	11,578	11,027	4,966	10,297
- unsecured	48	629	-	233
	11,626	11,656	4,966	10,530
Other loan - unsecured	1,374	2,066	-	-
	13,000	13,722	4,966	10,530
Amounts repayable within 12 months	(5,286)	(6,687)	(2,666)	(5,618)
Amounts repayable after 12 months	7,714	7,035	2,300	4,912

The term loans are repayable as follows:

Financial year ending 31 July

2002	-	6,687	-	5,618
2003	5,286	2,704	2,666	2,647
2004	6,184	2,265	2,300	2,265
2005	156	-	-	-
	11,626	11,656	4,966	10,530

The secured term loans are secured by way of:

- (a) first party pledge of fixed deposits;
- (b) first party pledge over the Group's and the Company's plant, machinery and test equipment with aggregate net book values of RM9,319,000 (2001: RM7,147,000) and RM3,068,000 (2001: RM7,147,000), respectively, as referred to in Note 10 to the financial statements; and
- (c) negative pledge.

The secured and unsecured term loans bear interest at commercial rates.

Other loan represents an unsecured loan obtained from a minority shareholder of a subsidiary company. This loan bears interest at commercial lending rate and has no fixed term of repayment.

21. DEFERRED TAXATION

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
In respect of capital allowances				
claimed in advance of depreciation	1,742	2,558	636	1,235
Others	5,230	8,061	5,161	4,562
	6,972	10,619	5,797	5,797

Subject to agreement by the Inland Revenue Board, a subsidiary company has unutilised capital allowances of approximately RM3,372,000 (2001: RM2,560,000) available for set off against future taxable income.

22. SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant transactions between the Company and related parties, including subsidiaries during the year are as follows:

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Transactions with Sunright Limited, the corporate shareholder in which certain Directors have financial interests, and its subsidiary companies				
Management fees charged by Sunright Limited	1,538	1,619	723	808
Interest on loan from Sunright Limited	115	203	-	-
Purchase of property, plant and equipment from:				
KES Test Taiwan Limited	221	1,520	-	-
KES Systems & Service (1993) Pte Ltd	-	376	-	-
Kestronics (M) Sdn Bhd	43	-	-	-
Purchases from:				
KES Systems & Service (1993) Pte Ltd	115	89	92	76
Kestronics (M) Sdn Bhd	24	30	1	-
Transactions with subsidiary companies				
Dividend received from subsidiary company	-	-	10,000	-
Rent of factory to subsidiary company	-	-	361	270
Interest on loan to subsidiary company	-	-	254	390
Sales of property, plant and equipment to subsidiary companies	-	-	-	3,328

The Directors are of the opinion that the above transactions were in the normal course of business and at terms mutually agreed between the companies.

23. CONTINGENT LIABILITIES

	COMPANY	
	2002	2001
	RM'000	RM'000
Guarantees granted to licensed banks in respect of credit facilities extended to subsidiary companies (unsecured)	22,134	11,899

24. CAPITAL COMMITMENT

	GROUP		COMPANY	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Authorised and contracted for	5,836	-	5,836	-

25. SEGMENT INFORMATION

Segment information is not presented as the Group operates primarily in the electronic industry in Malaysia.

26. PRIOR YEAR ADJUSTMENT

In compliance with Malaysian Accounting Standards Board No: 19 - Events After the Balance Sheet Date, the Company discontinued the recognition of dividend declared or proposed after the balance sheet date, as a liability. This change in accounting policy has been applied retrospectively with the resulting adjustment reported as an adjustment to opening balance of retained profit. Comparative information has been restated accordingly.

This change in accounting policy has no effect on the income statement of current and previous financial years.

27. COMPARATIVE FIGURES

As indicated in Note 26 to the financial statements, comparative figures have been restated due to the adoption of Malaysian Accounting Standards Board No: 19 - Events After the Balance Sheet Date. In this respect, retained profit as at 1 August 2001 of the Group and of the Company have increased by RM550,800 with a corresponding decrease in proposed dividend.

28. EXECUTIVES' SHARE OPTION SCHEME (ESOS)

Options granted and accepted under ESOS during the financial year ended 31 July 2002 are as follows:

Name of Employees	Number of Options Granted
Thong Tim Leong	5,000
Yew Yoke Tuan	2,000
Ramizahbee Bt Mohamed Haneef	2,000
Augustus Balu A/L Palaniandy Vincent	1,000
Samuel Lim Syn Soo	20,000
Kenneth Tan Teoh Khoon	20,000
Ooi See Bee	16,000
Lim Chee Seng	12,000
Kee Eng Yin	12,000
Teoh Choo Kuan	7,000
Tan Eng Hong	2,000
Chang Ay Lee	2,000
Tee Hong Hiong	4,000
Looi Kwok Hoong	3,000
Khor Loong Tiang	4,000
Hing Kam Lan	2,000
Yaw Kwee Huay	1,000

28. EXECUTIVES' SHARE OPTION SCHEME (ESOS) (CONT'D)

Name of Employees	Number of Options Granted
Ng Boon Hin	1,000
Lim Guat Leng	2,000
Chong Wan Kit	2,000
Lim Swee Leu	2,000
Tang Kok Yew	1,000
Saravanan A/L Goovida Padachi	1,000
Ng Kuing Seng	12,000
Lim Siew Yen	12,000
Leow Soo How	8,000
Liew Pow Yeong	10,000
Kok Kun Ong	5,000
Yeoh Phaik Suan	5,000
Seah Say Kit	2,000
Chee Kok Leong	2,000
Chow Sau Foong	2,000
Tang Chin Huat	2,000
Ooi Hoon Koh	2,000
Choong Ling Chiang	2,000
	188,000

SHAREHOLDINGS STATISTICS

as at 16 October 2002

ANALYSIS OF SHAREHOLDINGS

Authorized share capital	:	RM25,000,000.00
Issued and paid-up capital	:	RM17,024,000.00
Type of shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

No. of Holders	Size of Shareholdings	Total Holdings	%
0	Less than 1,000	0	0
1005	1,000 to 10,000	1,995,000	11.72
40	10,001 to 100,000	949,000	5.58
3	100,001 to less than 5% of issued shares	1,330,000	7.81
3	5% and above of issued shares	12,750,000	74.89
1051	Total	17,024,000	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	8,330,000	48.93
2. Samuel Lim Syn Soo	8,330,000*	48.93
3. Lembaga Tabung Haji	3,400,000	19.97
4. Wong Tee Kim @ Wong Tee Fatt	1,020,000	5.99

* Deemed interest by virtue of his substantial shareholdings in Sunright Limited

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

Name of Directors	Direct		No. of Shares Held	
	Direct	%	Deemed Interest	%
1. Samuel Lim Syn Soo	-	-	8,330,000*	48.93
2. Kenneth Tan Teoh Khoon	-	-	-	-
3. Dr. Norraesah Haji Mohamad	356,000**	2.09	-	-
4. Ahmah Riza Bin Basir	-	-	-	-
5. Lim Mee Ing	-	-	-	-
6. Tuan Haji Zakariah Bin Yet	-	-	-	-
7. Yong Chee Hou	-	-	-	-

* Deemed interest by virtue of his substantial shareholdings in Sunright Limited

**353,000 shares held through PAB Nominee (Tempatan) Sdn Bhd

SHARES IN RELATED CORPORATION

KESM Test (M) Sdn. Bhd.

Name of Directors	Direct		No. of Shares Held	
	Direct	%	Deemed Interest	%
1. Samuel Lim Syn Soo	-	-	692,308 *	34.62
	-	-	1,307,692**	
2. Dr. Norraesah Haji Mohamad	-	-	1,307,692**	65.38

* Deemed interest by virtue of his substantial shareholdings in Sunright Limited

** Deemed interest by virtue of his/her substantial shareholdings in KESM Industries Berhad.

EXECUTIVES' SHARE OPTION SCHEME (ESOS)

The following Directors are deemed to have interest in the shares of the Company by virtue of options granted under the Company's ESOS.

Name of Directors	Exercise Price	Options granted to subscribe for ordinary shares of RM1 each as at 16 October 2002
Samuel Lim Syn Soo	RM 5.48	20,000
	RM 6.16	20,000
		<u>40,000</u>
Kenneth Tan Teoh Khoo	RM 5.48	20,000
	RM 6.16	20,000
	RM 5.86	20,000
		<u>60,000</u>

THIRTY LARGEST SHAREHOLDERS

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	8,330,000	48.93
2. Lembaga Tabung Haji	3,400,000	19.97
3. Wong Tee Kim @ Wong Tee Fatt	1,020,000	5.99
4. Tan Teong Siew	823,000	4.83
5. PAB Nominee (Tempatan) Sdn Bhd - pledged securities account for Dr. Norraesah Hj Mohamad	353,000	2.07
6. BHLB Trustee Berhad for TA Comet Fund	154,000	0.90
7. Lim Sai Ngin	82,000	0.48
8. HDM Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Lim Bee Tin	55,000	0.32
9. Mrs Tan Jin Siew Nee Yip Sow Har	44,000	0.26
10. Tan Peng Yam	40,000	0.23
11. Soo Chern Chin @ Soo Chai	40,000	0.23
12. Lim Siew Geok	40,000	0.23
13. Wong Yoke Fong @ Wong Nyok Fing	37,000	0.22
14. Tan Jin Tuan	36,000	0.21
15. Leng Swee Lang	33,000	0.19
16. Capital Dynamics Asset Management Sdn Bhd	28,000	0.16
17. Bin Bin Knitwear Manufacturer Sdn Bhd	26,000	0.15
18. Liow Kok Hua	26,000	0.15
19. Tasec Nominees (Tempatan) Sdn Bhd - TA Asset Management Sdn Bhd for Wan Chan Bun (Wan)	26,000	0.15
20. Ter Kham Ee	22,000	0.13
21. Mayban Securities Nominees (Tempatan) Sdn Bhd - PT Waterfront Securities Indonesia for Low Mei Loon	21,000	0.12
22. Citicorp Nominees (Asing) Sdn Bhd - American International Assurance Company Limited (Al-Istithmar Fd)	21,000	0.12
23. Tan Chap Thong Sdn Bhd	20,000	0.12
24. Wee Pock Soon @ Ho Pock Soon	20,000	0.12
25. Cheng Sook Kee	20,000	0.12
26. RHB Nominees (Tempatan) Sdn Bhd - RHB Asset Management Sdn Bhd for Liew Sui Kong (EPF)	20,000	0.12
27. Wong Kong Kim	20,000	0.12
28. Tan Teng Boo	20,000	0.12
29. Ong Beng Keong	20,000	0.12
30. Yap Ah Kow @ Yap Su Kim	17,000	0.10
Total	14,814,000	86.98

GROUP PROPERTIES

as at 31 July 2002

Location	Description / Existing use	Date of Last Revaluation or (Date of Acquisition)	Tenure	Approximate Land Area / Built-up Area (sq m)	Approximate Age Of Building (Years)	Net Book Value (RM'000)
KESM Industries Berhad						
Lot 4, Kawasan MIEL Phase 1 Sungei Way Free Industrial Zone Jalan SS8/4 Selangor Darul Ehsan	Industrial land / Factory and Office premises	22 July 1999	No individual qualified title has been issued yet Note (a)	5,064 / Phase I - 2,315 Phase II - 3,169 Phase III - 3,345	Phase I - 6 Phase II - <4 Phase III - <2	3,544 / Phase I - 2497 Phase II - 3053 Phase III - 3942
Factory Lot Nos. A5 and A6 Kawasan MIEL Batang Kali Phase II Selangor Darul Ehsan	Industrial land / Factory and Office premises	12 August 1999	Leasehold for 60 years expiring on 13 Oct 2052	2,753 / 879	11	365 / 428
KESP Sdn. Bhd.						
Plot 253 Jalan Kampong Jawa Bayan Lepas Free Industrial Zone (Phase 3) Penang	Industrial land / Factory and Office premises	22 July 1999	Leasehold for 60 years expiring on 7 Aug 2045	8,085 / 11,617	Phase I - 10 Phase II - 6 Phase III - 3	2,470 / 8,229
42-17-19 Desa Green Penang	3-bedroom apartment / employees' hostel	(2 September 1997)	Freehold	65.03	13	94
42-15-12A Desa Green Penang	3-bedroom apartment / employees' hostel	(8 September 1997)	Freehold	65.03	13	95
15-4-7 Kota Nibong Penang	3-bedroom apartment / employees' hostel	(8 September 1997)	Freehold	65.03	10	91
15-7-4 Kota Nibong Penang	3-bedroom apartment / employees' hostel	(8 September 1997)	Freehold	65.03	10	92
Block 16-3A-3 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(20 January 1998)	Freehold	65.03	9	92
Block 18-9-11 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(30 November 1998)	Freehold	65.03	9	78
33-11-21 Taman Pekaka Penang	3-bedroom apartment / employees' hostel	(18 September 1999)	Freehold	65.03	6	95
Block 16-1-3 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(28 February 2000)	Freehold	65.03	9	91
Block 18-6-5 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(4 April 2000)	Freehold	65.03	9	96

Note: -

(a) Malaysian Industrial Estates Sendirian Berhad, the developer of the industrial land, has indicated that the land title when issued will be leasehold for a period of 99 years.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Thirty-First Annual General Meeting of the Company will be held at Raya Room, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia on Wednesday, 8 January 2003 at 10.30 a.m. for the following purposes: -

AGENDA

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 July 2002 together with the reports of the Directors and of the Auditors thereon. Resolution 1
2. To approve payment of Directors' fees in respect of the financial year ended 31 July 2002. Resolution 2
3. To re-elect the Directors retiring pursuant to Article 80 of the Company's Articles of Association: -
 - (a) Mr. Samuel Lim Syn Soo retires pursuant to Article 80 of the Company's Articles of Association and being eligible, offer himself for re-election. Resolution 3
 - (b) Tuan Haji Zakariah Bin Yet retires pursuant to Article 80 of the Company's Articles of Association and being eligible, offer himself for re-election. Resolution 4
4. To re-elect Mr. Yong Chee Hou, a director retiring pursuant to Article 87 of the Company's Articles of Association and who, being eligible, offer himself for re-election. Resolution 5
5. To appoint Auditors and to authorise the Board of Directors to fix their remuneration. Resolution 6
6. As Special Business: -

To consider and if thought fit, pass the following Resolutions as Ordinary Resolutions:-

(a) ORDINARY RESOLUTION NO. 1

Authority to issue shares by Company pursuant to Section 132D of the Companies Act, 1965

"THAT pursuant to Section 132D of the Companies Act, 1965, and subject always to the approval of the relevant authorities, the Directors be and are hereby empowered to issue shares in the Company, from time to time to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being, and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Kuala Lumpur Stock Exchange and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

Resolution 7

(b) ORDINARY RESOLUTION NO. 2

Authority to allot shares pursuant to the Executives' Share Option Scheme

"THAT subject always to the approval of the relevant authorities, authority be and is hereby given to the Directors to issue shares in the capital of the Company at any time upon such terms and conditions and for such purposes as the Directors, may, in their discretion, deem fit including but not limited to such shares as may be issued pursuant to the exercise of the options under the Executives' Share Option Scheme as approved by an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 7 September 2000 provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being."

Resolution 8

7. To transact any other business which may be properly transacted at an Annual General Meeting, due notice of which shall have been previously given in accordance with the Companies Act, 1965 and the Company's Articles of Association.

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy / proxies who may but need not be a member / members of the Company to attend and vote in his / her stead and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. When a member appoints two or more proxies the appointments shall be invalid unless he / she specifies the proportions of his / her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his / her attorney duly authorized in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorized.
4. The instrument appointing a proxy must be deposited at the Registered Office at 10th Floor-Tower Block, Kompleks Antarabangsa, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

Explanatory Notes on Special Business: -

(a) Resolution pursuant to Section 132D of the Companies Act, 1965

The proposed Resolution No. 7 will give powers to the Directors to issue up to a maximum ten per centum (10%) of the issued share capital of the Company for the time being for such purposes as the Directors would consider in the interest of the Company.

This authority, unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

(b) Resolution pursuant to the Executives' Share Option Scheme

The proposed Resolution No. 8 authorises the Directors to issue shares in the Company upon the exercise of the options under the Executives' Share Option Scheme up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being.

This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.

BY ORDER OF THE BOARD

LIM PHOOI KEE (MIA 2759)

LEONG OI WAH (MAICSA 7023802)

Company Secretaries

Kuala Lumpur

22 November 2002

STATEMENT ACCOMPANYING NOTICE OF 31ST ANNUAL GENERAL MEETING

1. The names of Directors who are standing for election or re-election: -

- (a) Mr. Samuel Lim Syn Soo (retiring by rotation pursuant to Article 80 of the Articles of Association).
- (b) Tuan Haji Zakariah Bin Yet (retiring by rotation pursuant to Article 80 of the Articles of Association).
- (c) Mr. Yong Chee Hou (retiring by rotation pursuant to Article 87 of the Articles of Association).

2. The details of attendance of directors at board meetings

Total of five (5) meetings were held during the financial year ended 31 July 2002. Details of attendance of each Director are stated on page 7.

3. The place, date and hour of the Thirty-First Annual General Meeting

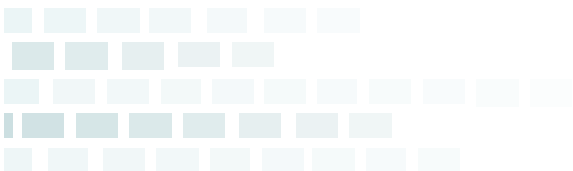
Place : Raya Room
Hotel Equatorial
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

Date & Time : 8 January 2003 at 10:30 a.m.

4. Further details of individuals who are standing for re-election as Directors.

The details of the Directors who are standing for re-election are stated on pages 4 and 6.

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PROXY FORM

I / We _____ (Full Name in Block Letters) of
 _____ (Address)

being a member / members of KESM Industries Berhad hereby appoint

Name	Address	NRIC / Passport No.	Proportion of Shareholdings (%)

and / or (delete as appropriate)

Name	Address	NRIC / Passport No.	Proportion of Shareholdings (%)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, and if necessary, to demand a poll, at the Thirty-First Annual General Meeting of the Company to be held at Raya Room, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 8 January 2003 at 10.30 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any item arising not summarized below, my/our proxy/proxies may vote or abstain from voting at his/her discretion.

No.	Resolutions	For*	Against*
1.	Adoption of Directors' Report, Audited Financial Statements and Auditors' Report		
2.	Approval of Directors' fees		
3.	Re-election of Mr. Samuel Lim Syn Soo as Director		
4.	Re-election of Tuan Haji Zakariah Bin Yet as Director		
5.	Re-election of Mr. Yong Chee Hou as Director		
6.	Re-appointment of Auditors		
7.	Approval to issue shares pursuant to Section 132D of the Companies Act, 1965		
8.	Approval to allot shares pursuant to Executives' Share Option Scheme		

* Please indicate your vote "For" or "Against" with an "X" within the box provided.

Total Number of Shares Held	
-----------------------------	--

Signed this _____ day of _____ 2002 / 2003 Signature / Common Seal of Shareholder(s)

Notes: -

1. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. In the case of a corporate shareholder, the instrument appointing a proxy shall be under its common seal or its attorney duly authorized.
3. Where a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
4. The instrument appointing a proxy or proxies must be deposited at the Registered Office of the Company at 10th Floor-Tower Block, Kompleks Antarabangsa, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia, not less than 48 hours before the time appointed for the Annual General Meeting.

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affix
postage
here

The Company Secretary
KESM INDUSTRIES BERHAD (13022-A)
10th Floor - Tower Block
Kompleks Antarabangsa
Jalan Sultan Ismail
50250 Kuala Lumpur
MALAYSIA

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