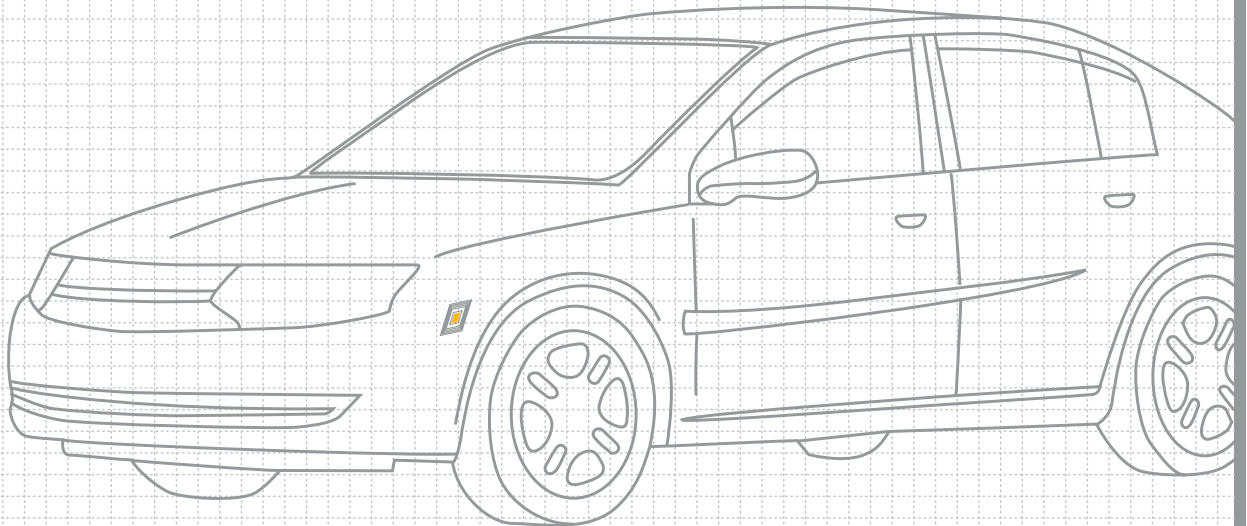


KESM INDUSTRIES BERHAD (13022-A)
ANNUAL REPORT 2003



A Member Of



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CHAIRMAN'S STATEMENT

SAMUEL LIM SYN SOO
Executive Chairman & CEO

OUR FELLOW SHAREHOLDERS

Our company successfully met its operational objectives even though the financial year 2003 was characterized by a sluggish economy and lackluster semiconductor industry. KESM doubled its revenues and net profit with all business divisions contributing to the Group's strong performance. This achievement further strengthens our lead as the largest independent "burn-in and test" service company in Malaysia. Specifically, we: -

- Increased revenues by 123 percent to RM104.7 million from RM46.9 million
- Delivered a profit after tax and minority interest of RM10.1 million or 24 sen per share on revenues of RM104.7 million
- Increased net worth to RM90.3 from RM80.7 million compared with the previous corresponding year
- Invested RM59 million in support of our customers' expended needs for capacity expansion in "burn-in and test" services
- Expanded our total built-up area from 149,000 sq. ft. to 285,000 sq. ft to meet anticipated growth in demand for our services

CURRENT YEAR DEVELOPMENTS

We maintained our status as "preferred supplier" to many major semiconductor manufacturers in Malaysia. This ranking was achieved not in a single event of meeting quality specifications or achieving low cost but through a series of continuous improvement programs in our manufacturing process. The results benefited our customers and we won their approvals and awards including "Factory On Time Delivery", "Faster Cycle Time", "Reduced Defects Level" and several others.

Our customers produced new generation of advance microchips for high-end electronic consumer markets used in PCs, automobiles, digital cameras, multi-media cell phones, wireless network etc. These chips needed to be "burned in" and "tested" to meet exacting standards on the finished product of their end customers as well as to ensure their reliability. For example, the chips in an electronic module of an automobile safety feature must be able to operate and withstand severe conditions. "Burn-in" is a manufacturing process to weed out chips with a high probability of failure. "Test" is a grading process to ensure the chips perform to their specified functions.

We invested RM58 million on new equipment with capabilities to "burn-in and test" a wide spectrum of high performance

devices which have multiple functions. These investments have yielded good results and enabled us to surpass our revenue record crossing the RM100 million mark.

KESM worked closely with Sunright Limited to ride on their global customer network and their technology. Through this connection, we have won major contracts. We introduced our "Management Information Systems" for our customers to monitor the material flow in the various stages of our manufacturing process and to plan the logistics of their inventory movement. These services ensured customer satisfaction. We maintained our investment in employees' training to focus on quality and responsiveness to customer service which would remain the cornerstone of our relationship with our customers. We could look back with gratification in the past year at the show of solidarity that our dedicated employees have demonstrated. They responded to a major customer's production ramp up which required their sacrifices, working overtime for three months leading to the festive season of Hari Raya.

OUTLOOK

The semiconductor industry is in the early stage of recovery and expects 2004 to be promising. Our customers' microchips are introduced in products that are just getting off the ground. The consumer electronics industry is ripe for growth as new technologies in digital audio and video combine with wireless capabilities to produce a broad range of compelling new products.

Our focus in the new financial year is to be prepared for the ramping up of our production volumes as well as maximizing equipment performances. When the market demand makes its upswing, we are in a position to support our customers in bringing their devices to the marketplace in a timely manner essentially, in "time to market". In turn, we will ride on their success.

BUSINESS REVIEW

With millions of dollars invested in our advanced manufacturing process, KESM is positioned to deliver more

volumes with an even higher degree of reliability than at any time in our history.

We are in a unique business. The threat of losing our business to China is less apparent, as compared to other manufacturing service industries because of two reasons. Firstly, the customers that we serve produce high-end microchips and secondly, we have an added advantage of a skilled and experienced work force who are capable of providing support for newly introduced chips.

However, the continuing tax break and generous incentives etc. provided by the government must remain attractive to our multi-national customers particularly at this time when China and many other countries in the world compete to attract foreign investments. These customers that bring in cutting-edge technology and advanced manufacturing processes to Malaysia will ensure KESM of sustaining growth and profitability.

DIVIDEND

In light of the remarkable performance for the year, the Board is pleased to recommend a first and final tax exempt dividend of 1.75% amounting to about RM747,000 in respect of the financial year ended 31st July 2003. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the dividend will be paid on 5th February 2004.

APPRECIATION

We have turned in a solid report over the past year and we are excited about our plans for financial year 2004. While we have many challenges ahead of us, we are committed to increasing shareholder value by containing costs, maximizing efficiency, marketing our services aggressively, maintaining a culture that is committed to constant improvement in everything that we do and continuing our growth success. Our more than 1,200 employees are integral to this process and we continue to appreciate their dedication and commitment to quality and service.



SAMUEL LIM SYN SOO
Aged 49, 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 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	20,825,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)
Share options of RM1.00 each	150,000	Nil

BOARD OF DIRECTORS’ PROFILE



KENNETH TAN TEOH KHOON
Aged 46, Singaporean
Non-Independent Executive Director

Mr. Tan was appointed to the Board on 20 January 1992. He is responsible for the strategic direction and new business initiatives of the Group, and the management of the Group’s financial, corporate and investor relations. He is also a member of the Audit Committee and Option Committee of the Company.

Institute of Certified Public Accountants of Singapore.

Prior to joining the Group in 1987, he worked in an international accounting firm, a major property group in Singapore and subsequently in a diversified multi-national group in the manufacturing and packaging industries.

Mr. Tan graduated with a Bachelor of Accountancy degree from the National University of Singapore and was a member of the Institute of Chartered Secretaries and Administrators, United Kingdom. He is also a registered accountant with the

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, Philippines 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	150,000	Nil



LIM MEE ING
Aged 52, 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, and China.



**DATO' DR. NORRAESAH
HAJI MOHAMAD**
Aged 55, Malaysian
Independent Non-Executive Director

Dato' Dr. Norraesah was appointed to the Board on 20 October 1991. She is also the Chairman of the Audit Committee of the Company. Dato' 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.

Dato' 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.

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

	Direct Shareholdings	Indirect Shareholdings
Ordinary Shares of RM1.00 each	7,500	867,500



ENCIK AHMAD RIZA BIN BASIR
Aged 43, Malaysian
Independent Non-Executive Director

Ahmad Riza Bin Basir, aged 43 is a lawyer by training. He graduated with a Bachelor of Arts in Law (Honours) degree from University of Hertfordshire, 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 Chairman of Fima Corporation Berhad. In addition, he is the Chairman

of Syarikat Kayu Wangi Berhad, the Group Managing Director of Kumpulan Fima Berhad, a Director of Nationwide Express Courier Services Berhad, Ladang Perbadanan Fima Berhad, Jerneh Asia Berhad, John Hancock Life Insurance (M) Berhad (all listed on the KLSE). Encik Ahmad Riza also sits on the Board of several other private limited companies in Malaysia.



**TUAN HAJI ZAKARIAH
BIN YET, AMS, AMN**
Aged 48, 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.



YONG CHEE HOU
Aged 47, 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.

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.

OTHER INFORMATION ON DIRECTORS

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 Dato' 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 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 2003

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	5 out of 5	100
Dato' Dr Norraesah Haji Mohamad	4 out of 5	80
Encik Ahmad Riza Bin Basir	5 out of 5	100
Tuan Haji Zakariah Bin Yet	5 out of 5	100
Mr. Yong Chee Hou	4 out of 5	80

Board of Directors	Mr. Samuel Lim Syn Soo	<i>(Executive Chairman & Chief Executive Officer)</i>
	Mr. Kenneth Tan Teoh Khoon	<i>(Executive Director)</i>
	Dato' Dr. Norraesah Haji Mohamad	<i>(Independent Non-Executive Director)</i>
	Ms. Lim Mee Ing	<i>(Non-Independent Non-Executive Director)</i>
	Encik Ahmad Riza Bin Basir	<i>(Independent Non-Executive Director)</i>
	Tuan Haji Zakariah Bin Yet	<i>(Non-Independent Non-Executive Director)</i>
	Mr. Yong Chee Hou	<i>(Independent Non-Executive Director)</i>
Audit Committee	Dato' Dr. Norraesah Haji Mohamad	<i>(Chairman)</i>
	Mr. Kenneth Tan Teoh Khoon	<i>(Member)</i>
	Encik Ahmad Riza Bin Basir	<i>(Member)</i>
	Mr. Yong Chee Hou	<i>(Member)</i>
Company Secretaries	Mr. Lim Phooi Kee (MIA 2759)	
	Ms. 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	

CORPORATE INFORMATION

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 Accountants Level 23A, Menara Milenium 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

During the financial year under review,

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)	(RM'000)
	Fees	Salaries & Other Emoluments
Executive	38	504
Non-Executive	79	-

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

The Company did not have a share buyback scheme in place.

3
OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

108,000 options were exercised pursuant to the Company's executives' share option scheme.
The Company did not issue any warrants or convertible securities.

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

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 during the financial year.

6
NON-AUDIT FEES

The Company did not pay any non-audit fees to the external auditors.

7
PROFIT ESTIMATE, FORECAST OR PROJECTION

There was no profit estimate, forecast or projection or unaudited results released which differ by 10% or more from the audited results.

8
PROFIT GUARANTEES

There were no profit guarantees given by the Company.

9
MATERIAL CONTRACTS

No material contracts were entered into by 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.

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.

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 2003 ("Year 2003").

MEMBERS OF THE AUDIT COMMITTEE

The Committee currently comprises the following directors: -

Chairman	: Dato' 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 in pages 12 to 15 of this Annual Report.

MEETINGS DURING THE YEAR

The Committee met four (4) times in Year 2003. 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 %
Dato' Dr Norraesah Haji Mohamad	Chairman	4	3	75
Mr. Kenneth Tan Teoh Khoon	Member	4	4	100
Encik Ahmad Riza Bin Basir	Member	4	4	100
Mr. Yong Chee Hou	Member	4	3	75

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During Year 2003, the Committee: -

- reviewed the external auditors' reports in relation to the audit.
- discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2002 to be presented to the Board of Directors for approval.
- recommended the re-appointment of the external auditors.
- reviewed, discussed and recommended the unaudited quarterly results of the Group to be presented to the Board of Directors for approval.
- reviewed and recommended related party transactions of the Group to be presented to the Board of Directors for ratification and approval.
- reviewed and discussed the internal auditor's reports.
- reviewed and approved the internal audit plan for the Company and a subsidiary company in respect of the financial year 2003.
- reviewed the Committee's Report in respect of the financial year ended 31 July 2002 and presented to the Board of Directors for approval.
- recommended amendments to Article 2 of its Terms of Reference to be presented to the Board of Directors for approval.

INTERNAL AUDIT ACTIVITIES

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, human resource and related parties transactions. 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 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;
 - (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;
- or
- c) has a degree/masters/doctorate in accounting or finance and having at least 3 years’ post qualification experience in accounting or finance; or

- d) must have at least 7 years’ experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

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.

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; and
 - (j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment;
- (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.

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. Hence, the Board will continue to evaluate the Group’s corporate governance procedures, introduce various measures and implement the best practices in so far as they are relevant to the Group, bearing in mind the nature of the Group’s businesses and the size of its business operations.

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 with a good mix of the necessary knowledge, skills and wide range of experience relevant to the Group.

As at the date of this report, the Board comprises seven (7) directors, five (5) of whom are non-executive. Of the non-executive directors, three (3) are independent. A brief description of the background of each director is presented on pages 4 to 6 of this Annual Report.

The Board is satisfied that the current Board composition fairly reflects the investment of minority shareholders in the Company.

The role of the Chairman and Chief Executive Officer (“CEO”) are not separated. 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, Dato’ Dr. Norraesah Hajj Mohamad, 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.

During the year under review, the Board had met on a total of five (5) occasions. The attendance of each individual director at these meetings 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. During the year under review, the Board also resolved and approved the Company’s matters through circular resolutions. Board members are provided with sufficient detailed information to facilitate their approvals.

DIRECTORS' TRAINING

All the directors had attended the Mandatory Accreditation Program prescribed by KLSE and will continue to receive training from time to time to further enhance their skills and knowledge where relevant.

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.

During the year under the review, a plant tour was conducted at the facility located in Kuala Lumpur to brief and familiarize Directors on the Company's business and operations.

SUPPLY OF INFORMATION

The Chairman ensures that all Directors have full and unrestricted access to timely information, necessary in the furtherance of their duties.

Prior to each Board and Audit Committee meeting, every director is 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.

Every director has full access to the advice and services of the company secretaries and where required and in appropriate circumstances, is able to take professional advice at the Company's expense.

DIRECTORS' NOMINATION

The Company does not have a Nomination Committee as all nomination of candidates for directorship shall be assessed and approved by the entire Board.

DIRECTORS' REMUNERATION

The Board has decided not to set up a Remuneration Committee as recommended by the Code. As an alternative, the Board will deliberate on the remuneration of directors during the normal proceedings of the meeting of directors.

The Board, as a whole, determines the remuneration of the directors with individual director abstaining from deliberations and voting on the decision in respect of his individual remuneration.

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 composition and terms of reference of this Committee together with its report are set out on pages 11 to 15 of this Annual Report.

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is outsourced to a reputable international accounting/audit firm. 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. Being an independent function, the audit work is conducted with impartiality, proficiency and due professional care.

Details of the activities carried out by the internal auditors during the year under review are stated on page 11 of this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Company's and of the Group's financial position and prospects in the annual financial statements, quarterly results announcements as well as the Chairman's statement in the annual report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Directors' Responsibility For Preparing The Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and of the Company and of the results and cash flows for that year and cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have :

- selected suitable accounting policies and applied them consistently;
- made reasonable and prudent judgements and estimates; and
- ensured that all applicable accounting standards have been followed.

The Directors have ensured the Group and the Company keeps proper accounting and other records which disclose with reasonable accuracy the financial position of the Group and of the Company and which enable them to ensure that the financial statements are drawn up to comply with the Companies Act, 1965.

The Directors also have a general responsibilities for taking

such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Internal Control

The Statement on Internal Control presented on pages 20 to 21 of this Annual Report provides an overview of the state of internal controls within the Group.

Relationship with the Auditors

The Company has always maintains a transparent relationship with its external auditors in seeking their professional advice and ensuring compliance with the accounting standards in Malaysia. The role of the Audit Committee in relation to the external auditors is described on page 11.

RELATIONS WITH SHAREHOLDERS

The Company maintains communication with its shareholders and investors to keep them informed of all major developments and performance of the Group through timely quarterly results announcements and various disclosures and announcements made to the Exchange via the KLSE Link, press releases, Company's annual reports and circulars to shareholders.

Additionally, the AGM and Extraordinary General Meetings ("EGM") provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. The Board encourages shareholders' active participation at such meetings. Members of the Board and the external auditors are also present to answer questions raised during the meetings.

Notices of each meeting are issued in a timely manner to all shareholders. Each item 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 2003.

This statement is made in accordance with the resolution of the Board of Directors at its meeting held on 23 September 2003.

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 2003, 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 outsourced internal audit function facilitates the Board in its review of and evaluation of 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 23 September 2003.

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 2003.

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	COMPANY
	RM'000	RM'000
Profit after taxation and minority interest	<u>10,106</u>	<u>7,238</u>

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 tax exempt dividend of 1.75 sen per share was declared and paid in respect of the previous financial year.

The Directors recommend a first and final tax exempt dividend of 1.75 sen in respect of the current financial year.

INCREASE IN SHARE CAPITAL

During the financial year, the authorised share capital of the Company was increased from RM25,000,000 to RM50,000,000 as a result of the creation of 25,000,000 new ordinary shares of RM1.00 each.

The issued and paid-up share capital of the Company was also increased from RM17,023,000 to RM42,667,000 as a result of the issue of 108,000 ordinary shares of RM1.00 each to eligible executives who have exercised their options under the Company's Executives' Share Option Scheme and a bonus issue of 25,536,000 new shares on the basis of three new shares for every two existing shares held, effected by capitalising the retained profit of the Company.

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 190,000 new options for 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. The option price was subsequently adjusted to RM2.344 arising from the bonus issue. Of this total, 186,000 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 2003 are as follows:

	Adjusted Option Price *	Number of Options			Total available *
		Granted *	Accepted *	Exercised *	
First Option	2.192	1,152,500	1,142,500	158,500	751,500
Second Option	2.464	472,500	470,000	3,500	429,000
Third Option	2.344	475,000	465,000	5,000	417,500
		<u>2,100,000</u>	<u>2,077,500</u>	<u>167,000</u>	<u>1,598,000</u>

* Adjusted to include the effect of bonus issue of shares of 3 for 2 existing shares made on 4 December 2002 by the Company.

The total options available at 31 July 2003 excludes those options that have lapsed.

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
Dato' Dr Norraesah Haji Mohamad
Ahmad Riza Bin Basir
Tuan Haji Zakariah Bin Yet
Yong Chee Hou

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 1.8.2002	Increase * During the financial year	Sold	At 31.7.2003
Dato' Dr Norraesah Haji Mohamad				
- Direct interest	3,000	4,500	-	7,500
- Indirect interest	353,000	529,500	(15,000)	867,500
Samuel Lim Syn Soo				
- Deemed interest	8,330,000	12,495,000	-	20,825,000

The following Directors who held office at 31 July 2003 are deemed to have interest in the shares of the Company by virtue of options granted under the Company's Executives' Share Option Scheme:

	Adjusted Option Price #	Options to subscribe for ordinary shares of RM1.00 each			
		At 1.8.2002	Offered	Bonus *	At 31.7.2003
Samuel Lim Syn Soo	RM2.192	20,000	-	30,000	50,000
	RM2.464	20,000	-	30,000	50,000
	RM2.344	-	20,000	30,000	50,000
Kenneth Tan Teoh Khoon	RM2.192	20,000	-	30,000	50,000
	RM2.464	20,000	-	30,000	50,000
	RM2.344	-	20,000	30,000	50,000

* Bonus issue of shares of 3 for 2 existing shares made on 4 December 2002 by the Company.

Adjusted to include the effect of bonus issue of the Company.

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.

Signed on behalf of the Board in accordance with a resolution of the Directors

SAMUEL LIM SYN SOO
Director

KENNETH TAN TEOH KHOON
Director

Kuala Lumpur, Malaysia
23 September 2003

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 29 to 52 are drawn up in accordance with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia and 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 2003 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 2003.

Signed on behalf of the Board in accordance with a resolution of the Directors

SAMUEL LIM SYN SOO
Director

KENNETH TAN TEOH KHOON
Director

Kuala Lumpur, Malaysia
23 September 2003

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

I, KENNETH TAN TEOH KHOON, 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 29 to 52 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 Oaths and Declarations Act 2000.

Subscribed and solemnly declared by the abovementioned
KENNETH TAN TEOH KHOON in Singapore on

KENNETH TAN TEOH KHOON

Before me,

REPORT OF THE AUDITORS TO THE MEMBERS OF KESM INDUSTRIES BERHAD

We have audited the financial statements set out on pages 29 to 52. 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 2003 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
1495/03/05 (J)
Partner

Kuala Lumpur, Malaysia
23 September 2003

INCOME STATEMENTS

for the Year Ended 31 July 2003

	Note	GROUP		COMPANY	
		2003	2002 (restated)	2003	2002
		RM'000	RM'000	RM'000	RM'000
Revenue	3	104,720	46,963	49,078	29,311
Other operating income		691	284	856	508
Total operating income		105,411	47,247	49,934	29,819
Raw materials and consumables used		(16,790)	(10,072)	(515)	(409)
Staff costs (excluding directors' emoluments)		(27,955)	(13,156)	(16,952)	(5,733)
Depreciation of property, plant and equipment		(23,126)	(12,052)	(9,679)	(6,600)
Other operating expenses		(22,872)	(9,749)	(13,400)	(5,580)
Total operating expenses		(90,743)	(45,029)	(40,546)	(18,322)
Profit from operating activities	4	14,668	2,218	9,388	11,497
Interest income	5	660	889	1,176	536
Interest expense	6	(1,561)	(1,296)	(700)	(860)
Profit before taxation		13,767	1,811	9,864	11,173
Taxation	7	(2,680)	3,711	(2,626)	(234)
Profit after taxation		11,087	5,522	7,238	10,939
Minority interest		(981)	(145)	-	-
Profit after taxation and minority interest		10,106	5,377	7,238	10,939
Earnings per share (sen)					
- Basic	8	24	13		
- Diluted	8	24	13		
Dividend per share (sen)	9	1.75	4.50		

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

BALANCE SHEETS

as at 31 July 2003

	Note	GROUP		COMPANY	
		2003	2002	2003	2002
		RM'000	(restated) RM'000	RM'000	(restated) RM'000
PROPERTY, PLANT AND EQUIPMENT	10	87,520	51,516	36,891	25,177
SUBSIDIARY COMPANIES	11	-	-	4,715	4,715
CURRENT ASSETS					
Other investments	12	4,204	3,541	4,204	3,541
Inventories	13	5,275	4,316	147	77
Trade and other receivables	14	24,897	11,879	8,948	4,843
Tax recoverable		834	2,400	-	247
Amounts due from subsidiary companies	15	-	-	10,228	2,910
Deposits with licensed banks	16	29,698	33,343	13,198	19,942
Cash and bank balances		6,720	1,194	4,263	394
		71,628	56,673	40,988	31,954
CURRENT LIABILITIES					
Trade and other payables	17	17,899	5,013	6,448	1,655
Taxation		2,372	-	2,366	-
Current portion of long term loans	20	19,013	5,286	5,209	2,666
		39,284	10,299	14,023	4,321
NET CURRENT ASSETS		32,344	46,374	26,965	27,633
		119,864	97,890	68,571	57,525
Financed by:					
SHARE CAPITAL	18	42,667	17,023	42,667	17,023
RESERVES	19	47,640	63,682	12,298	31,208
		90,307	80,705	54,965	48,231
MINORITY INTEREST		1,723	742	-	-
LONG TERM LIABILITIES					
Hire purchase payables	17	3,104	-	2,752	-
Long term loans	20	17,078	7,714	4,705	2,300
Deferred tax liabilities	21	7,652	8,729	6,149	6,994
		119,864	97,890	68,571	57,525

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

STATEMENT OF CHANGES IN EQUITY

for the Year Ended 31 July 2003

Note	Non-distributable					Retained Profit	Total
	Share Capital	Share Premium	Asset Revaluation Reserve	Reserve on Consolidation	Merger Relief Reserve		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
GROUP							
At 1 August 2001							
As previously stated	17,000	-	5,885	430	-	54,448	77,763
Prior year adjustments 22	-	-	(2,747)	-	-	737	(2,010)
As restated	17,000	-	3,138	430	-	55,185	75,753
Exercise of options to subscribe for ordinary shares in the Company	23	103	-	-	-	-	126
Profit after taxation and minority interest	-	-	-	-	-	5,377	5,377
Dividend 9	-	-	-	-	-	(551)	(551)
At 31 July 2002 (restated)	17,023	103	3,138	430	-	60,011	80,705
Bonus issue	25,536	-	-	-	-	(25,536)	-
Exercise of options to subscribe for ordinary shares in the Company	108	133	-	-	-	-	241
Profit after taxation and minority interest	-	-	-	-	-	10,106	10,106
Dividend 9	-	-	-	-	-	(745)	(745)
At 31 July 2003	42,667	236	3,138	430	-	43,836	90,307

Note	Non-distributable					Retained Profit	Total
	Share Capital	Share Premium	Asset Revaluation Reserve	Merger Relief Reserve			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
COMPANY							
At 1 August 2001							
As previously stated	17,000	-	2,347	1,215	18,352	38,914	
Prior year adjustments 22	-	-	(1,844)	-	647	(1,197)	
As restated	17,000	-	503	1,215	18,999	37,717	
Exercise of options to subscribe for ordinary shares in the Company	23	103	-	-	-	126	
Profit after taxation	-	-	-	-	10,939	10,939	
Dividend 9	-	-	-	-	(551)	(551)	
At 31 July 2002 (restated)	17,023	103	503	1,215	29,387	48,231	
Bonus issue	25,536	-	-	-	(25,536)	-	
Exercise of options to subscribe for ordinary shares in the Company	108	133	-	-	-	241	
Profit after taxation	-	-	-	-	7,238	7,238	
Dividend 9	-	-	-	-	(745)	(745)	
At 31 July 2003	42,667	236	503	1,215	10,344	54,965	

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

CASH FLOW STATEMENTS

for the Year Ended 31 July 2003

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Cash Flows From Operating Activities				
Profit before taxation	13,767	1,811	9,864	11,173
Adjustments for:				
(Gain)/loss on disposal of property, plant and equipment	(30)	2	(24)	9
Depreciation of property, plant and equipment	23,126	12,052	9,679	6,600
(Gain)/loss on disposal of quoted shares	(105)	(18)	(105)	(18)
Dividend income	(184)	(92)	(184)	(10,092)
Interest expense	1,561	1,296	700	860
Interest income	(660)	(889)	(1,176)	(536)
Operating profit before working capital changes	37,475	14,162	18,754	7,996
Changes in working capital:				
Inventories	(959)	(2,051)	(70)	-
Receivables	(13,018)	(2,258)	(4,105)	(732)
Subsidiary companies	-	-	(7,318)	4,260
Payables	11,502	(721)	3,616	(945)
Cash generated from operations	35,000	9,132	10,877	10,579
Tax paid	(1,124)	(420)	(858)	(298)
Tax refund	1,305	-	-	-
Interest paid	(1,561)	(1,296)	(700)	(860)
Interest received	660	889	1,176	536
Net cash generated from operating activities	34,280	8,305	10,495	9,957
Cash Flows From Investing Activities				
Purchase of investment in quoted shares	(1,329)	(1,492)	(1,329)	(1,492)
Proceeds from disposal of quoted shares	771	195	771	195
Dividend income	184	92	184	10,092
Purchase of property, plant and equipment	(53,190)	(2,278)	(16,276)	(658)
Proceeds from disposal of property, plant and equipment	31	11	25	3
Net cash (used in)/generated from investing activities	(53,533)	(3,472)	(16,625)	8,140
Cash Flows From Financing Activities				
Hire purchase obligations	(1,453)	(1,193)	(1,189)	(1,066)
Bank borrowings	23,091	(722)	4,948	(5,564)
Issue of new shares	241	126	241	126
Dividend paid	(745)	(551)	(745)	(551)
Net cash generated from/(used in) financing activities	21,134	(2,340)	3,255	(7,055)
Net change in cash and cash equivalents	1,881	2,493	(2,875)	11,042
Cash And Cash Equivalents At Beginning Of Year	34,537	32,044	20,336	9,294
Cash And Cash Equivalents At End Of Year	36,418	34,537	17,461	20,336
Cash and cash equivalents at end of year comprise:				
Deposits with licensed banks	29,698	33,343	13,198	19,942
Cash and bank balances	6,720	1,194	4,263	394
	36,418	34,537	17,461	20,336

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 July 2003

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 Company is a public limited company, incorporated and domiciled in Malaysia and is listed on the Second Board of the Kuala Lumpur Stock Exchange. 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 authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 23 September 2003.

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 the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The Group financial statements incorporate the financial statements of the Company and all its subsidiary companies to 31 July 2003. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(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.

(d) Subsidiary Companies

Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

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 and provision for impairment loss. 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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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 Contracts

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.

(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) Income Tax

Income tax on the profit and loss for the year comprises current and deferred tax. Current tax is the expected amount of income tax payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Deferred taxation is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination at that time of the transaction, affects neither accounting profit nor taxable profit.

Deferred taxation is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(n) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amount. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same assets. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(o) 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	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Burn-in/testing services	82,915	32,690	49,078	19,311
Sales and assembly of electronic equipment	21,805	14,273	-	-
Dividend from a subsidiary	-	-	-	10,000
	<u>104,720</u>	<u>46,963</u>	<u>49,078</u>	<u>29,311</u>

4. PROFIT FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
This is arrived at after charging/ (crediting):				
Directors' fees	978	575	162	109
Directors' remuneration	504	234	504	234
Auditors' remuneration	98	93	45	40
Rent of equipment	18	45	-	-
Provision for doubtful debts	573	216	-	-
Depreciation of property, plant and equipment	23,126	12,052	9,679	6,600
(Gain)/loss on disposal of property, plant and equipment	(30)	2	(24)	9
Rental income from a subsidiary	-	-	(542)	(361)
Gain on disposal of quoted shares	(105)	(18)	(105)	(18)
Gross dividends from other investments	(184)	(92)	(184)	(92)
	<u>660</u>	<u>889</u>	<u>1,176</u>	<u>536</u>
Number of employees (excluding directors during the year)	Between 938 and 1,241	Between 803 and 1,015	Between 406 and 650	Between 348 and 404

5. INTEREST INCOME

Interest income from:				
- deposits with licensed banks	660	889	259	282
- loan to subsidiary	-	-	220	254
- advance to subsidiary	-	-	697	-
	<u>660</u>	<u>889</u>	<u>1,176</u>	<u>536</u>

6. INTEREST EXPENSE

Interest expense on:				
- term loans	1,214	1,000	565	713
- hire purchase contracts	168	161	135	147
- loan from minority shareholder	117	135	-	-
- revolving credit	62	-	-	-
	<u>1,561</u>	<u>1,296</u>	<u>700</u>	<u>860</u>

7. TAXATION

	GROUP		COMPANY	
	2003	2002 (restated)	2003	2002
	RM'000	RM'000	RM'000	RM'000
Malaysian taxation based on results for the year:				
- Current	3,757	495	3,471	234
- Deferred				
Relating to origination and reversal of temporary differences	(1,077)	(253)	(845)	-
	2,680	242	2,626	234
Over provision in prior years				
- Current	-	(306)	-	-
- Deferred	-	(3,647)	-	-
	2,680	(3,711)	2,626	234

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

GROUP	2003	2002 (restated)
	RM'000	RM'000
Profit before taxation	13,767	1,811
Taxation at Malaysian statutory tax rate of 28% (2002: 28%)	3,855	507
Effect of different tax rates used due to incentives and others	(8)	-
Income not subject to tax	(52)	(5)
Expenses not deductible for tax purpose	172	524
Utilisation of unabsorbed capital allowances brought forward	(690)	(104)
Utilisation of reinvestment allowances	(597)	(680)
Over provision of income tax in prior years	-	(306)
Over provision of deferred tax in prior years	-	(3,647)
Tax charge / (credit) for the year	2,680	(3,711)

COMPANY	2003	2002
	RM'000	RM'000
Profit before taxation	9,864	11,173
Taxation at Malaysian statutory tax rate of 28% (2002: 28%)	2,762	3,128
Income not subject to tax	(52)	(2,805)
Expenses not deductible for tax purpose	100	503
Utilisation of reinvestment allowances	(184)	(592)
	<u>2,626</u>	<u>234</u>

8. EARNINGS PER SHARE

	2003	GROUP 2002
		(restated)
Profit after taxation and minority interest (RM'000)	10,106	5,377
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	42,562	42,523 #
Adjustment for conversion of options under ESOS to ordinary shares ('000)	91	- *
	<u>42,653</u>	<u>42,523</u>
Basic earnings per share (sen)	<u>24</u>	<u>13</u>
Diluted earnings per share (sen)	<u>24</u>	<u>13</u>

Adjusted to include the effect of bonus issue of shares of 3 for 2 existing shares made on 4 December 2002 by the Company.

* 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	
	2003	2002
	RM'000	RM'000
Dividend in respect of prior years		
Proposed first and final tax exempt dividend of 1.75% for 2002 based on issued share capital of 42,560,000 shares at 14 January 2003 paid in 2003 (2002: 4.5% less tax at 28% for 2001 paid in 2002)	<u>745</u>	<u>551</u>

10. PROPERTY, PLANT AND EQUIPMENT

	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
<u>GROUP</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Net Book Value</u>									
At 1 August 2002	3,908	2,470	18,973	297	24,866	35	746	221	51,516
Additions	-	-	-	145	40,208	221	839	17,718	59,131
Disposals/write-offs	-	-	-	-	-	-	(1)	-	(1)
Reclassification	-	-	-	-	12,380	-	-	(12,380)	-
Depreciation charge	-	(57)	(1,162)	(148)	(21,366)	(41)	(352)	-	(23,126)
At 31 July 2003	3,908	2,413	17,811	294	56,088	215	1,232	5,559	87,520
<u>At 31 July 2003</u>									
Cost	-	-	5,199	1,430	163,374	967	4,717	5,559	181,246
Valuation	3,908	2,701	18,102	-	-	-	-	-	24,711
Accumulated depreciation	-	(288)	(5,490)	(1,136)	(107,286)	(752)	(3,485)	-	(118,437)
Net book value	3,908	2,413	17,811	294	56,088	215	1,232	5,559	87,520
<u>At 31 July 2002</u>									
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
Depreciation charge for 2002	-	60	1,160	140	10,368	52	272	-	12,052

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

	Long term leasehold land	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Total
<u>COMPANY</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net Book Value							
At 1 August 2002	3,908	9,920	152	10,743	25	429	25,177
Additions	-	-	115	20,486	193	600	21,394
Disposals/Write-offs	-	-	-	-	-	(1)	(1)
Depreciation charge	-	(611)	(96)	(8,748)	(29)	(195)	(9,679)
At 31 July 2003	3,908	9,309	171	22,481	189	833	36,891
<u>At 31 July 2003</u>							
Cost	-	4,185	905	71,664	511	2,877	80,142
Valuation	3,908	8,102	-	-	-	-	12,010
Accumulated depreciation	-	(2,978)	(734)	(49,183)	(322)	(2,044)	(55,261)
Net book value	3,908	9,309	171	22,481	189	833	36,891
<u>At 31 July 2002</u>							
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
Depreciation charge for 2002	-	608	90	5,749	10	143	6,600

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

	GROUP		COMPANY	
	2003	2002	2003	2002
	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	2,413	2,470	-	-
Buildings				
- at cost	4,528	4,784	3,760	3,966
- at 1999 valuation	13,284	14,189	5,549	5,954
	17,812	18,973	9,309	9,920

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

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

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Long term leasehold land	274	274	274	274
Short term leasehold land	-	225	-	-
Buildings	11,509	12,412	5,109	5,485

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 with a carrying value of RM3,543,000 (2002: RM3,543,000) has yet to be issued by the authorities. The strata titles to certain units of apartments with an aggregate net book value of RM507,000 (2002: RM539,000) have yet to be issued to a subsidiary company.

The aggregate net book values of plant, machinery and test equipment of the Group and the Company of RM37,783,000 (2002: RM9,319,000) and RM11,100,000 (2002: RM3,068,000), respectively are pledged as security for term loans granted to the Group and the Company.

The net book values of property, plant and equipment held under hire purchase are as follows:

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Plant, machinery and test equipment	5,603	2,400	5,042	2,156
Office equipment, furniture and fittings and computers	171	8	93	8
Motor vehicles	174	23	174	23
	5,948	2,431	5,309	2,187

During the year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM59,131,000 (2002: RM2,278,000) and RM21,394,000 (2002: RM658,000), respectively. Cash payments of RM53,190,000 (2002: RM2,278,000) and RM16,276,000 (2002: RM658,000) were made to purchase property, plant and equipment by the Group and the Company, respectively during the year.

11. SUBSIDIARY COMPANIES

	COMPANY	
	2003	2002
	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	
			2003	2002
			%	%
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	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Shares quoted in Malaysia, at cost	4,204	3,541	4,204	3,541
Market value	5,349	3,890	5,349	3,890

13. INVENTORIES

At cost

Raw materials	3,668	2,688	-	-
Consumables	813	370	147	77
Work-in-progress	92	1,245	-	-
Finished goods	687	13	-	-
Inventories in transit	15	-	-	-
	<u>5,275</u>	<u>4,316</u>	<u>147</u>	<u>77</u>

14. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Trade receivables	24,158	10,998	8,019	4,183
Less: Provision for doubtful debts	(590)	(257)	-	-
	23,568	10,741	8,019	4,183
Non-trade receivables				
- Others	634	576	484	430
- Amounts due from related parties	37	120	-	59
- Prepayments	424	313	267	97
- Deposits	234	129	178	74
	<u>24,897</u>	<u>11,879</u>	<u>8,948</u>	<u>4,843</u>

Related parties refer to the substantial corporate shareholder, Sunright Limited in which certain Directors have financial interests, and to 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, interest receivable and a loan of RM2,595,000 (2002: RM2,595,000) and advances of RM7,229,000 (2002: RM Nil) which are unsecured, bear interest at commercial rates and have no fixed term of repayment.

16. DEPOSITS WITH LICENSED BANKS

Fixed deposits amounting to RM994,000 (2002: RM5,884,000) and RM962,000 (2002: RM2,930,000) are pledged to banks as security for credit facilities granted to the Group and to the Company, respectively.

The average maturities of deposits at the end of the financial year and the weighted average effective interest rates of the Group and Company were as follows:

	GROUP		COMPANY	
	2003	2002	2003	2002
Average maturities of deposit at the financial year (Days)	24	35	12	16
Weighted average effective interest rates (%)	<u>2.71</u>	<u>3.17</u>	<u>2.62</u>	<u>2.52</u>

17. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Trade payables	3,219	993	28	31
Non-trade payables				
- Amounts due to related parties	274	435	81	190
- Directors' fees accruals	978	575	162	109
- Accrual for operating cost	5,555	1,481	3,758	508
- Other non-trade accruals	398	574	90	79
- Hire purchase payables (a)	1,980	596	1,705	528
- Others	5,495	359	624	210
	<u>17,899</u>	<u>5,013</u>	<u>6,448</u>	<u>1,655</u>

Related parties refer to the substantial corporate shareholder, Sunright Limited in which certain Directors have financial interests, and to 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	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Within one year	2,225	657	1,914	582
After one year and not later than five years	<u>3,485</u>	<u>-</u>	<u>3,088</u>	<u>-</u>
Future finance charges	5,710	657	5,002	582
Present value of hire purchase liabilities	<u>(626)</u>	<u>(61)</u>	<u>(545)</u>	<u>(54)</u>
	<u>5,084</u>	<u>596</u>	<u>4,457</u>	<u>528</u>
Present value of hire purchase liabilities:				
Within one year	1,980	596	1,705	528
After one year and not later than 5 years	<u>3,104</u>	<u>-</u>	<u>2,752</u>	<u>-</u>
	<u>5,084</u>	<u>596</u>	<u>4,457</u>	<u>528</u>

The hire purchase bore interest at commercial rates.

18.SHARE CAPITAL

	GROUP/COMPANY		GROUP/COMPANY	
	2003	2002	2003	2002
	Number('000)	Number('000)	RM'000	RM'000
Authorised:				
Ordinary shares of RM1 each				
As at 1 August	25,000	25,000	25,000	25,000
Created during the year	25,000	-	25,000	-
As at 31 July	50,000	25,000	50,000	25,000
Issued and fully paid:				
Ordinary shares of RM1 each				
As at 1 August	17,023	17,000	17,023	17,000
Exercise of options to subscribe for ordinary shares in the Company	108	23	108	23
Bonus issue	25,536	-	25,536	-
As at 31 July	42,667	17,023	42,667	17,023

During the financial year, the authorised share capital of the Company was increased from RM25,000,000 to RM50,000,000 as a result of the creation of 25,000,000 new ordinary shares of RM1.00 each.

The issued and paid-up share capital of the Company was also increased from RM17,023,000 to RM42,667,000 as a result of the issue of 108,000 ordinary shares of RM1.00 each to eligible executives who have exercised their options under the Company's Executives' Share Option Scheme and a bonus issue of 25,536,000 new shares on the basis of three new shares for every two existing shares held, effected by capitalising the retained profit of the Company.

19.RESERVES

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	(restated) RM'000	RM'000	(restated) RM'000
Distributable:				
Retained profit	43,836	60,011	10,344	29,387
Non-distributable:				
Share premium	236	103	236	103
Asset revaluation reserve	3,138	3,138	503	503
Reserve on consolidation	430	430	-	-
Merger relief reserve	-	-	1,215	1,215
	47,640	63,682	12,298	31,208

19.RESERVES (CONT'D.)

The Company has sufficient tax credits and tax exempt income to distribute approximately RM6,448,000 (2002: RM5,600,000) and RM10,786,000 (2002: RM11,509,000), 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.

20.BORROWINGS

	GROUP		COMPANY	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Revolving credit - unsecured	1,500	-	-	-
Term loans				
- secured	33,217	11,578	9,914	4,966
- unsecured	-	48	-	-
	33,217	11,626	9,914	4,966
Other loan - unsecured	1,374	1,374	-	-
	36,091	13,000	9,914	4,966
Amounts repayable within 12 months	(19,013)	(5,286)	(5,209)	(2,666)
Amounts repayable after 12 months	17,078	7,714	4,705	2,300
The term loans are repayable as follows:				
Financial year ending 31 July				
2003	-	5,286	-	2,666
2004	17,513	6,184	5,209	2,300
2005	11,380	156	2,880	-
2006	4,324	-	1,825	-
	33,217	11,626	9,914	4,966

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 Company's property, plant and equipment with aggregate net book values of RM37,783,000 (2002: RM9,319,000) and RM11,100,000 (2002: RM3,068,000), 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	
	2003	2002	2003	2002
	RM'000	(restated) RM'000	RM'000	(restated) RM'000
At 1 August 2002	8,729	12,629	6,994	6,994
Recognised in the income statement	(1,077)	(253)	(845)	-
Over provision of prior years	-	(3,647)	-	-
At 31 July 2003	<u>7,652</u>	<u>8,729</u>	<u>6,149</u>	<u>6,994</u>
	Accelerated capital allowances	Revaluation surplus	Others	Total
	RM'000	RM'000	RM'000	RM'000
GROUP				
At 1 August 2002 (restated)	1,562	2,062	5,105	8,729
Recognised in the income statement	(53)	(38)	(986)	(1,077)
At 31 July 2003	<u>1,509</u>	<u>2,024</u>	<u>4,119</u>	<u>7,652</u>
COMPANY				
At 1 August 2002 (restated)	636	1,197	5,161	6,994
Recognised in the income statement	100	-	(945)	(845)
At 31 July 2003	<u>736</u>	<u>1,197</u>	<u>4,216</u>	<u>6,149</u>

22.PRIOR YEAR ADJUSTMENT

In compliance with Malaysian Accounting Standards Board No: 25 - Income Taxes, the Group provided for deferred tax liabilities on all taxable temporary differences. Previously, deferred tax liabilities were provided for timing differences only to the extent that the tax liability was expected to materialise in the foreseeable future.

The effect of the change in accounting policy to the Group's current year income statement is an increase in profit after taxation and minority interest of RM456,000 (2002: RM253,000). The change in accounting policy has been applied retrospectively and comparatives where applicable, have been restated.

The effect of the above on balances at 31 July 2002 is as follows:

	As previously stated	Adjustment	As restated
	RM '000	RM '000	RM '000
GROUP			
Retained profit	59,021	990	60,011
Revaluation reserve	5,885	(2,747)	3,138
Deferred tax liabilities	<u>6,972</u>	<u>1,757</u>	<u>8,729</u>

22.PRIOR YEAR ADJUSTMENT (CONT'D.)

	As previously stated	Adjustment	As restated
	RM '000	RM '000	RM '000
COMPANY			
Retained profit	28,740	647	29,387
Revaluation reserve	2,347	(1,844)	503
Deferred tax liabilities	5,797	1,197	6,994

23.SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
<u>Transactions with Sunright Limited, the corporate shareholder in which certain Directors have financial interests, and its subsidiary companies</u>				
Management fees charged by Sunright Limited	2,821	1,538	1,734	723
Interest on loan from Sunright Limited	117	115	-	-
Purchase of property, plant and equipment from:				
- KES Test Taiwan Limited	-	221	-	-
- KES Systems & Service (1993) Pte Ltd	8,564	-	8,473	-
- Kestronics (M) Sdn Bhd	-	43	-	-
- KES Systems & Service (Hong Kong) Limited	660	-	660	-
Sales to KES Systems & Service (1993) Pte Ltd	(14)	-	-	-
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	468	115	356	92
- Kestronics (M) Sdn Bhd	36	24	5	1
<u>Transactions with subsidiary companies</u>				
Dividend received from subsidiary company			-	10,000
Rent of factory to subsidiary company				361
Interest on loan to subsidiary company			542	254
			917	254

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.

24. CONTINGENT LIABILITIES

	COMPANY	
	2003	2002
	RM'000	RM'000
Guarantees granted to licensed banks in respect of credit facilities extended to subsidiary companies (unsecured)	<u>35,676</u>	<u>22,134</u>

25. CAPITAL COMMITMENT

	GROUP		COMPANY	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Authorised and contracted for	<u>1,659</u>	<u>5,836</u>	<u>232</u>	<u>5,836</u>

26. SEGMENT INFORMATION

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

27. FINANCIAL INSTRUMENTS

a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group's risk management approach seeks to minimise the potential material adverse impact of those exposures.

b) Interest Rate Risk

The Group obtains additional financing through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

Information relating to the Group's interest rate exposure is also disclosed in the notes on borrowings, including leasing obligations.

c) Foreign Exchange Risk

The Group has transactional currency exposures which arises from property, plant and equipment purchases made in currencies other than its functional currency. The principal foreign currencies which the Group has exposure to are Singapore Dollars, United States Dollars and Japanese Yen. Transactional exposures in currencies other than the entity's functional currency are kept to a minimum.

27. FINANCIAL INSTRUMENTS (CONT'D.)

d) Credit Risk

The carrying amounts of investments, trade and other receivables and cash represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentrations of credit risk. Financial transactions and the placement of surplus cash in short term interest-bearing deposits are restricted to reputable financial institutions.

e) Liquidity Risk

The Group's cash and short-term deposits, operating cash flows, availability of banking facilities and debt maturity profile are actively managed to ensure adequate working capital requirements and that repayment and funding needs are met.

f) Fair Value

The carrying amounts of the financial assets and liabilities, other than those disclosed below, approximate their fair values due to the short-term maturity of these financial instruments.

i) Borrowings

The carrying amount of the borrowings approximate their fair values as these instruments bear interest at floating rates.

ii) Other Investments

The fair value of quoted investments is determined by reference to the market price at the balance sheet date and is disclosed in Note 12 to the financial statements.

28.EXECUTIVES' SHARE OPTION SCHEME (ESOS)

Options granted and accepted under ESOS during the financial year ended 31 July 2003 are as follows:

Name of Employees	Number of Options Granted
Thong Tim Leong	3,000
Muhammad Radzi Bin Embong	2,000
Looi Kwok Hoong	4,000
Yew Yoke Tuan	2,000
Nik Izhar Bin Nik Mahdmood	2,000
Ramizahbee Bt Mohamed Haneef	2,000
Augustus Balu A/L Palaniandy Vincent	2,000
Mohd Zaki Bin Mahmood	2,000
Khairul Bakhtiar Bin Norman	2,000
Ng Kuing Seng	5,000
Lim Siew Yen	5,000
Leow Soo How	2,000
Liew Pow Yeong	2,000
Kok Kun Ong	2,000
Yeoh Phaik Suan	2,000
Seah Say Kit	1,000
Chee Kok Leong	1,000
Chow Sau Foong	1,000
Tang Chin Huat	1,000
Ooi Hoon Koh	1,000
Choong Lee Choo	1,000
Koey Beng Huat	1,000
Lim Eng Guan	1,000
Samuel Lim Syn Soo	20,000
Kenneth Tan Teoh Khoon	20,000
Ooi See Bee	16,000
Lim Chee Seng	19,000
Kee Eng Yin	19,000
Teoh Choo Kuan	6,000
Tan Eng Hong	4,000
Tee Hong Hiong	3,000
Khor Loong Thiang	6,000
Wong Yin Lek	1,000
Lum Yoke Kum	2,000
Hing Kam Lan	2,000
Yaw Kwee Huay	1,000
Zaida Bte Ismail	1,000
Lim Guat Leng	1,000
S Swami Vivekananda A/L Subramanyam	2,000
Rahbani Bin Nasar	1,000
Ray Fong Thian Sin	2,000
Chong Wan Kit	2,000
Lim Swee Leu	2,000
Wong Hoo Mooi	2,000
Tang Kok Yew	2,000
Nageswari A/P M Nadasan	1,000
Zahlina Binti Husni	1,000
Rodzi Bin Ahmad	1,000
Mohd Faris Bin Ahmad	1,000
Rahanah Binti Mohd Shoib	1,000
	186,000

SHAREHOLDERS' INFORMATION

as at 17 October 2003

ANALYSIS OF SHAREHOLDINGS

Authorized share capital	: RM50,000,000.00
Issued and paid-up capital	: RM42,766,500.00
Type of shares	: Ordinary shares of RM1.00 each
Voting Rights	: One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

Number of Holders	Size of Shareholdings	Total Holdings	%
2	Less than 100	100	0
187	100 to 1,000	174,000	0.41
936	1,001 to 10,000	3,554,300	8.31
119	10,001 to 100,000	3,063,400	7.16
6	100,001 to less than 5% of issued shares	4,099,700	9.59
3	5% and above of issued shares	31,875,000	74.53
1253	Total	42,766,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	20,825,000	48.69
2. Samuel Lim Syn Soo	20,825,000*	48.69
3. Lembaga Tabung Haji	8,500,000	19.88
4. Wong Tee Kim @ Wong Tee Fatt	2,550,000	5.96

* 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	Number of Shares Held			
	Direct	%	Deemed Interest	%
1. Samuel Lim Syn Soo	-	-	20,825,000*	48.93
2. Kenneth Tan Teoh Khoon	-	-	-	-
3. Dato' Dr. Norraesah Haji Mohamad	875,000**	2.05	-	-
4. Lim Mee Ing	-	-	-	-
5. Ahmad Riza Bin Basir	-	-	-	-
6. Tuan Haji Zakariah Bin Yet	-	-	-	-
7. Yong Chee Hou	-	-	-	-

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

** 867,500 shares held through PAB Nominee (Tempatan) Sdn Bhd.

SHARES IN RELATED CORPORATION

KESM Test (M) Sdn Bhd

Name of Director	Number of Shares Held			
	Direct	%	Deemed Interest	%
1. Samuel Lim Syn Soo	-	-	692,308 *	34.62
	-	-	1,307,692**	65.38

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

** Deemed interest by virtue of his 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 17 October 2003
1. Samuel Lim Syn Soo	between RM2.192 to 2.464	150,000
2. Kenneth Tan Teoh Khoon	between RM2.192 to 2.464	150,000

THIRTY LARGEST SHAREHOLDERS

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	20,825,000	48.69
2. Lembaga Tabung Haji	8,500,000	19.88
3. Wong Tee Kim @ Wong Tee Fatt	2,550,000	5.96
4. Tan Teong Siew	2,057,500	4.81
5. PAB Nominee (Tempatan) Sdn Bhd-pledged securities account for Dato' Dr. Norraesah Hj Mohamad	867,500	2.03
6. BHLB Trustee Berhad for TA Comet Fund	500,200	1.17
7. Employees Provident Fund Board	415,000	0.97
8. RHB Nominees (Asing) Sdn Bhd-GK Goh SPL for Lim Bee Tin	137,500	0.32
9. Tan Jin Tuan	122,000	0.29
10. Soo Chern Chin @ Soo Chai	100,000	0.23
11. Tan Jin Siew Nee Yip Sow Har	100,000	0.23
12. Lim Siew Geok	98,000	0.23
13. Wong Yoke Fong @ Wong Nyok Fing	93,000	0.22
14. Capital Dynamics Asset Management Sdn Bhd	70,000	0.16
15. Bin Bin Knitwear Manufacturer Sdn Bhd	65,000	0.15
16. HSBC Nominees (Tempatan) Sdn Bhd-HSBC (M) Trustee Bhd for TMT Focus Fund	60,400	0.14
17. Liow Kok Hua	60,000	0.14
18. Ter Kham Ee	55,000	0.13
19. Citicorp Nominees (Asing) Sdn Bhd-American International Assurance Company Limited	52,500	0.12
20. Tan Chap Thong Sdn Bhd	50,000	0.12
21. Wee Pock Soon @ Ho Pock Soon	50,000	0.12
22. Tasec Nominees (Tempatan) Sdn Bhd-TA Asset Management Sdn Bhd for Wan Chan Bun (Wan)	50,000	0.12
23. Tan Teng Boo	50,000	0.12
24. Mayban Nominees (Tempatan) Sdn Bhd - Capital Dynamics Asset Management Sdn Bhd for Perkasa Trading Sdn Bhd	48,000	0.11
25. Tasec Nominees (Tempatan) Sdn Bhd - BHLB Trustee Berhad for Oh Kim Sun Trust Fund	45,000	0.11
26. Yap Ah Kow @ Yap Su Kim	42,500	0.10
27. Wong Ban Sun	42,500	0.10
28. Yong Seng Leh	40,000	0.09
29. Chong Li Fong	40,000	0.09
30. Lam Vun Chiang	38,000	0.09
Total	37,224,600	87.04

GROUP PROPERTIES

as at 31 July 2003

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 - 7 Phase II - <5 Phase III - <3	3,544 / Phase I - 2,307 Phase II - 2,867 Phase III - 3,734
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	12	365 / 401
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 - 11 Phase II - 7 Phase III - 4	2,413 / 7,729
42-17-19 Desa Green Penang	3-bedroom apartment / employees' hostel	(2 September 1997)	Freehold	65.03	14	88
42-15-12A Desa Green Penang	3-bedroom apartment / employees' hostel	(8 September 1997)	Freehold	65.03	14	89
15-4-7 Kota Nibong Penang	3-bedroom apartment / employees' hostel	(8 September 1997)	Freehold	65.03	11	86
15-7-4 Kota Nibong Penang	3-bedroom apartment / employees' hostel	(8 September 1997)	Freehold	65.03	11	86
Block 16-3A-3 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(20 January 1998)	Freehold	65.03	10	86
Block 18-9-11 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(30 November 1998)	Freehold	65.03	10	73
33-11-21 Taman Pekaka Penang	3-bedroom apartment / employees' hostel	(18 September 1999)	Freehold	65.03	7	89
Block 16-1-3 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(28 February 2000)	Freehold	65.03	10	86
Block 18-6-5 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	(4 April 2000)	Freehold	65.03	10	91

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-Second Annual General Meeting of the Company will be held at Raya Room, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia on Thursday, 8 January 2004 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 2003 together with the reports of the Directors and of the Auditors thereon. | Resolution 1 |
| 2. To declare a first and final tax exempt dividend of 1.75 sen per share in respect of the financial year ended 31 July 2003. | Resolution 2 |
| 3. To approve payment of Directors' fees in respect of the financial year ended 31 July 2003. | Resolution 3 |
| 4. To re-elect the following Directors retiring pursuant to Article 80 of the Company's Articles of Association and being eligible, offer themselves for re-election: - | |
| (a) Mr. Kenneth Tan Teoh Khoon. | Resolution 4 |
| (b) Mr. Ahmad Riza Bin Basir. | Resolution 5 |
| 5. To re-appoint Messrs Ernst & Young as the Company's 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.

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN that the First and Final Tax Exempt Dividend of 1.75 sen per share in respect of the financial year ended 31 July 2003, if approved at the forthcoming Annual General Meeting, will be paid on 5 February 2004 to Depositors registered in the Record of Depositors on 14 January 2004. A Depositor shall qualify for entitlement only in respect of:

- a) Shares transferred into the Depositor's securities accounts before 4.00 p.m. on 14 January 2004, in respect of ordinary transfers; and
- b) Shares bought on the Kuala Lumpur Stock Exchange on a cum entitlement basis according to the Rules of the Kuala Lumpur Stock Exchange.

BY ORDER OF THE BOARD
LIM PHOOI KEE (MIA 2759)
LEONG OI WAH (MAICSA 7023802)
Company Secretaries

Kuala Lumpur
21 November 2003

STATEMENT ACCOMPANYING NOTICE OF 32ND ANNUAL GENERAL MEETING

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

- (a) Mr. Kenneth Tan Teoh Khoon.
- (b) Encik Ahmad Riza Bin Basir.

2. The details of attendance of directors at board meetings

Total of five (5) meetings were held during the financial year ended 31 July 2003. Details of attendance of each Director are set out on page 7 of the Annual Report.

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

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

Date & Time : Thursday, 8 January 2004 at 10:30 a.m.

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

The details of the Directors are set out on pages 4 and 6 of the Annual Report.

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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-Second Annual General Meeting of the Company to be held at Raya Room, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on Thursday, 8 January 2004 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 first and final dividend		
3.	Approval of Directors' fees		
4.	Re-election of Mr. Kenneth Tan Teoh Khoon as Director		
5.	Re-election of Encik Ahmad Riza Bin Basir 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	
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Signed this _____ day of _____ 2003 / 2004

 Signature/Common Seal of Shareholder(s)

Notes: -

- 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.
- 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.
- 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.
- 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.

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postage
here

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

Fold here

KESM INDUSTRIES BERHAD (13022-A)

Lot 4, Jalan SS 8/4, Sungei Way Free Industrial Zone, 47300 Petaling Jaya, Selangor Darul Ehsan, Malaysia

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