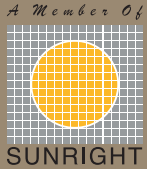


KESM INDUSTRIES BERHAD (13022-A)
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KESM INDUSTRIES BERHAD (13022-A) ANNUAL REPORT 2004



ANNUAL REPORT
2004

KESM - THE LARGEST INDEPENDENT PROVIDER OF "BURN-IN AND TEST" SERVICES IN MALAYSIA

Our customers produce advanced microchips to perform a variety of functions, and some of the applications are shown below. We provide a service to electrically stress these chips at varying temperatures. This process is called "burn-in and test" to ensure the reliability of microchips. The chips go through another final "testing" process to make sure they function properly as expected of them. The purpose of "burn-in and test" is to "weed out" potentially weak microchips. Only the "strongest" and "fittest" of the chips are assembled on personal computers, automobiles, hand phones etc. These electronic products define how we live, work, learn and play. They are all around us.



Automobile

- › Telematics Systems
- › Braking Systems
- › Global Positioning Systems
- › Powertrain Electronics
- › Transmission Controls
- › Entertainment...



Computers & Networking

- › Personal Computers
- › Notebooks
- › Servers
- › Routers...



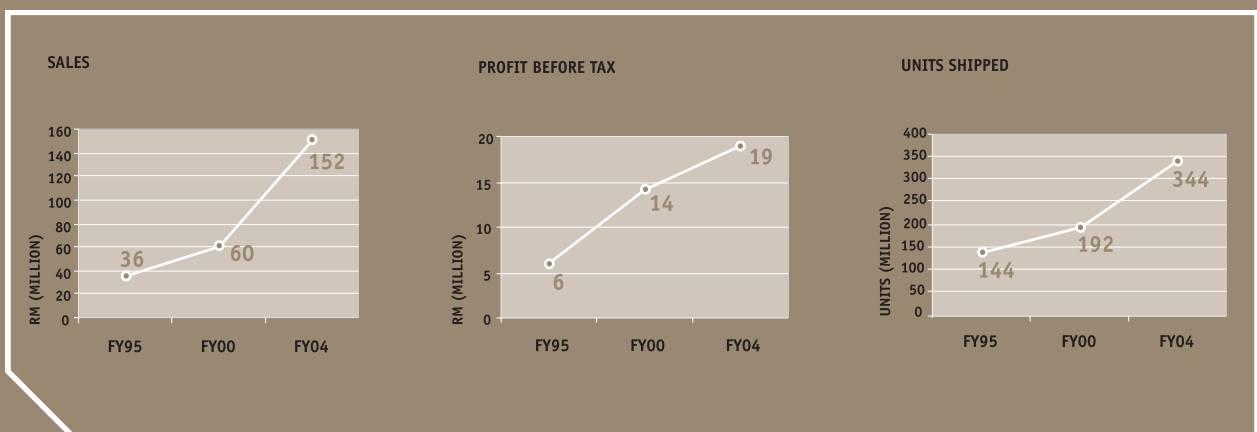
Communications

- › Hand Phones
- › Personal Digital Assistant "PDA"
- › VGA Cameras...

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A DECADE OF SOLID GROWTH



These past years have been particularly challenging for Malaysia's economy as well as the semiconductor industry. KESM delivered profitable results year after year and remained resilient to the cyclical swings of the semiconductor industry since its listing 10 years ago. During this period, the Group shipped over 1 billion chips and when these are placed side by side in a continuing line, it is equivalent to the distance of a trip around the world. What has KESM done right?

For Malaysia's largest independent provider of "burn-in and test" services there isn't one answer but a fusion of many: motivated, highly skilled and committed employees; a persistent focus on customer service; a relentless effort for continuous quality improvement; strategic partners constantly driving new innovative - leading edge products; substantial investments on advanced equipment; close alliance with Sunright to ride on their global network and technology and maintaining a world-class manufacturing service company which is TS 16949 certified.

As the global economy continues to improve, KESM's position grows stronger than ever. We are ready to capitalize on new opportunities.

THE GROWTH OPPORTUNITIES "ARE STILL AHEAD" OF US FOR COMPUTING, COMMUNICATION AND AUTOMOTIVE DEVICES

Our Fellow Shareholders

FY 2004 was another record-breaking year since becoming a public listed company a decade ago. This outstanding result laid a solid foundation for the Group's future. We achieved: -

- > **increased revenues by 45 percent to RM152 million from RM105 million in 2003;**
- > **net earnings of RM13 million, an increase of 28 percent from RM10 million a year ago;**
- > **an increased net worth of RM108 million as at 31 July 2004.**

Current Year Development:

The Group's results were driven by higher demand in "burn-in and test" of microchips for growing markets in personal computers, hand phones and automobile as well as Electronic Manufacturing Services ("EMS"). Last year, on the front cover of our annual report, we had pictures of these products which signified our target markets. These are bright spots which are the high growth sectors of the semiconductor industry. We invested RM48 million on equipment with advanced technologies to service a wide-range of new microchips. KESM's rapid growth exceeded its 5-year projection of RM100 capital expenditure plan from FY2003 to FY2007. We added 80,000 sq. ft. on a third building block named "Plant 3" at Sungei Way, adjacent to our world-class manufacturing site, making a total of 250,000 sq. ft. in Kuala Lumpur. This investment brought our total cumulative capital expenses to RM107 million. We also added several new customers to our list, including Japanese and European world-class manufacturers. We completed the last phase of our computer network installation allowing customers to link "on-line" to our factories reporting status of their inventories and tracking the performance of our process "cycle time" and "quality". We drive competitiveness by measuring these performances daily against our standards. We received several commendations from our customers for our quality services. We were the first company in Malaysia to be certified by BVQI Holdings SA for TS 16949, which is the highest quality standard developed by Chrysler, Ford Motor and General Motors, for providing supplies in the automotive industry. We have also been approved by the Defense Supply Centre Columbus or "DSCC" in the United States for "burn-in and test" processing of military products. Whilst we recognize cost pressure, we continue to invest in training and re-certification of our workforce to increase the effectiveness and productivity at work.

Outlook:

The semiconductor industry is experiencing healthy growth. As consumer products become smaller, cheaper and lighter and with the digital convergence in this broadband era, the demand for microchips will continue to rise. The electronic content in a car is growing in its applications. Hand phones are expanding with multi-media features and sales of personal computers are expected to continue to grow in 2005. In June 2004, Gartner Inc. forecasted that the semiconductor industry would grow by 24.7% for the year and a continuing growth of 9.3% in 2005 to a US\$247 billion market.

We remain committed to our core businesses. "Burn-In and Test" and "EMS" services have been the fundamental "building blocks" for our success. "Testing" services will form our next building block. Our customers are adding more and more features into their microchips, which require advanced technologies and capacities for these new devices. We have been qualified for processing these advanced components and we are in a favorable position to expand when the market takes off for these new devices. We believe the greatest opportunities are still ahead of us in the computing, communication and automotive markets for the future.

Dividend:

The Board is pleased to recommend a first and final tax-exempt dividend of 1.75%, amounting to approximately RM747,000 in respect of the financial year ended 31st July 2004. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the dividend will be paid on 5th February 2005.

Appreciation:

2004 marked KESM's 10th year as a public listed company. As we look back on our history, we are proud of our many accomplishments and the progress we have made. We thank our shareholders, employees and our customers around the world. With your support, we will build on the achievements of our last decade and look forward to continuing growth in the next decade.

Samuel Lim Syn Soo

Executive Chairman
30th September 2004

BOARD OF DIRECTORS



MR. SAMUEL LIM SYN SOO

Aged 50, 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 | 184,000 | Nil |



MR. KENNETH TAN TEOH KHOON

Aged 47, 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.

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 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 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 | 184,000 | Nil |



MS. LIM MEE ING

Aged 53, 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 18 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 and China.



DATO' DR. NORRAESAH HAJI MOHAMAD

Aged 56, 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 30 years of working experience in banking, consultancy and international trade and commerce.

From 1991 to 1998, she was appointed as the Chief Representative of Credit Lyonnais Bank in Malaysia. She assumed the position of Chairman of Bank Rakyat from 2000 to 2003.

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.

She is currently the Chairman of Alcatel Network Systems (Malaysia) Sdn Bhd and also sits on the Boards of Siah Brothers Corporation Berhad and Malaysian Oxygen Berhad, both companies are listed on the Main Board of Bursa Malaysia Securities Berhad, 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 |

BOARD OF DIRECTORS (cont'd)



ENCIK AHMAD RIZA BIN BASIR

Aged 44, Malaysian

Independent Non-Executive Director

Encik Ahmad Riza Bin Basir, aged 44 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 Ladang Perbadanan Fima Berhad, Jerneh Asia Berhad, John Hancock Life Insurance (M) Berhad and United Plantations Berhad (all listed on Bursa Malaysia Securities Berhad). Encik Ahmad Riza also sits on the Board of several other private limited companies in Malaysia.



TUAN HAJI ZAKARIAH BIN YET, AMS, AMN

Aged 49, Malaysian

Non-Independent Non-Executive Director

Tuan Haji Zakariah has been serving as a member of the Board on 27 January 1995, as a representative of Lembaga Tabung Haji.

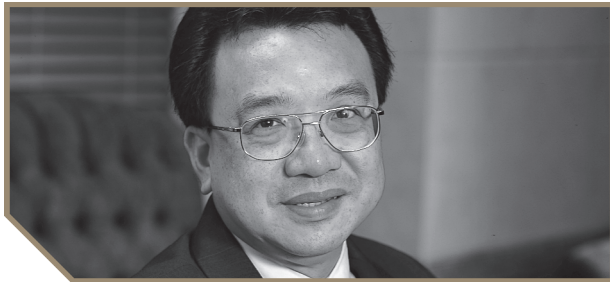
He has been with Lembaga Tabung Haji since 1979 and has served in several departments, including Finance, Administration, Investment and Branch Office operation.

In addition, he has wide experience in the private sector, holding important positions in two subsidiaries of Lembaga Tabung Haji which among others were as the Deputy Chief Executive Officer of TH Global Services Sdn Bhd from 16 June 2001 to 31 August 2002; Senior General Manager and Acting Chief Executive Officer of TH Travel & Services Sdn Bhd from 1 September 2002 to 16 August

2004. He was also a Board member at Urus Bina Sdn Bhd from 1994 to 1995.

Currently, Tuan Haji Zakariah is attached at Lembaga Tabung Haji as the General Manager of Human Resource Development and Quality Department.

He has a Diploma in Banking Studies from ITM and a Post Graduate Diploma in Engineering Business Management from UTM. He then undertook a twinning programme at Warwick University, United Kingdom and attained a Master of Science in Engineering Business Management.



MR. YONG CHEE HOU

Aged 48, 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 a private limited company.

OTHER INFORMATION ON DIRECTORS

1. FAMILY RELATIONSHIP

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

2. CONFLICT OF INTEREST

None of the Directors have any conflict of interest with the Company except for Messrs Samuel Lim, Kenneth Tan, Lim Mee Ing and 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 2004

| Name of Directors | No. of Meetings Attended | Percentage |
|---------------------------------|--------------------------|------------|
| Mr. Samuel Lim Syn Soo | 4 out of 5 | 80 |
| Mr. Kenneth Tan Teoh Khoon | 5 out of 5 | 100 |
| Ms. Lim Mee Ing | 4 out of 5 | 80 |
| Dato' Dr Norraesah Haji Mohamad | 3 out of 5 | 60 |
| Encik Ahmad Riza Bin Basir | 5 out of 5 | 100 |
| Tuan Haji Zakariah Bin Yet | 5 out of 5 | 100 |
| Mr. Yong Chee Hou | 5 out of 5 | 100 |