

C O N T E N T S

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C O M P A N Y P R O F I L E

Unisem (M) Berhad was incorporated in 1989 and commenced operations in 1992 as an independent subcontract integrated circuit (IC) packaging and test house. Unisem provides full turnkey solutions to its customers in wafer grinding, packaging and testing of ICs, tape and reel, and dropship services.

Over the years Unisem has invested approximately RM820 million in land, building, and plant and machinery. Operating from its factories (Phase I, II and III) in Pulau Jaya, Ipoh, Unisem has a current staff total of three thousand. The factories, with a total built-up area of about 570,000 square feet, are erected on a 15-acre site.

Unisem has the capability of packaging and testing a wide range of leadframe packages, which are expected to remain as the most cost-effective solution for applications under 100 leads. Driven by customers' demand, Unisem is looking into developing advanced leadframe packages, such as Chip Scale Packages (CSP) and Flip Chip.

All of Unisem's products are exported. About 65% of Unisem's sales are directly exported to customers in North America, Asia and Europe, with the balance exported to multinational corporations located at various Free Trade/Industrial Zones in Malaysia. With a sound balance sheet, Unisem will strive and adapt to support its customers as they expand and grow.

P O L I C I E S T H A T S H A P E O U R O P E R A T I O N S

SAFETY AND HEALTH POLICY Unisem (M) Berhad places great importance on the welfare, health and safety of our employees. We regard our employees as our most valued assets and it is our policy to promote high safety and health standards in order to provide a safe and healthy working environment for our employees and the public. We will conduct our work and maintain our workplace in a manner, which is consistent with the principles and guidelines shown in this policy.

It is our policy to:

- Promote a conducive environment for persons at work, which is adapted to their physiological and psychological needs.
- Promote continual improvement on the standards of safety and health.
- Conform to statutory requirement, codes, guidelines and standard for occupational health and safety and liaise with all responsible authorities concerning future development.
- Inform, instruct and train all employees to help them develop an understanding of the workplace, its hazards, and the need to work within established practices.
- Consult with employees on health and safety hazard, and once identified, on their rectification.
- Advise visitors to the Company premises of any safety precaution, which are necessary in the areas they are entering and inform them that they will have to comply with these requirements.
- Recognize the Company's obligation to consumers and the public by endeavoring at all times to provide products, which are safe, if properly used for the purpose for which they were made.
- Implement and maintain systems for the management of all major aspects of occupational health and safety, including accident reporting, recording and measurement against objectives.

This is achieved through periodic review of safety and health system by the management in connection with the operation, handling, storage and transportation procedures relating to all employees.

QUALITY POLICY It is our policy to:

- Produce products and provide services of the highest quality as perceived by each and every customer.
- Commit to on-time delivery and to be most cost effective assembly house.

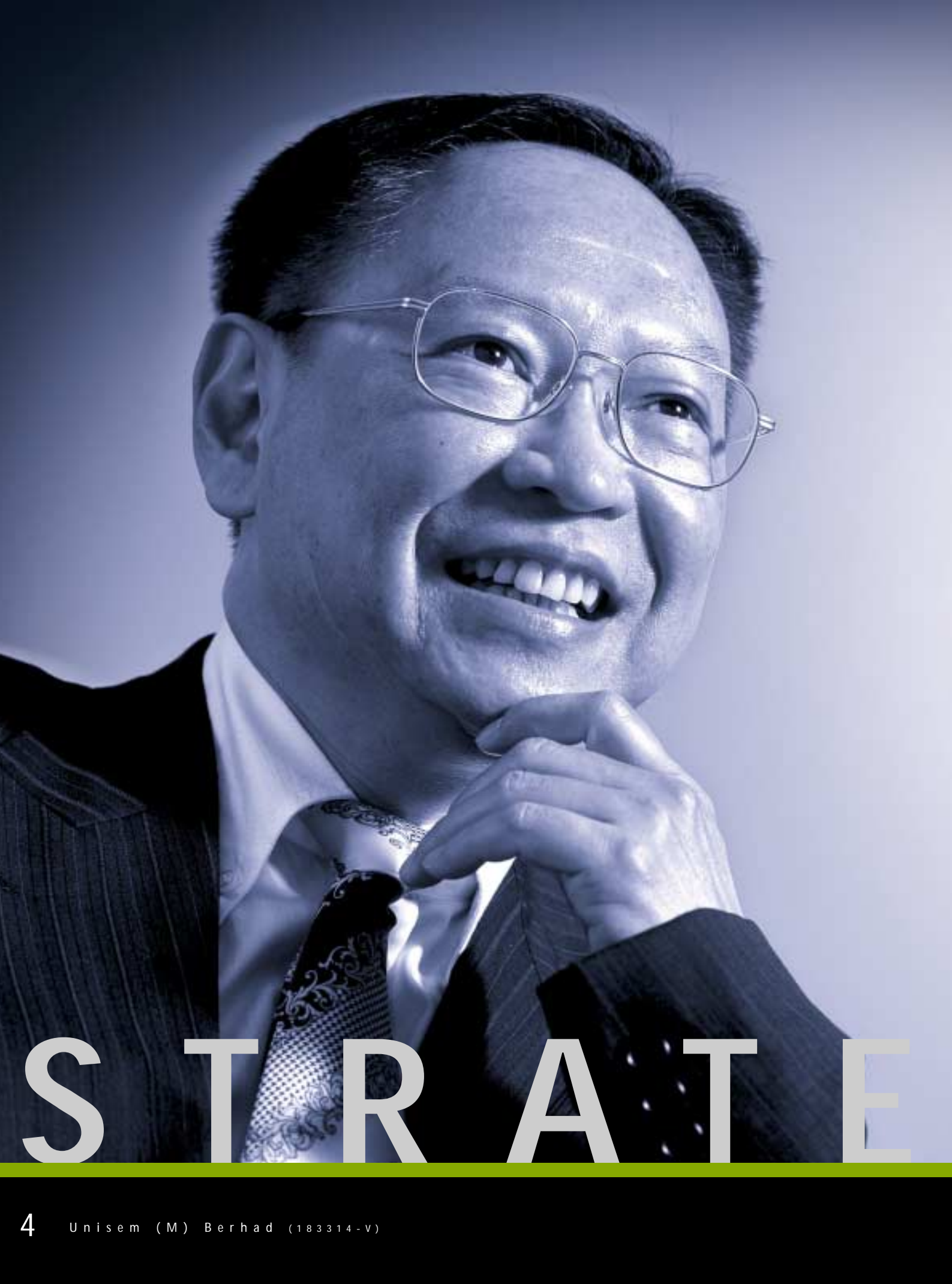
This is achieved through a precisely designed and well defined system of manufacturing excellence and concerted strength of people involvement. Ultimate goal is an absolute and continuous **Total Customer Satisfaction**.

Environmental Policy In line with our corporate vision to be and be recognized as the finest semiconductor packaging services company of choice, it is our management policy to show exemplary environmental responsibilities by conducting our businesses in a manner consistent with sound environmental practices. To achieve this, we will ensure that our conduct and operations are in accordance with the principles and guidelines contained in this policy.

It is our policy to:

- Identify and carry out continual improvement on our machine, processes and surroundings in order to meet environmental management system requirement.
- Practice good housekeeping and chemical storage methods to minimized potential impact on the environment.
- Comply with legal requirement and EMS specification.
- Promote energy saving and the conservation of our natural resources.
- Identify and promote the re-use and recycling of our resources and reduce the use of hazardous substances.
- Establish an emergency response plan to handle occurrences of potential emergency situation.
- Encourage means to reduce pollutants to the air, water and land as well as prevent potential negative impact on the environment.
- Promote environmental awareness to the employees with proper training and publicity.
- Encourage our suppliers and contractors participation to meet our EMS requirement.
- Provide environmental policy to the public upon formal request.

The management will conduct periodic review of this policy and monitor the progress of the environmental management programme to ensure the compliance of this policy.



STRATE

C H A I R M A N ' S S T A T E M E N T

On behalf of the Board of Directors, I am pleased to present the Thirteenth Annual Report and Audited Accounts of Unisem (M) Berhad for the financial year ended 31 December 2001.

DEAR SHAREHOLDERS,

THE OPERATING ENVIRONMENT The year 2001 was a challenging one for the semiconductor industry. According to *Semiconductor Industry Association (SIA)*, worldwide sales of semiconductors in 2001 declined by 46.8% - the worst ever in the history of the industry. This was generally due to an inventory overhang, excess manufacturing capacity and the slowing of the global economy, particularly that of the US. The slowdown was more precipitous and sustained than anticipated by industry players across the globe.

FINANCIAL OVERVIEW The Company was severely impacted by the industry downturn and we registered for the first time in many years a decline in sales and profits. In 2001, the Company achieved revenues of RM187.9 million as against RM403.9 million in the preceding year, representing a decline of 53.5%. Profit before tax declined from RM167.2 million in 2000 to a loss before tax of RM1.1 million in 2001. Net profit declined from RM146.8 million to a net loss of RM10.0 million.

The significant decline in turnover was due to the decelerating worldwide demand for personal computers, telecommunication equipment and electronic appliances. Profits and margins were further impacted by the decline in capacity utilisation as the Company reduced its manufacturing activities in response to the decline in business volume.

G I E S

To achieve total customer satisfaction.

Right from the beginning of the year, the Company took measures to contain costs and to re-align the cost structure with the prevailing business volume. Some of the measures included: freezing of all capital expenditure and employee recruitment, halting over-time and reducing workdays, instituting employee no-pay leave etc.

Throughout the year, manufacturing operations and processes were streamlined resulting in significant improvements in cycle time, yield and efficiency. These measures taken resulted in the Company remaining EBITDA positive despite a 53.5% decline in turnover.

The Company's balance sheet remains strong. Funds generated internally from the operations during the year amounted to RM88.4 million. Capital expenditure of approximately RM107.2 million was incurred during the year. This arose from equipment committed to before the freeze, capital work-in-progress in relation to the construction and facilitation of the Phase 3 building, and equipment acquired to augment final test capabilities. The Company remains entirely debt-free. Cash reserves of the Company decreased from RM133.6 million in 2000 to RM24.9 million after a significant reduction in its payables on capital equipment.

OUTLOOK AND PROSPECTS The general consensus in the industry is that the worst of the downturn in the semiconductor industry is over. However the uncertain global economic environment and low visibility continue to obscure the immediate business outlook. A significant improvement in worldwide semiconductor sales is expected only in the second half of the year.



FULL TURNKEY



Outsourcing by multinational integrated device manufacturers (IDMs) and other semiconductor players to IC packaging subcontract-houses such as Unisem is expected to be more pronounced. When demand surges, IDMs will be more likely to outsource their capacity requirements as they have substantially scaled down their manufacturing capacity due to the recent downturn. Unisem is well positioned to reap the benefits of this outsourcing trend and an industry upturn with the ready capacity and resources that it has and having emerged from the recent meltdown relatively unscathed.

In the longer term the demand for semiconductors and integrated circuits will continue to grow as their applications become more pervasive. The Company's future prospects remain bright. For the coming financial year, the Board of Directors anticipates that business conditions will improve significantly.



DIVIDENDS I am pleased to inform that the Board of Directors is recommending a final tax-exempt dividend of 10% amounting to RM14.3 million. This is subject to the approval of the shareholders at the forthcoming Annual General Meeting.



SOLUTIONS

ACKNOWLEDGEMENTS On behalf of the Board of Directors, I would like to welcome Mr Ang Chye Hock who joined us in April 2001 as the President/Chief Operating Officer of the plant. As a key member of the management team, Mr Ang will play an important role in Unisem's growth in the years ahead.

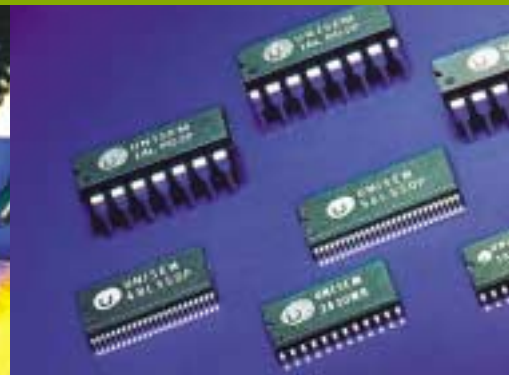
I would like to thank all the governmental authorities, our contractors, vendors, bankers and customers for their assistance and support. To all our employees, our deep appreciation for their efforts, dedication and loyalty especially in this challenging year.

Last, but not least, I thank my fellow colleagues on the Board for their counsel and support throughout the year.

On behalf of the Board

JOHN CHIA SIN TET

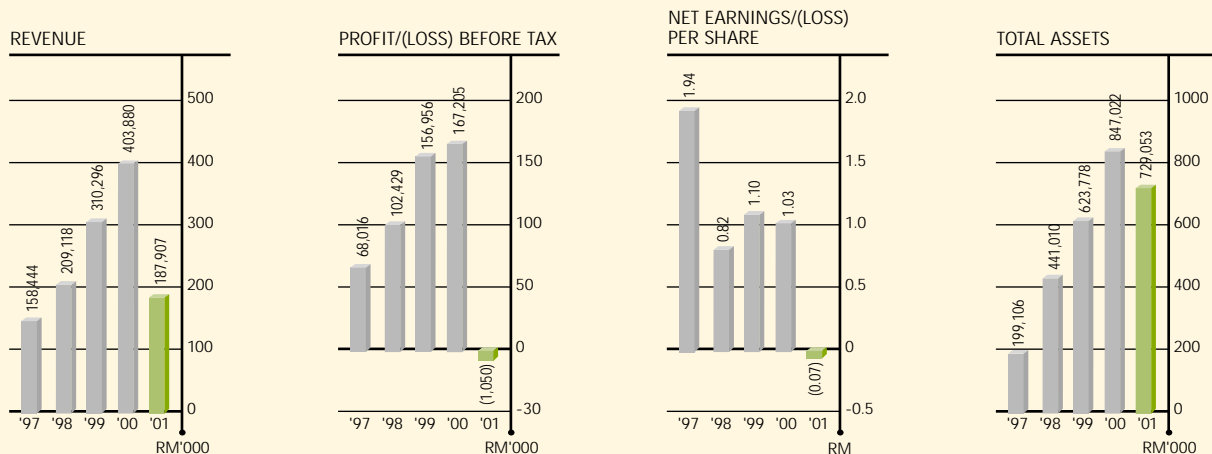
Chairman



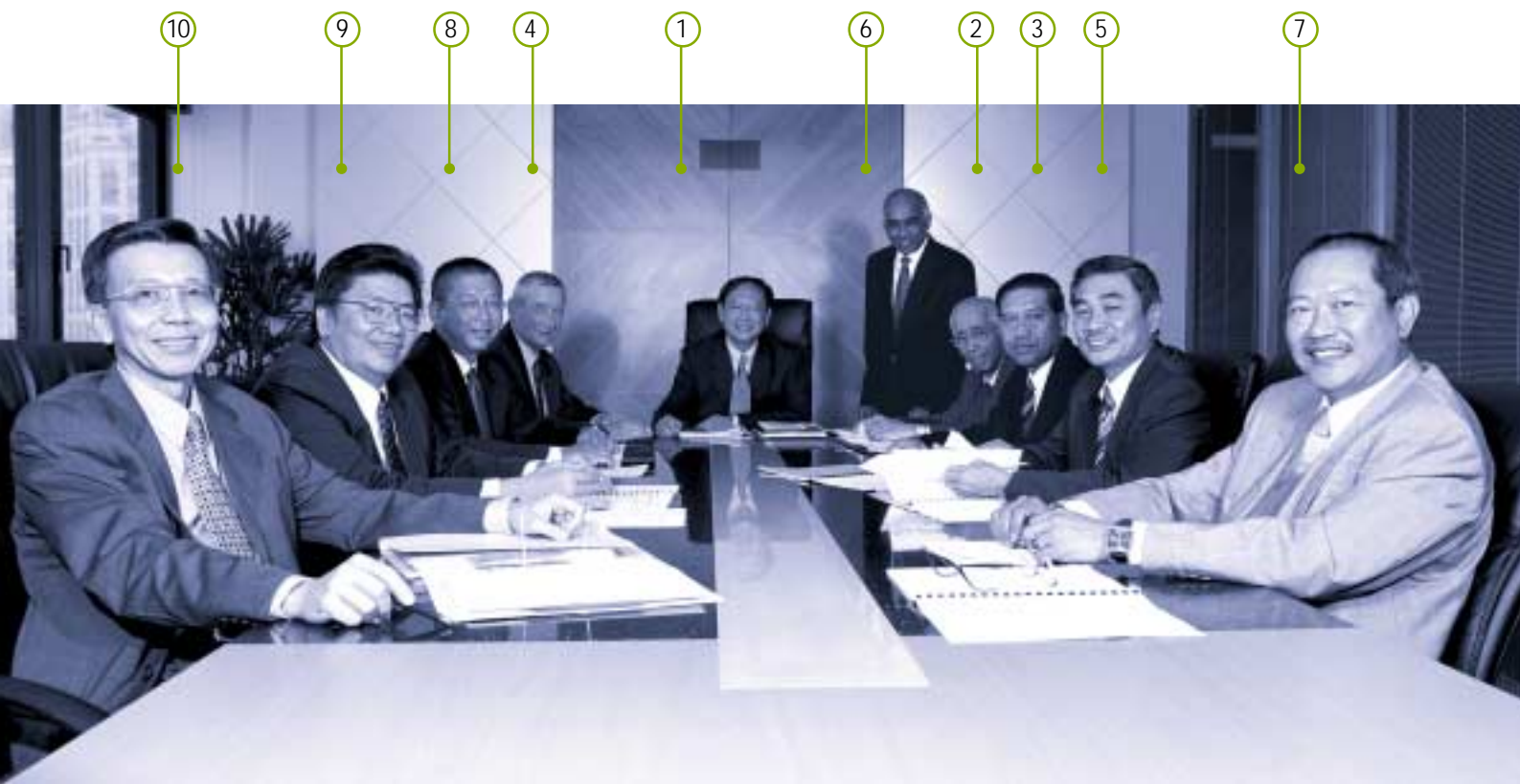
FIVE - YEAR FINANCIAL HIGHLIGHTS

	1997 RM'000	1998 RM'000	1999 RM'000	Group 2000 RM'000	Group 2001 RM'000
INCOME STATEMENTS					
Revenue	158,444	209,118	310,296	403,880	187,907
Profit/(loss) before tax	68,016	102,429	156,956	167,205	(1,057)
Income tax expense	(290)	(2,921)	1	(20,393)	(8,996)
Profit/(loss) after tax	67,726	99,508	156,957	146,812	(10,053)
BALANCE SHEETS					
Property, Plant And Equipment – Net	122,775	143,457	249,429	594,501	645,245
Current Assets	76,331	297,553	374,349	252,521	83,808
Total Assets	199,106	441,010	623,778	847,022	729,053
Share Capital	35,000	143,000	143,000	143,000	143,009
Reserves	129,277	252,017	380,375	491,436	467,136
Current Liabilities	34,829	45,993	100,403	212,586	110,408
Deferred Tax Liability	-	-	-	-	8,500
KEY FINANCIAL RATIOS					
Net Earnings/(loss) Per Share (RM)	1.94	0.82	1.10	1.03	(0.07)
Net Tangible Assets Per Share (RM)	4.69	2.76	3.66	4.44	4.27

FIVE - YEAR SUMMARY



BOARD OF DIRECTORS



1. Mr John Chia Sin Tet
(Chairman / Managing Director)
2. Y. Bhg. Tan Sri Dato' Dr. Mohd. Rashdan bin Haji Baba
(Independent Director)
3. Y. Bhg. Tan Sri Dato' Samshuri bin Arshad
(Independent Director)
4. Mr Colin Garfield MacDonald
(Non-Executive Director)
5. Mr Yen Woon @ Low Sau Chee
(Non-Executive Director)
6. Mr Sundra Moorthi s/o V.M. Krishnasamy
(Non-Executive Director)
7. Mr Francis Chia Mong Tet
(Non-Executive Director)
8. Mr Tee Yee Loh
(Non-Executive Director)
9. Mr Chua Khing Chiew
(Alternate to Mr Yen Woon @ Low Sau Chee)
10. Mr Chua Heng Fatt
(Company Secretary)
11. Ms Chin Hock Yee - *Not in the picture*
(Company Secretary)

FOUNDA

D I R E C T O R S ' P R O F I L E

John Chia Sin Tet
(Chairman / Managing Director)
(Malaysian)

Mr John Chia Sin Tet, aged 52, was appointed Chairman of the Company on 13 June 1991 and the Managing Director on 11 March 1998. He is also the Chairman of the Remuneration Committee.

Mr John Chia Sin Tet is a Barrister at Law and a Member of the Lincoln's Inn, United Kingdom. From 1973 to 1986, he was a partner in a firm of Advocates and Solicitors. He was a director of four public listed companies from 1982 to 1993.

He is currently an independent non-executive Director of Far East Holdings Berhad.

Mr John Chia Sin Tet is the spouse to Mdm Soo Yut Kuan and a brother to Mr Francis Chia Mong Tet.

**Tan Sri Dato' Dr. Mohd.
Rashdan bin Haji Baba**
(Independent Director)
(Malaysian)

Y. Bhg. Tan Sri Dato' Dr Mohd. Rashdan bin Haji Baba, aged 66, was appointed to the Board of Unisem on 26 March 1998 as an Independent Director. He is also the Chairman of the Audit Committee and Nomination Committee.

Y. Bhg Tan Sri Dato' Dr Mohd. Rashdan holds a Bachelor of Science degree from the University of Reading, United Kingdom and a Doctorate (PhD) from the University of Leeds, United Kingdom. He also completed the 83rd Advanced Management Programme at Harvard University, USA. Y. Bhg Tan Sri Dato' Dr Mohd. Rashdan also received an honorary Doctor of Science (DSc) from the University of Reading, United Kingdom and an honorary Doctor of Laws (LLD) from the University of Leeds, United Kingdom.

T I O N

*The source of our core
values and principles.*

Y. Bhg. Tan Sri Dato' Dr Mohd. Rashdan was also the Executive Chairman of Telekom Malaysia Berhad from 1987 to 1995. Prior to this, he was the Executive Chairman of Kumpulan Guthrie Berhad and sat on the boards of several subsidiary companies of Kumpulan Guthrie Group from 1982 to 1987. He was the founding Vice-Chancellor of Universiti Kebangsaan Malaysia from 1969 to 1971 and Universiti Pertanian Malaysia from 1971 to 1982.

Currently, Y. Bhg. Tan Sri Dato' Dr Mohd. Rashdan is the Chairman of Computer Systems Advisers (M) Berhad, an appointment which he has held since 1995. He is an independent non-executive director of Arab-Malaysian Finance Bhd, AMMB Holdings Bhd, Arab-Malaysian Corporation Berhad and Far East Holdings Berhad. Y. Bhg. Tan Sri Dato' Dr Mohd. Rashdan also sits on the board of Arab-Malaysian Bank Berhad and Arab-Malaysian Merchant Bank Berhad.

**Tan Sri Dato' Samshuri
bin Arshad**
(Independent Director)
(Malaysian)

Y. Bhg. Tan Sri Dato' Samshuri bin Arshad, aged 59, was appointed to the Board of Unisem on 26 March 1998 as an Independent Director. He is also a member of the Audit Committee and Nomination Committee.

He has been with the Polis DiRaja Malaysia for over 33 years, from 1963 to May 1997 and retired as the Deputy Inspector-General.

Since 1997, Y. Bhg. Tan Sri Dato' Samshuri has been the Chairman of Aokam Perdana Berhad. In 1999 he was appointed a director and subsequently in 2001 the non-executive chairman of Avenue Asset Berhad.

Colin Garfield Macdonald
(Non-Executive Director)
(Canadian)

Mr Colin Garfield MacDonald, aged 60, who was appointed to the Board of Unisem on 18 July 1991, is one of the founder members of Unisem. He holds a Certified General Accounting degree from the University of British Columbia, Canada. He is also a member of the Remuneration Committee.

Before his retirement in end September 2000, Mr Colin Garfield MacDonald was the President/Chief Executive Office of Unisem. He began his career in 1958 as an Accountant with a Canadian Bank and has held several positions within the Bank from 1958 to 1965. From 1965 to 1974, he held several accounting positions in various manufacturing companies. In 1974, he joined North American Philips, a company principally involved in the manufacturing of electronic and electrical products, as Financial Controller for the audio video division. In 1976, he was appointed as Financial Controller in Signetics Corporation, a subsidiary of North American Philips, principally involved in the manufacturing of electronic and electrical products. From 1986 to 1991 he was appointed managing director of a Malaysian company which is principally involved in the manufacture of semiconductor devices.

Yen Woon @ Low Sau Chee
(Non-Executive Director)
(Malaysian)

Mr Yen Woon @ Low Sau Chee, aged 54, was appointed to the Board of Unisem on 10 July 1991. He is also a member of the Remuneration Committee.

Mr Yen Woon has more than 15 years of experience in the timber and plantation business. He sits on the boards of several private limited companies.

Sundra Moorthi
s/o V.M. Krishnasamy
(Non-Executive Director)
(Malaysian)

Mr Sundra Moorthi s/o V.M. Krishnasamy, aged 58, was appointed to the Board on 13 June 1991. He graduated with a Bachelor of Arts degree from University Malaya. He is a Barrister at Law and a Member of the Grays Inn, United Kingdom. Mr Sundra Moorthi is also a member of the Remuneration Committee.

A lawyer by profession, Mr Sundra Moorthi is a senior partner of a legal firm in Kuala Lumpur. He was called to the Bar of England & Wales in 1969 and subsequently called to the Malaysian Bar in 1971. Mr Sundra Moorthi has been a director of several public listed companies over the past 20 years.

Francis Chia Mong Tet
(Non-Executive Director)
(Malaysian)

Mr Francis Chia Mong Tet, aged 50, was appointed to the Board on 19 June 1989. He is one of the founder members of Unisem. He is also a member of the Audit Committee and Nomination Committee.

Mr Francis Chia Mong Tet is a Fellow of the Institute of Chartered Accountants in England and Wales and is also a member of the Malaysian Institute of Accountants. He was with an international accounting firm from 1976 to 1979. In 1980, he started his own accounting practice in Seremban. He also sits on the boards of several private limited companies.

Mr Francis Chia Mong Tet is a brother to Mr John Chia Sin Tet.

Tee Yee Loh
(Non-Executive Director)
(Malaysian)

Mr Tee Yee Loh, aged 47, was appointed to the Board of Unisem on 13 June 1991. He is one of the founder members of Unisem. He holds a Diploma in Mechanical Engineering from Federal Institute of Technology, Selangor Darul Ehsan. He is also a member of the Remuneration Committee.

Mr Tee Yee Loh carries with him more than 16 years of experience in the contamination control technology which includes the design and building of clean room facilities, process integration and facilitation of microelectronic manufacturing factories. He also sits on the boards of several private limited companies.

Chua Khing Chiew
(Alternate Director to
Yen Woon @ Low Sau Chee)
(Malaysian)

Mr Chua Khing Chiew, aged 44, was appointed Alternate Director to Mr Yen Woon @ Low Sau Chee on 10 July 1991. He sits on the boards of several private limited companies.

Save as disclosed in Note 13 under Notes to Financial Statements none of the Directors has any conflict of interest with the Company. None of the Directors has been convicted of any offence other than a traffic offence within the last ten years.

A U D I T C O M M I T T E E



1. Y. Bhg. Tan Sri Dato' Dr. Mohd Rashdan Bin Haji Baba (*Chairman of the Committee*)
2. Y. Bhg. Tan Sri Dato' Samshuri Bin Arshad (*Member*)
3. Mr Francis Chia Mong Tet (*Member*)

SENIOR MANAGEMENT



1. Mr John Chia Sin Tet (*Chairman / Managing Director*)
2. Mr Ang Chye Hock (*President / Chief Operating Officer*)
3. Mr Ho Choon Seng (*Vice President, Manufacturing Operations*)
4. Mr John Lee Chay Chye (*Vice President, Marketing & Business Development*)
5. Mr William Loh Chee Cheong (*Vice President, Finance/Administration*)
6. Mr Yap Kam Weng (*Senior Manager, Production Control*)

7. Ms Ruth Chin Hock Yee (*Senior Manager, Corporate Affairs*)
8. Mr Lai Wing Hong (*Senior Manager, Reliability & Quality Assurance*)
9. Mr Wong Hoe Cheong (*Senior Manager, Final Test Operation*)
10. Mr Cheng Kee Leang (*Senior Manager, Facility*)
11. Mr Stephen Chua Tuck Choy (*Senior Manager, Human Resources*)

M A N A G E M E N T T E A M



From left to right

1st row : Mr Ooi See Chee, Mr Cheah Chee Kong, Mr Tham Eng Huak, Ms Jolene Lim Koon Hoon, Mr William Ng Wah Lum

2nd row : Mr Tan Chen Hung, Mr Loo Wai Kong, Mr Oon Hoe Aik, Mr Ng Choo Kit, Mr Kong Meng Yee, Mr Lee Yoke Foo,
Mr Wong Yoke Yen

3rd row : Mr Chai Chan Wah, Mr Chew Kheong Onn, Mr Lei Fook Choy, Mr Lee Thiam Siew, Mr Ho Pin Shin,
Mr Soo Wai Seng, Mr Choo Wah Yeen

4th row : Mr Wong Siew Boon, Mr Lam Kok Meng, Mr Liaw Teck Seong, Mr Ngiam Tee Yip, Mr Khoo Chung Shin,
Mr Chew Mun Kit, Mr Lee Fook Fatt

Not in picture: Mr Yeoh Lye Heng

STATEMENT ON CORPORATE GOVERNANCE

The Code:

Pursuant to paragraph 15.26 of the Kuala Lumpur Stock Exchange ("KLSE" or "the Exchange") Listing Requirements, a public listed company on the KLSE with financial year ending after 30 June 2001 is required to disclose in its annual report a narrative statements of how it has applied the Principles of Corporate Governance as set out in Part 1 of the Malaysian Code on Corporate Governance ("the Code") and the extent of its compliance with the best practices as stipulated in the Code.

The Board of Directors supports the objectives of the Code and also acknowledges its role in protect and enhance shareholders' value. The Directors believe that good corporate governance results in quantifiable long-term success and creation of long-term shareholders' value as well as benefits for all other stakeholders. Hence, the Board affirms its policy of adhering to the spirit of the Code.

Steps are currently taken to implement the principles and best practices set out in the Code and in the revamped Listing Requirements of the Exchange.

Set out below is a description of how the Company has applied the Principles of Corporate Governance as set out in the Code throughout the financial year ended 31 December 2001:

PRINCIPLES OF CORPORATE GOVERNANCE

1. THE BOARD OF DIRECTORS (The Board)

There are presently 8 Board members in Unisem (M) Berhad comprising mainly one executive and 7 non-executive directors. The members of the Board possess a wealth of experience in the semiconductor and other industries. 6 members have been with the Company for more than 10 years. The profiles of the Directors are provided in pages 11 to 14 of the Annual Report. All these skills and experience enable the Board to effectively lead and control the Company.

Other than the 3 representatives of the major shareholder, the Board consists of a number of Directors which fairly reflects the investment in the Company by shareholders other than the major shareholder. Due to the active participation of all the Directors including the 2 independent non-executive directors, no individual or small group of individuals can dominate the Board's decision making process.

At Unisem, the roles of the Chairman and Managing Director are combined. The Chairman/Managing Director is primarily responsible for the effective functioning of the Board and related corporate affairs and for formulating general Company policies and making strategic business decisions sanctioned by the Board of Directors. He is supported by the President/Chief Operating Officer who is responsible for the execution of these decisions and policies and the day to day operations at the plant. Hence, there is a clear and defined division of responsibilities between the Chairman/Managing Director and the President/Chief Operating Officer of the Company. The presence of the non-executive directors and the independent directors on the Board, ensures that no individual has unrestricted power or influence over any board decision. The practice of a combined role of a Chairman and Chief Executive is common in the semiconductor industry and among multinational corporations.

The Board of Directors has the overall responsibility for the performance of the Group by maintaining full and effective control over strategic, financial, operational, compliance and governance issues. The following are specific areas of responsibilities of the Board:

- Reviewing and adopting a strategic plan;
- Overseeing the conduct and management of the Company's business;
- Identifying principal risks and ensure the implementation of appropriate systems for risk management;
- Succession planning, including appointing, training, fixing the compensation of and where appropriate replacing senior management;
- Developing and implementing an investor relations programme or shareholder communications policy;
- Reviewing the adequacy and the integrity of the internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Board Meetings

A total of 6 Board meetings were held during the financial year ended 31 December 2001. The attendance of each Director to the Board meetings held during the year are summarized as follows:

Name	Number of Meetings Attended
Mr John Chia Sin Tet	6
Y. Bhg. Tan Sri Dato' Dr. Mohd. Rashdan bin Haji Baba	5
Y. Bhg. Tan Sri Dato' Samshuri bin Arshad	6
Mr Colin Garfield MacDonald	6
Mr Yen Woon @ Low Sau Chee	6
Mr Sundra Moorthi s/o V.M. Krishnasamy	6
Mr Francis Chia Mong Tet	6
Mr Tee Yee Loh	6

The Board has committed to meet at least 4 times in a financial year, usually at the end of each financial quarter before the Quarterly Announcement to the Exchange. Board meetings will be convened as and when the need arises.

During the financial year, the Board also resolved and approved the Company's matters through circular resolutions. Board members are provided sufficient detailed information for approvals via circular resolutions and are given full access to senior management to clarify any matters arising. These circular resolutions related mainly to procedural or administrative matters previously deliberated at a Board meeting.

Supply of Information

At least 7 days prior to Board meetings, all Directors were provided with the necessary information which often includes the monthly management accounts, manufacturing performance and marketing reports, annual budget and business plans, updates on statutory regulations and requirements and other administrative matters. This is to enable the Directors to participate actively in the overall management of the Company and to discharge their duties and responsibilities.

The Directors have access to the advice and services of the Company Secretaries and other professionals so as to ensure that Board meeting procedures are followed and that applicable rules and regulations are complied with.

The Memorandum and Articles of Association of the Company provide for the Chairman to have the casting vote in the event of an equality of votes arising over an issue in question.

Appointment and Re-election of Directors

In accordance with the Memorandum and Articles of Association of the Company, one-third of the Directors retire from office every year at the Annual General Meeting and subsequently offer themselves for re-election. Directors who are appointed by the Board are subject to election by the shareholders at the Annual General Meeting held following their appointments.

Nomination Committee

All Directors are presently involved in the process of assessing existing Directors and identifying, nominating, recruiting, appointing and orientating new Directors. The Board has on 12 December 2001 set up a Nomination Committee comprising wholly of Non-Executive Directors, a majority of whom are independent directors. The Nomination Committee is empowered with the following specific tasks:

- recommend candidates to the Board for directorships;
- assess the effectiveness of the Board as a whole and the committees of the Board, and the contribution of each individual Director;
- consider, in making recommendations, candidates proposed by the Managing Director for directorships, nomination by any senior executive, Director or shareholder; and
- recommend to the Board, Directors to fill the seats on board committees.

The following Directors sit on the Nomination Committee:

- i) Y. Bhg. Tan Sri Dato' Dr. Mohd. Rashdan bin Haji Baba (*Chairman*)
- ii) Y. Bhg. Tan Sri Dato' Samshuri bin Arshad
- iii) Mr Francis Chia Mong Tet

The Board, through the Nomination Committee, reviews annually its required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board.

As an integral element of the process of appointing new Directors, the Nomination Committee ensures that new recruits to the Board are provided appropriate orientation and education programme. The training needs of Directors are reviewed on a regular basis.

During the financial year, all the Directors have attended and successfully completed the Mandatory Accreditation Programme (MAP) conducted by the Research Institute of Investment Analysis Malaysia, an affiliate company of the Exchange.

2. DIRECTORS' REMUNERATION

The Board as a whole determines the remuneration of each Director. The Executive Directors do not participate in decisions regarding their own remuneration packages. Directors' fees are disclosed in the annual report and approved by the shareholders at the Annual General Meeting.

Aggregate remuneration of Directors during the financial year ended 31 December 2001 can be categorised into the following components:

Category	Director's Fees (RM)	Salaries (RM)	Bonus (RM)	Others (RM)	Total (RM)
Executive Director	121,500	616,628	-	88,600	826,728
Non-Executive Director	546,300	-	-	-	546,300

Directors' remunerations are broadly categorised into the following bands:

Range of remuneration	Number of Directors	
	Executive Director	Non-Executive Directors
Below RM50,000	-	-
RM50,001 to RM100,000	-	7
RM100,001 to RM800,000	-	-
RM800,001 to RM850,000	1	-

Remuneration Committee

The remuneration committee was formed on 12 December 2001. It consists of mainly Non-Executive Directors and is responsible for setting the policy framework and for making recommendations to the Board on all elements of the remuneration and other terms of employment of Executive Directors and senior management.

The following Directors sit on the Remuneration Committee:

- i) Mr John Chia Sin Tet (*Chairman*)
- ii) Mr Colin Garfield MacDonald
- iii) Mr Yen Woon @ Low Sau Chee
- iv) Mr Sundra Moorthi s/o V.M. Krishnasamy
- v) Mr Tee Yee Loh

Executive Director will abstain from the deliberations and voting decisions in respect of his remuneration. Non-Executive Directors' remuneration will be a matter to be decided by the Board as a whole with the Director concerned abstaining from deliberations and voting decisions in respect of his individual remuneration. The Executive Director plays no part in decisions on his own remuneration. The determination of remuneration packages of Non-Executive Directors, is a matter for the Board as a whole.

3. SHAREHOLDERS

During the financial year the Company aimed to keep its shareholders and interested public informed of the developments and performances of the Company and the industry, through the following channel of communications:

- distribution of annual reports and circulars to shareholders;
- timely quarterly results announcements and various disclosures and announcements made to the Exchange and posted on the Company's website at www.unisem.com.my;
- participation at the Exchange Investors' Week event;
- meeting with members of the press after general meetings;
- quarterly analyst briefing after release of the quarterly financial results;
- plant visits, discussions or telephone conference with fund managers and analysts at their request;
- participate in investors conferences organised by local and international stockbroking houses.

We encourage all shareholders to attend the Company's Annual General Meeting and to participate in the proceedings. Shareholders are given the opportunity to ask questions on the business and financial performance of the Company. Notices of Annual and Extraordinary General Meetings of the Company and related papers are distributed to shareholders within a reasonable and sufficient time frame. Adequate time is given during the Annual and Extraordinary General Meetings to allow shareholders to seek clarifications or ask questions on pertinent and relevant matters.

The Company values dialogues with its shareholders, potential investors, institutional investors and analyst and is willing to explain or further clarify any information already disclosed in its annual report or KLSE announcement. The Board has also identified Y. Bhg. Tan Sri Dato' Dr Mohd Rashdan bin Haji Baba, a senior independent non-executive director, to answer any queries or clarify any matters concerning the Company. Y. Bhg Tan Sri Dato' Dr Mohd Rashdan can be contacted at the following correspondence address:

Letter Box #95
9th Floor, UBN Tower
No. 10, Jalan P Ramlee
50250 Kuala Lumpur
Tel : (603) 2072 3760
Fax: (603) 2072 4018

4. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to present a balanced, clear and meaningful assessment of the Company's financial positions and prospects in all their reports to the shareholders, investors and regulatory authorities. This assessment is primarily provided in the Annual Report through the Chairman's Statement and the audited financial statements.

The quarterly results announcements and press releases on these results also reflect the Board's commitment to give regular updated assessments on the Company's performance.

Audit Committee

The members of the Audit Committee comprise of the two independent directors and a non-executive director of the Board.

The Audit Committee meets on a quarterly basis. Additional meetings are held as and when required. During the year ended 31 December 2001, the Audit Committee met a total of six times.

The Audit Committee meeting is always held before the Board meeting. This is to ensure that all critical issues highlighted by the Audit Committee can be brought to the attention of the Board in a timely manner. Senior management is invited to attend Audit Committee meetings when deemed necessary by the Audit Committee for the purposes of briefing the Committee on relevant matters.

The Audit Committee Report and terms of reference are set out on pages 29 to 35.

Internal Control

The Board acknowledges that it is responsible for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines.

Key elements of the Company's systems of internal control are:

- Operations Manuals and Guidelines issued and updated from time to time;
- Monitoring of monthly results against the comprehensive annual budgets and business plans prepared by the business units; and
- Regular internal audit on the business units by independent professional services firm together with the external auditors' reports provide reasonable assurance to the Board that the internal control system of the Company are properly in place.

The Company's operations involve the acceptance and management of a wide range of risks. The nature of these risks means that events may occur which could give rise to unanticipated or unavoidable losses. The Company's systems of internal controls are designed to provide reasonable but not absolute assurance against the risks of material errors, fraud or losses occurring. It is possible that internal control may be circumvented or overridden. Furthermore, because of changing circumstances and conditions, the effectiveness of an internal control system may vary over time. The rationale of the system of internal controls is to enable the Company to achieve its corporate objectives within an acceptable risk profile and cannot be expected to eliminate all risks.

Internal Audit

The Board outsourced its internal audit functions to a professional services firm, which assists the Audit Committee in discharging its duties and responsibilities. The internal auditors' role is to provide independent and objective reports on the organisation's management, records, accounting policies and controls to the Board. The internal audits include evaluation of the processes by which significant risks are identified, assessed and managed. Such audits also ensure instituted controls are appropriate, effectively applied and achieve acceptable risk exposures consistent with the Company's risk management policy.

Relationship with the external auditors

The Company has through the Audit Committee established a transparent and appropriate relationship with the external auditors. The role of the Audit Committee in connection with its relationship with the external auditors is demonstrated in the Audit Committee Report under "Specific Duties" and "Activities of the Audit Committee" stated on pages 31 and 33 of the Annual Report.

Directors' Responsibility Statement on Annual Audited Financial Statements

The Directors are responsible for preparing the annual audited financial statements and the Board ensures that the financial statements and other financial reports of the Company are prepared in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

5. ADDITIONAL COMPLIANCE INFORMATION

To comply with the KLSE Listing Requirements, the following additional information is provided:

During the financial year under review,

(i) Share buybacks

The Company does not have a share buyback programme in place.

(ii) Options, warrants or convertible securities

A total of 9,000 options were exercised during the financial year in respect of the Company's employee share option scheme (ESOS).

The Company did not issue any convertible securities or warrants.

(iii) American Depositary Receipt (ADR) or Global Depositary Receipt (GDR) programme

The Company does not have an ADR or GDR programme in place.

(iv) Imposition of sanctions/penalties

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

(v) *Non-audit fees*

There were no non-audit fees paid to the external auditors in the financial year.

(vi) *Profit estimate, forecast or projection*

There were no profit estimates, forecasts or projections or unaudited results released which differ by 10 per cent or more from the audited results.

(vii) Profit guarantee

There were no profit guarantees given in respect of the Company.

(viii) Material contracts or loans

There were no material contracts or loans between the Company and its subsidiary that involve Directors' or major shareholders' interests.

(ix) Recurrent related party transactions statement

The Company did not incur any significant recurrent related party transactions of a revenue/ trading nature during the financial year ended 31 December 2001.

(x) Revaluation policy on landed properties

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

BEST PRACTICES OF CORPORATE GOVERNANCE

The Company has complied with the Best Practices of Corporate Governance as set out in the Code throughout the financial year ended 31 December 2001 with the exception of the following:

Board Composition - a minimum of 1/3 of the Board to be Independent Directors

There are presently 8 Board members in Unisem (M) Berhad, 2 of whom are independent non-executive directors. The Board has been working on appointing an additional independent director since the changes to the KLSE Listing Requirements were announced, but has been unable to identify a suitable candidate. The Company has applied to the Exchange for an extension on the deadline (from 31 March 2002 to 30 September 2002) to comply with this requirement.

A U D I T C O M M I T T E E R E P O R T

MEMBERS OF THE AUDIT COMMITTEE

The Audit Committee consists of:

Name	Designation	Directorship
Y. Bhg Tan Sri Dato' Dr. Mohd. Rashdan bin Haji Baba	Chairman	Independent Non-Executive Director
Y. Bhg Tan Sri Dato' Samshuri bin Arshad	Member	Independent Non-Executive Director
Mr Francis Chia Mong Tet	Member	Non-Executive Director

MEETINGS AND ATTENDANCE

During the year ended 31 December 2001, the Committee held six meetings. The details of attendance of the Committee members are as follows:

Name of Committee Member	No. of meetings attended
Y. Bhg. Tan Sri Dato' Dr. Mohd. Rashdan bin Haji Baba	5
Y. Bhg. Tan Sri Dato' Samshuri bin Arshad	6
Mr Francis Chia Mong Tet	6

TERMS OF REFERENCE

1. Composition

- The Committee shall be appointed by the Board from amongst the Directors and shall consist of at least three (3) members but not more than five (5) members.
- The majority of the members including the Chairman of the Committee shall be Independent Directors as defined in Chapter 1 of the Listing Requirements of the Kuala Lumpur Stock Exchange.
- The members of the Committee shall elect a Chairman from amongst their number.
- The Committee shall include at least one person who is a member of the Malaysian Institute of Accountants or who must have at least 3 years' working experience and have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967 or is a member of one of the Associations specified in Part II of the 1st Schedule of the Accountants Act, 1967.

- e. No alternate Directors shall be appointed as a member of the Committee.
- f. If a member of an Audit Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall, within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

2. Authority

- a. The Audit Committee shall be granted the authority to investigate any activity of the Company and its subsidiaries and all employees shall be directed to co-operate as requested by members of the Committee.
- b. The Committee shall be empowered to retain persons having special competence as necessary to assist the Committee in fulfilling its responsibilities.

3. Responsibilities

- a. The Audit Committee shall serve as a focal point for communications between Non-Committee Directors, the independent auditors, internal auditors and the Company's management, as their duties relate to financial accounting, reporting; and controls.
- b. The Audit Committee shall assist the Board of Directors in fulfilling its fiduciary responsibilities as to accounting policies and reporting practices of the Company and its subsidiaries and the sufficiency of auditing relating thereto.
- c. The Audit Committee shall be the Board's principal agent in assuring the independence of the Company's independent auditors, the integrity of management, and the adequacy of disclosures to stockholders. The opportunity for the independent auditors to meet with the entire Board of Directors as needed is not to be restricted, however.

4. Meeting

- a. The Audit Committee shall meet at least three (3) times per year, and as many times as the Committee deems necessary.
- b. The quorum for the Audit Committee shall be two (2) members, the majority of whom must be Independent Directors.
- c. As necessary or desirable, the Chairman may request that members of management, the internal auditors and representatives of the independent auditors be present at meetings of the Committee.
- d. The Company Secretary of the Company shall be present at all meetings to record minutes.
- e. Minutes of each meeting shall be prepared and sent to Committee members, and the Company's Directors who are not members of the Committee. A copy of the minutes shall be filed with the Company.

5. Specific Duties

The Audit Committee shall be guided by Chapter 15 Part C of the Kuala Lumpur Stock Exchange Listing Requirements and in particular shall:

- a. Inform the independent auditors and management that the independent auditors and the Committee may communicate with each other at all times and the independent auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee; and the Committee Chairman may call a meeting whenever he deems it necessary or upon the request of the independent auditors.
- b. Review with the Company's management, independent auditors and the internal auditors, the Company's general policies and procedures to reasonably assure the adequacy of internal accounting and financial reporting controls.
- c. Have familiarity, through the individual efforts of its members, with the accounting and reporting principles and practices applied by the Company in preparing its financial statements. Further, the Committee shall make, or cause to be made, all necessary inquiries to management and the independent auditors concerning established standards of corporate conduct and performance, and deviations therefrom.

- d. Review, prior to the annual audit, the scope and general extent of the independent auditors' audit examination, including their engagement letter. The auditors' fees are to be arranged with management, and annually summarised for Committee review. The Committee's review should entail an understanding from the independent auditors of the factors considered by the auditors in determining his audit scope, including:
- Industry and business risk and characteristics of the Company.
 - External reporting requirements.
 - Materiality of the various segments of the Company's consolidated and non-consolidated activities.
 - Quality of internal accounting controls.
 - Extent of involvement of internal audit in the audit examination.
 - Other areas to be covered during the audit engagement.
- e. Review the extent of non-audit services provided by the independent auditors in relation to the objectivity needed in the audit.
- f. Review with management and the independent auditors, upon completion of their audit, financial results for the year, prior to their submission to the Board and release to the public. This review shall encompass:
- The Company's annual report to shareholders including the financial statements, and supplemental disclosures required by generally accepted accounting principles the International Accounting Standards, and the approved accounting standards of the Malaysian Accounting Standard Board.
 - Significant transactions not a normal part of the Company's operations.
 - Changes, if any, during the year in the Company's accounting principles or their applications.
 - Significant adjustments proposed by the independent auditors.
- g. Evaluate the co-operation received by the independent auditors during the audit examination, including their access to all requested records, data and information. Also, elicit the comments of management regarding the responsiveness of the independent auditors to the Company's needs. Inquire of the independent auditors whether there have been any disagreements with management which if not satisfactorily resolved would have caused them to issue a non-standard report on the Company's financial statements.

- h. Discuss with the independent auditors the quality of the Company's financial and accounting personnel, and any relevant recommendations which the independent auditors may have (including those in their "letter of comments and recommendations"). Topics to be considered during this discussion include improving internal financial controls, the audit plan, the audit report, the selection of accounting principles, any related party transaction that may arise within the Company and management reporting system. Review written responses of management to "letter of comments and recommendations" from the independent auditors.
- i. Discuss with Company management the scope and quality of internal accounting and financial reporting controls in effect.
- j. Inform the Board of Directors, through minutes and special presentations as necessary, of significant developments in the course of performing the above duties.
- k. Recommend to the Board of Directors any appropriate extension or changes in the duties of the Committee.
- l. Recommend to the Board of Directors the retention or non-retention of the independent auditors, and provide a written summary of the basis for the recommendations.

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met six times during the financial year ended 31 December 2001.

The activities of the Audit Committee for the financial year were summarised as follows:

- a. The Committee reviewed with the Company's management and the independent auditors the Company's general policies and procedures to reasonably assure the adequacy of internal accounting and financial reporting controls.
- b. The Committee reviewed with management the quarterly financial results, prior to their submission to the Board and release to the public.

- c. The Committee reviewed with management and the external auditors, upon completion of their audit, financial results for the year, prior to their submission to the Board and release to the public.
- d. The Committee reviewed prior to the annual audit, the scope and general extent of the independent auditors' audit examination as contained in the audit planning memorandum.
- e. The Committee discussed with management the scope and quality of internal accounting and financial reporting controls in effect.
- f. The Committee reviewed written responses of management to "letter of comments and recommendations" from the independent auditors.
- g. The Committee reviewed the Corporate Governance Review Report presented by Messrs Deloitte Touche Tohmatsu and recommended its adoption to the Board.

INTERNAL AUDIT FUNCTION

The Board outsourced its internal audit functions to a professional services firm, which assists the Audit Committee in discharging its duties and responsibilities. The internal auditors' role is to provide independent and objective reports on the organisation's management, records, accounting policies and controls to the Board. The Internal Audit function internal audits include regular and systematic reviews of the systems of financial and operational controls as well as evaluation of the processes by which significant risks are identified, assessed and managed. Such audits also ensure instituted controls are appropriate, effectively applied and achieve acceptable risk exposures consistent with the Company's risk management.

The Internal Audit Plan is reviewed and approved by the Audit Committee. The Internal Auditors undertake internal audit review based on the approved audit plan that is developed after risk assessment and taken into accounts the concerns of management. The Internal Auditors report functionally to the Audit Committee.

The Internal Audit functions within its terms of reference carried out the following activities for the period:

- Reviewing and appraising the soundness, adequacy and application of accounting, financial and other controls promoting effective control in the Company at reasonable cost;
- Ascertaining the effectiveness of Management in identifying principal risks and to manage such risks through appropriate systems of internal control set-up by the Company;
- Appraising the effectiveness of administration and financial controls applied and the reliability and integrity of data that is produced within the Company;
- Ascertaining the extent of compliance with established policies, procedures and statutory requirements;
- Reviewing the Company's system of internal controls so as to ensure that it provides a reasonable but not absolute assurance that assets are properly safeguarded;
- Carrying out investigations and special reviews requested by management and/or Audit Committee, if necessary;
- In consultation with Management, reviewing operations as a whole from the viewpoint of economy and productivity, with which resources are employed and making cost effective recommendations to Management.

The resulting reports of the audits undertaken were presented to the Audit Committee and forwarded to the Management concerned for attention and necessary actions. The Management is responsible for ensuring that a written reply on action planned or completed is sent to the Internal Auditors for further reverts to the Audit Committee.

S T A T E M E N T O N I N T E R N A L C O N T R O L

The Board acknowledges its responsibility for maintaining a sound system of internal control, and for reviewing its adequacy and integrity. However, the Board recognises that reviewing of the systems of internal control is a concerted continuing process, designed to manage rather than eliminate the risk of failure to achieve business objectives.

Key elements of the Company's systems of internal control are:

- **Control Procedures**

Operating Procedures Manuals that set out the policies, procedures and practices to be adopted by all departments in the Company, to ensure clear accountabilities and control procedures are in place for all departments.

- **Organisational structure and responsibility levels**

The Company has a well defined organisational structure with clear lines of accountability and which has a documented delegation of authority which sets out the decisions that need to be taken and the appropriate authority levels of Management including matters that require Board approval.

- **Reporting and review**

The monthly monitoring and review of financial results and forecasts for all departments within the Company, including monitoring and reporting thereon, of performance against the operating plans and annual budgets. The Company's management teams communicate regularly to monitor performance.

- **Internal audit**

Regular internal audits are carried out by an independent professional services firm to review adequacy and integrity of the internal control systems of the departments. The internal audit function advises executive and operational management on areas for improvement and subsequently reviews the extent to which its recommendations have been implemented. The reports are submitted to the Audit Committee, which reviews the findings with management at its quarterly meetings. These, together with the External Auditors' reports provide reasonable assurance that control procedures are in place, and being followed.

- **Quality control**

The Company emphasises continuous effort in maintaining the quality of products. The Directors have ensured that safety and health regulations, environmental controls and all other legislations in connection with the industry have been considered and complied with.

- **Succession planning**

Succession planning for the management staff of the Company is in place and will be reviewed periodically. This is to ensure that business operations and performance will not be adversely affected by departure of key personnel.

C O R P O R A T E C A L E N D A R



3, 4 MARCH 2001

Unisem Nite, 8th Annual Dinner & Dance

The entire staff of Unisem with its customers, vendors and guests joined together for grand celebration of the Company's 8th annual dinner & dance at Syuen Hotel, Ipoh for 2 days with the theme "Towards Excellent".

17 MARCH 2001

Fire Drill Practices

In order to maintain good housekeeping practice and to ensure safety measures at all times, a fire drill and fire fighting training were conducted by the Safety Committee with the assistance of Jabatan Bomba Perak.



18 MARCH 2001

Birthday of Unisem, Cake Cutting Ceremony and Annual Appreciation Award Day

In conjunction with the celebration of Unisem's anniversary, we had the cake cutting ceremony on the Annual Appreciation Award day.



The 2001 Sports & Recreation Club Activities.

- ① Football
- ② Ping Pong
- ③ Badminton
- ④ Basketball
- ⑤ Bowling



①



②



18 MARCH 2001
Long Service Award Dinner

It was a special occasion for 187 employees who completed 5 years of service when they received a gold pendant and service certificate at Unisem's service award dinner held at Parkroyal Casuarina Hotel, Ipoh.



28 JULY 2001
Cross-Country and Tele-Match

Unisem first Cross-Country and Tele-Match activity was a success. All participants had a fun-filled and exciting day.



4-6 & 10-12 DECEMBER 2001
Seven Habits Workshop

The Seven Habits of Highly Effective People Training Program was conducted for all the Management Staff in two sessions by Franklin Covey Malaysia at Casuarina Parkroyal Hotel, Ipoh.



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