

“There is only one rule of business and that is make the best quality at the lowest cost possible.”

Henry Ford

Chairman's Statement

Dear Shareholders,

At the beginning of last year, while I was writing to you on the Group's performance, we were cautiously optimistic that the visibility for the semiconductor industry would improve in the second half of 2002 and that the Group would stand a good chance in registering a positive growth in 2002. However, the much anticipated recovery for the semiconductor industry and in fact, the global economy as a whole, did not materialise in 2002. In a depressed global economic environment, AIC went through yet another challenging year amidst difficult operating environment particularly for our semiconductor-based activities.

Although the Malaysian Gross Domestic Product ("GDP") has improved marginally from 3.5% in 2001 to 4.2% in 2002, the prospects of economic recovery continues to be dampened by global political tensions and economic uncertainties made worse by the war in the Middle East region.

Despite all this, the Group has proven to be resilient and we are pleased to announce that the Group was able to remain profitable for fiscal year 2002. On behalf of the Board of Directors, it gives me great pleasure to present to you the Annual Report and Audited Financial Statements of the Group for the financial year ended 31 December 2002.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2002, we are pleased to announce that the Group's revenue has recorded a significant 25% improvement to RM403.0 million as compared to RM321.7 million posted in the previous financial year. Our distribution arm based in Singapore has made impressive inroads into the strategic North Asian markets of China and Hong Kong and this has contributed significantly to the improvement in your Group's revenue.

The Group's profit before taxation however, has contracted by 63% to RM2.7 million compared to RM7.3 million in 2001. The slower than expected recovery in the semiconductor industry and fierce competition continues to erode prices and your Group's margin and profitability. In addition, during the financial year under review, your Board has also taken prudent steps to assess and review



your Group's investments. As a result, there were provisions for diminution of investment of RM1.65 million and a write down of development expenditure of RM1.7 million, which in the view of your Board is not capable of deriving future economic benefits. In addition, an amount of RM0.99 million has been paid and/or provided as retirement gratuities for the retirement of certain executive directors from their executive positions.

Despite the above one time charges and non-recurring expenses amounting to approximately RM4.4 million, the Group was still able to register a net profit of RM0.6 million (2001: RM3.4 million).

DIVIDENDS

I am pleased to announce that your Board of Directors is recommending a first and final tax exempt dividend of 1% (2001 - 3%) amounting to RM678,923 for the financial year 2002, which is subject to your approval.

CORPORATE GOVERNANCE

The Board is pleased to announce that, on 11 March 2003, the Company has received, for the third consecutive year, the KLSE Corporate Sectoral Awards 2002 (Main Board - Technology Sector). As evidenced by the Corporate Sectoral Awards that we received from the Kuala Lumpur Stock Exchange for these three consecutive years in 2000, 2001 and 2002, your Board is constantly committed to implement and practise the highest

Chairman's Statement

standards of Corporate Governance and will continue to take further steps to enhance corporate governance throughout the Group. Your Board endeavours to ensure that the highest level of transparency, compliance and accountability exists in the Group at all times.

In our Corporate Governance Report on pages 24 to 32 of this Annual Report, we have highlighted the measures and principles that have been implemented by your Group.

INVESTOR RELATIONS AND SHAREHOLDERS COMMUNICATIONS

Your Company has always maintained an open and transparent approach to its investor relations and shareholder communications program. We have always valued our shareholders viewpoints and comments, both institutional and individuals, through many forums like general meetings and also analysts and fund managers' meeting and conferences.

Our Investor Relations Unit has consistently structured proactive programmes so as to ensure that shareholders, analysts and fund managers are given consistent and updated information of the Company. To give more importance on this objective, this unit has been placed directly under the preview of the President and the Senior Vice President Group Corporate Services, which guarantees more comprehensive and better information to the investor's community. At the same time, through our forum above, we are able to provide prompt feedback to top management on investors concerns and market perceptions thus, ensuring effectiveness in information dissemination.

Interaction with fund managers and financial analysts such as quarterly analyst briefings as well as one-to-one meetings and teleconversations proved to be one of the most effective mediums to enhance investors' understanding of the Company. In Year 2002, we have regularly participated in various conferences organized by local research houses and financial houses including those organized under the KLSE Investor's Week, to further promote the understanding of the Company's operations and sound management. These efforts

have to a large extent been successful in disseminating the Company's profile in the local and international marketplace. These participation in road shows and investors' conferences normally involves a presentation of the Group's operations and followed up with meetings with individual or small groups of specific institutional investors.

We will continue to pursue these efforts to reach out to more institutional investors both foreign and local to make known of the Company's unique blend of good governance, proven manufacturing and management capabilities for better market acceptance.

PROSPECTS

As exports constituted approximately 84% of the total revenue in 2002, the future prospect of your Group hinges on the overall regional and global economic climate which remains uncertain at the time of writing.

According to market researcher Gartner Inc., barring unforeseen circumstances, the worldwide semiconductor market is projected to grow by 12% at best in 2003 to USD174 billion after gaining just 1.4% in 2002 and any significant growth is only expected towards the end of 2003. Growth in chip sales is expected to be driven by rising consumer demand for digital cameras, camera-equipped cell phones and video-game consoles. However, we remain cautious on the industry's growth rate given the geopolitical and economic uncertainties. As we expect that the growth for the semiconductor industry to be in line with the overall macroeconomic situation, the uncertain and sluggish global economy compounded by the Iraq war and the outbreak of the Severe Acute Respiratory Syndrome may further delay the recovery of the semiconductor industry.

We have enjoyed a good year for our automotive business in 2002 on the backdrop of a record year of motor vehicle sales in the country. Sales rose 9.7% in 2002, beating the previous record of quantity sold in 1997. However, we do not expect the motor vehicles sales growth in 2003 to continue at the same rate as that of 2002 as consumers are adopting a wait-and-see attitude

Chairman's Statement

in anticipation of the government's direction and policy regarding the Asean Free Trade Area (AFTA) agreement. Nevertheless, the Malaysian Automobile Association has forecasted a growth of 3.5% in motor vehicle sales in 2003. We expect to reduce the impact of the slower growth through the development and sales of new product lines in 2003. Barring unforeseen circumstances, the electronics division will continue to be the major contributor to the Group's profit in Year 2003.

The Malaysian government is projecting a 4.5% GDP growth in 2003 and we believe business operating environment will remain tough and competitive. IMF, in its World Economic Outlook survey of September 2002 has warned of a lower world growth in 2003. Your Board and management shall strive to overcome the challenges by ensuring that we are more focused and streamlined in terms of our cost and organisation structure in order to remain competitive. The Group will also continue to take steps to improve our current business operations by diversifying and expanding our customer and product base while increasing our efficiency.

Your Board aims to align individual staff performance with the Group's vision, values and strategic business direction. The Group believes and relies on its people to achieve its business performance and targets. Hence, greater emphasis continues to be given on performance management and developing competencies of its employees. The linkage of performance management, competencies development and performance-based rewards are aimed at motivating and reinforcing the desired behaviour in order to achieve the desired results and objectives of the Group.

Looking forward, we shall continue to emphasize on focused business strategies and investments that would enhance long-term shareholders value, deliverance of quality products / services and the prudent management of our balance sheet. I believe that the measures taken will provide a strong foundation for the Group's future growth when the economic and industry outlook becomes more positive.



APPRECIATION

I would like to take this opportunity to thank all my fellow Board members for their invaluable advice and guidance to the Group and the Group President/CEO, Mohamad Ariff bin Puteh for his leadership, dedication and efforts in steering the Group during this challenging time. I would also like to express my heartfelt appreciation to the management team and staff for their hard work, commitment and dedication towards achieving the Group's vision and objectives.

Last but not least, we would like to extend our sincere gratitude to our valued customers, shareholders, business associates, bankers, SC, KLSE and other government agencies for their continued cooperation and support to the Group.

DATUK HAJI SARIP BIN HAMID

Chairman

Review of Operations and Financial Performance

SEMICONDUCTOR DIVISION

TEST AND ASSEMBLY ACTIVITIES

The Year 2002 represents an unprecedented challenging year for our Semiconductor Division in terms of operating environment. Despite the global semiconductor market registering a growth rate of 1.4% in 2002, the industry continues to be plagued by poor visibility, over capacities and margin erosion. Given the difficult operating environment, our test and assembly plant in Kulim only managed a marginal profit before taxation of RM0.05 million (2001: RM2.02 million) representing a decrease of approximately 97% from previous year despite revenue having improved from RM84.77 million in 2001 to RM92.92 million in the year under review and volume increased by almost 53% since 2001.

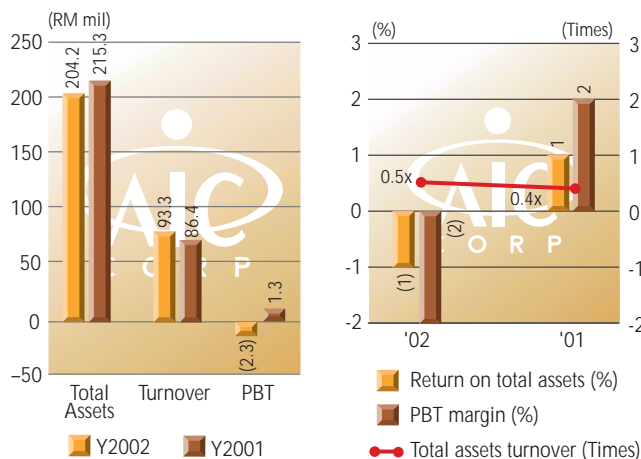
We were faced with shorter product life cycles which resulted in greater fluctuations in product volumes, lower production run and increased volatility in capacity utilization. As a result, it became more difficult for us to sustain a high level of capacity utilization of our test and assembly equipment. As counter-measure, the management has taken immediate steps to intensify marketing efforts to increase both our customer and product base. During the year, the Company was successful in winning new customers from France & Switzerland for smartcard modules. In addition, the Company has also commenced volume production for three new leaded packages.

The testing and assembly of semiconductor is a complex process and requires substantial capital outlay in specialised equipment and facilities. We have improved our cleanroom utilisation by having additional 20% equipment in our current Plant One facility instead of utilizing our Plant Two facility. This has helped to reduce our facility cost substantially. As the outlook of the semiconductor industry remains uncertain, the Board has decided not to equip Plant Two for better cost control and effective utilisation of Plant One capacity.

As part of our strategies to remain competitive, we:-

- (i) offered a variety of additional services in year 2002 including burn-in process, reliability testing and a Distribution Centre to add value to our existing customers;
- (ii) developed our smartcard module capability from full-scale production to shipment to end customers with test methodologies developed in-house;

TEST & ASSEMBLY ACTIVITIES



- (iii) worked with various customers for more consigned equipment to reduce the risk on capital expenditure; and
- (iv) outsource our facilities and security management so that we can concentrate on our core competencies i.e. on testing and assembly.

As reported in the last Annual Report, the outsourcing business from National Semiconductor ("NS") was carried out at a deferred pace. We are pleased to report that the equipment transfer from NS to AIC Semiconductor Sdn Bhd for the assembly of certain semiconductor products has been completed in November 2002.

OTHER SEMICONDUCTOR RELATED ACTIVITIES

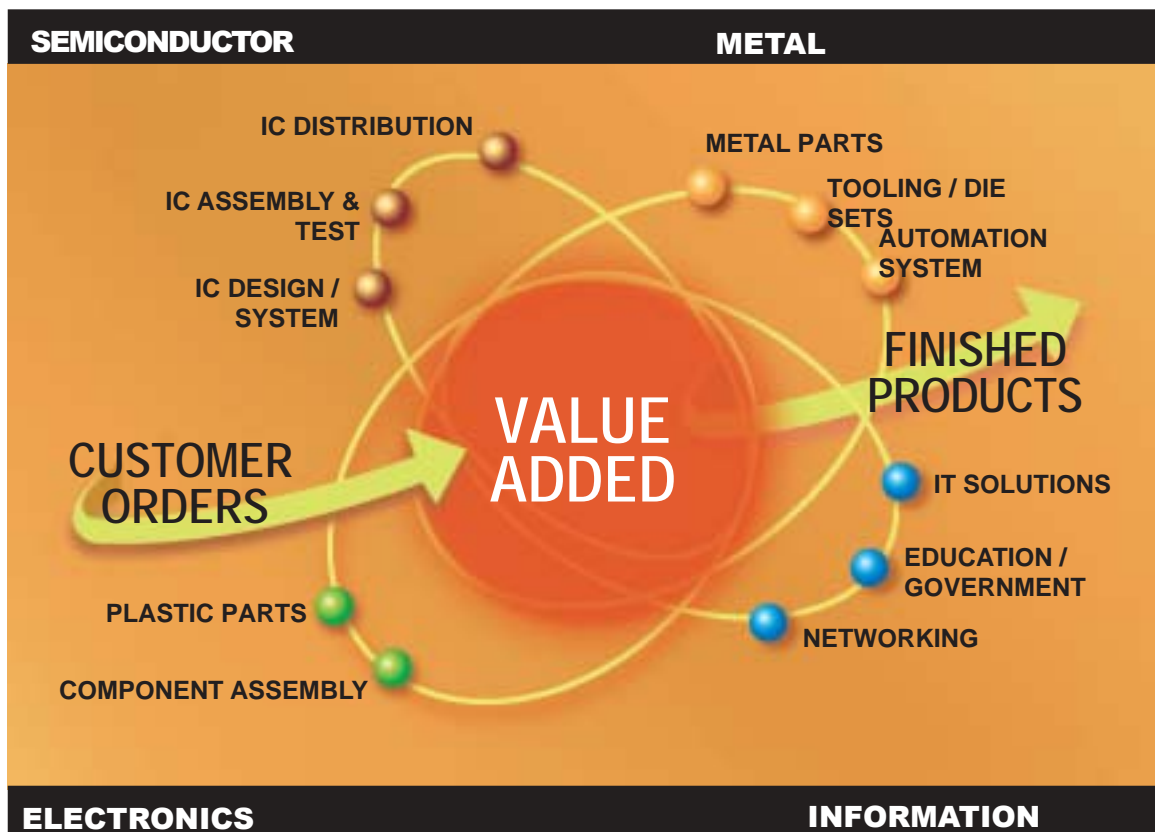
During the financial year under review, the Board and management have taken steps to critically review development expenditure incurred by our research and development ("R&D") subsidiary, AIC Microelectronics Sdn Bhd ("AICM"). As a result of the exercise, development expenditure amounting to RM1.70 million where its future economic benefits were deemed non-recoverable in the opinion of the Directors, was duly written off.

AICM has incurred a loss of RM2.36 million in 2002 (2001: Profit Before Tax of RM0.12 million) on the back of a turnover of RM0.42 million (2001: RM1.60 million).

The Company has on 31 March 2003 entered into a Joint Venture Agreement with Toptek Corporation to

Review of Operations and Financial Performance

ONE-STOP SOLUTION



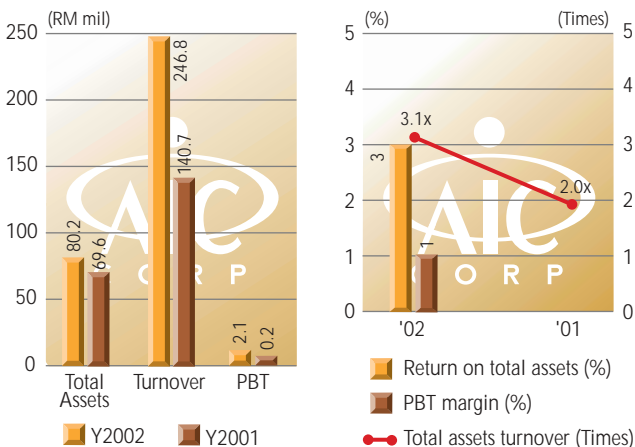
undertake the design, development and sale of wireless and multimedia products. The design activities will be collaborated with AICM so that the use of resources will be optimised.

DISTRIBUTION ACTIVITIES

The 2002 financial year continued to be an extremely difficult and challenging year for Nucleus Group and the regional market that it serves. The performance of the distribution business continued to be affected by the downturn in the global semiconductor industry and the general decline in the consumer confidence which started in the previous year. Despite the lackluster performance of the global electronics and semiconductor industry, the distribution business has chalked up a 75% improvement in its revenue. For the year ended 31 December 2002, the distribution business generated a total revenue of RM246.84 million (2001: RM140.72 million). However, due to the competitiveness of the business in this region, margin has remained low. Profit before taxation has improved by about 9-fold to RM2.08 million from RM0.22 million in 2001.

The migration of multinational manufacturing facilities into China and India, coupled with the huge untapped domestic market opportunities, has created an

DISTRIBUTION SEGMENT



Review of Operations and Financial Performance

immense potential for the business to serve these multinationals as their preferred choice. Recognising these potentials, our distribution business has started to make inroads into the China and Hong Kong markets since July 2001 and the planned entries into these markets has contributed significantly to the growth in turnover. In December 2002, Nucleus Electronics Ltd (“NEL”) established a representative office in Shanghai, China to further expand its business. In addition, a joint venture company, Nucleus India Pte Ltd, was set up between NEL and Accurex Technologies Pte Ltd in a bid to establish market presence and to tap into the potentially huge market in India. We would continue to strengthen our presence in these markets and are confident that our operations in China and India will contribute significantly to the future growth and profitability of the Nucleus Group.

Moving forward, we believe the electronic components markets in 2003 will remain competitive and challenging given the uncertain global economy and the geopolitical concerns. The ongoing efforts to focus the business strategy to profitability, by concentrating efforts on increasing market share and size and improving profitability coupled with operational improvement programmes, including cost reduction, establishing Key Performance Indicators, benchmarking the business against the best shall position this business to capture any upward trend in the industry.

ELECTRONICS DIVISION

Despite the uncertainties brought by any pending post AFTA effect and the sluggish growth in the national economy, our Electronics Division, in particular the automotive business is able to record an improvement in profitability, albeit a marginal growth in 2002. With ample liquidity in the banking system and thus easy and cheap credit available to consumers, passenger car sales in the country has registered a record year of sales in 2002 with a total sales of 359,956 units or a growth of 10% compared to 2001. The Division registered a profit before taxation of RM7.71 million (2001: RM7.04 million) on the back of a turnover of RM33.99 million (2001: RM35.07 million).

During the year, the Division has continued to take concerted efforts to further broaden and diversify our product base. The effort has resulted in a joint venture between Brimal Holdings Sdn Bhd (“Brimal”) and NVH Korea, Inc. (“NVH”) whereby a License and Technical Agreement (“Agreement”) was entered into between the two parties in August 2002. Under the

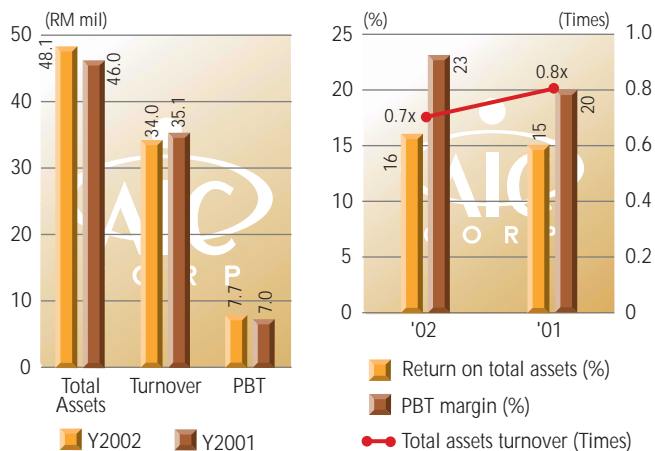
Agreement, Brimal has the license to manufacture and sell non-modularised NVH resin-felt headliners for motor vehicles. Brimal has obtained two contracts to manufacture and supply headliners for certain motor vehicles assembled by Proton and the headlining project has commenced commercial production in second quarter of 2003. We expect this project to contribute positively to the Group’s future profitability from 2004 onwards. It also provides an excellent opportunity and leverage for the Electronics Division to become an upper trim modular supplier to automotive companies in this region so as to be more competitive.

Realising the competitiveness of the operating environment, the Division has constantly sought ways to improve our quality, productivities and efficiencies to stay ahead.

The plastics business within the Division has also managed to improve its efficiency and productivities and has turned around in 2002.

Looking ahead, the year 2003 is expected to be challenging with intensified competition and thinning margins for both our automotive and plastics business. To ensure that we remain competitive, the management is embarking on several creative cost cutting projects like conversion to u-shape assembly line, quick die change systems, resourcing strategy and other VA/VE activities. These efforts, we believe, will be able to cushion the threat from external forces and will further improve our profitability.

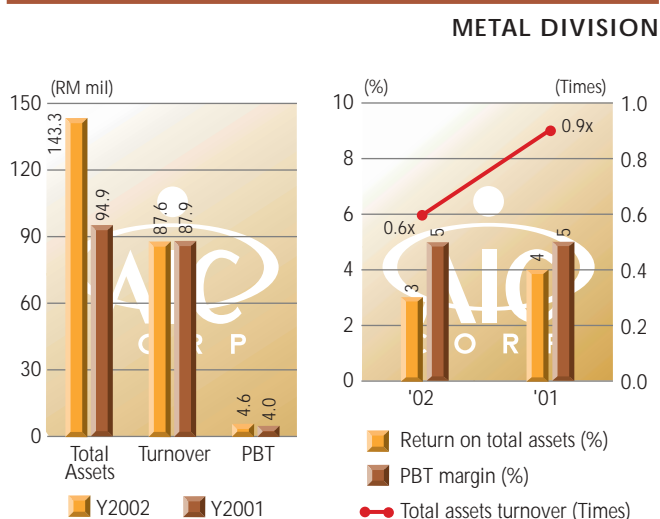
ELECTRONICS DIVISION



Review of Operations and Financial Performance

METAL DIVISION

The Metal Division continues to contribute positively to the Group's profitability. In 2002, the Division contributed a profit before taxation of RM1.55 million (2001: RM1.17 million) which constituted a 32% improvement despite registering a lower consolidated turnover of RM87.63 million (2001: RM87.90 million).



Amidst the slowdown in the semiconductor industry in 2002 which affected the semiconductor tooling and automation business, the precision stamping business within this Division registered improved performance during the year with positive contributions from PT Indotech Metal Nusantara and JP Metal Sdn Bhd, the two new subsidiaries acquired at the end of 2001.

Though business condition is not favourable particularly for the semiconductor business, Prodelcon Sdn Bhd ("Prodelcon"), the tooling and automation arm has continued to achieve remarkable results for its outstanding performance as a reliable vendor/supplier and business Partner. During the year, Prodelcon has been awarded the Best Business Partner by Agilent Technologies in recognition of its contribution to EPSG Asia Penang, Best Vendors of Hi-Tech Penang award from Penang Development Centre and the Excellent Supplier Award by Seagat RSS.

Jotech Metal Fabrication Industries Sdn Bhd ("JMF") has also been accredited by Bureau Veritas Quality International (Holdings) S.A. with the prestigious UKAS ISO 9001 and QS9000 : 1998 (based on and including ISO 9002 : 1994 and in

accordance with the QS9000 Appendix B, Code of Practice) for satisfying the required quality standards.

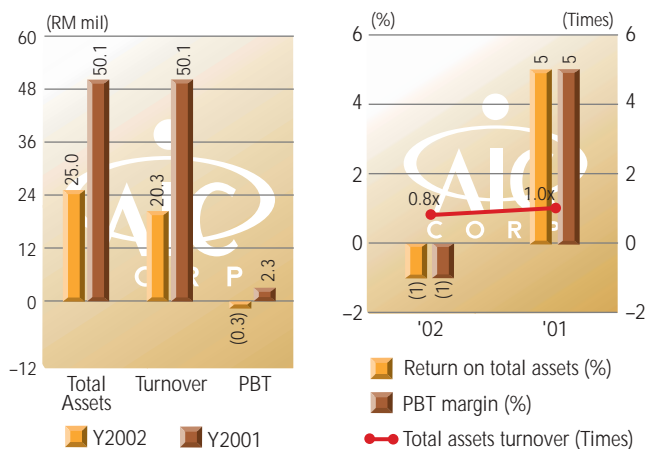
In its aim to crystallize the goal for continuous growth and optimize the returns to all its stakeholders, the Division has restructured its focus and has taken expansionary measures regionally and accordingly has ventured into the China market, apart from its venture into Indonesia at the end of 2001. In January 2003, JMF entered into a Joint Venture Agreement with Jiang Men Jolimark Information Technology Ltd. and Dinomax Pte. Ltd. to establish a new company called Jotech Kong Yue Precision Industries Ltd ("JKY") to carry out the business of precision tooling, dies fabrication and production of precision metal stamped parts in Guangdong, China. JKY also signed a Master Purchase and Supply Agreement with Kong Yue Electronics and Information Industry Ltd. for the buyback of JKY's products.

The performance of the Division in 2003 will be largely dependant on the Electronics and Semiconductor industries and how soon the global economy will recover. However, we are confident with the strategic expansionary measures in place, the Division is well positioned for sustainable growth.

INFORMATION TECHNOLOGY DIVISION

During the financial year under review, the Information Technology Division has undergone some changes in its senior management and the sales team. As a result of the time taken to find suitable replacements and taking into account the learning curve effect, the Division suffered a loss before taxation of RM0.27

INFORMATION TECHNOLOGY DIVISION



Review of Operations and Financial Performance

million as compared to a profit before taxation of RM1.89 million recorded in the previous year. Turnover also saw a sharp decline of 59% in 2002 to RM20.33 million compared to RM50.07 million recorded in 2001.

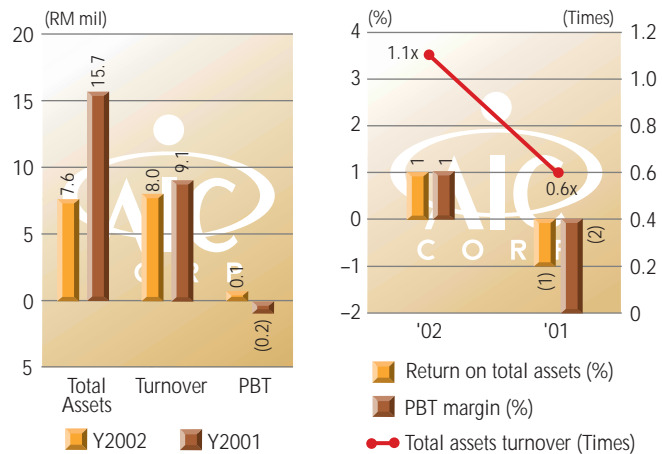
We have since reorganised and revamped our human resource capital in this Division and a new team has been put in place effective February 2003. In our continuing efforts to strengthen our products / services and customer base, CADXCEL Sdn Bhd (formerly known as "Integral CAD Distribution Sdn Bhd") was established in 2003 as a design and engineering arm of the division that provides product development solutions, particularly the CAD-CAM Solution, to manufacturing enterprises. Its core business of providing design and engineering services represents the main process in product development. CADXCEL provides fully integrated engineering services to its customers in the manufacturing and education sectors.

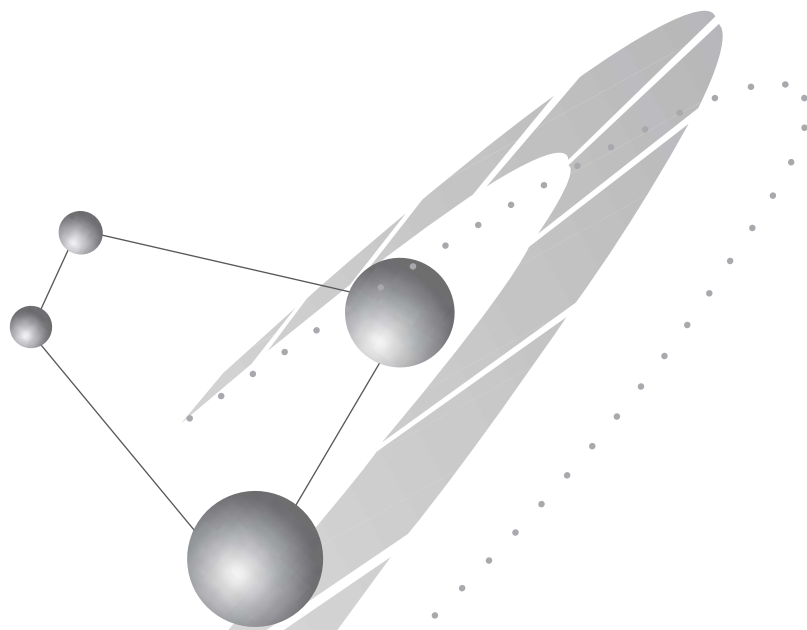
Looking ahead, we expect 2003 to be a challenging year with stiff competition within the industry as barrier of entry into this industry remains low. However, we are confident that the Division would be able to carve a niche market and barring any unforeseen circumstances, this Division will see some improvement in its performance in the year ahead.

PROPERTY DIVISION

We have received the progressive proceeds from the joint venture development of the Hulu Kelang land in 2002 as scheduled. The Division has turned around and generated a profit before taxation of RM0.14 million in 2002 as compared to a loss of RM0.19 million in 2001. Turnover of RM8.0 million represents progressive payments received in 2002 (2001: RM9.09 million). The final payment for the joint venture development was received in February 2003.

PROPERTY DIVISION





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Directors' Report

for the year ended 31 December 2002

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2002.

Principal activities

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are stated in Note 3 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Net profit/(loss) for the year	604	(844)

Reserves and provisions

There were no material transfers to or from reserves and provisions during the year except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid a first and final tax exempt dividend of 3% per ordinary share less treasury shares amounting to RM2,029,660 in respect of the financial year ended 31 December 2001 on 17 July 2002.

The Directors now recommend a final tax exempt dividend of 1% per ordinary share less treasury shares amounting to RM678,923 in respect of the financial year ended 31 December 2002.

Directors of the Company

Directors who served since the date of the last report are:

Datuk Haji Sarip bin Hamid

Tuan Haji Mohd Ali bin Bawal

Mohamad Ariff bin Puteh

Md Yusof bin Hussin

Prof. Madya Dato' Haji Mohd Mokhtar bin Haji Shafii

Mamat @ Mohamed bin Hussain

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Director's Shareholdings are as follows:

Directors' Report

for the year ended 31 December 2002

Shares in the Company	Number of Ordinary Shares of RM1 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
Datuk Haji Sarip bin Hamid				
– direct interest	280,000	42,000	145,000	177,000
– indirect interest	15,732,166	–	–	15,732,166
Tuan Haji Mohd Ali bin Bawal				
– direct interest	2,940,000	–	2,590,000	350,000
Prof. Madya Dato' Haji Mohd Mokhtar bin Haji Shafii				
– direct interest	18,000	–	–	18,000
Mohamad Ariff bin Puteh				
– direct interest	12,000	–	–	12,000
– indirect interest	16,112,832	–	–	16,112,832

According to the Register of Directors' Shareholdings, direct interest in shares in related corporations held by Directors at the end of the financial year were as follows:

Shares in Nucleus Electronics Ltd.	Number of Ordinary Shares of SGD0.05 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
Datuk Haji Sarip bin Hamid	140,000	–	–	140,000
Tuan Haji Mohd Ali bin Bawal	140,000	–	–	140,000
Mohamad Ariff bin Puteh	260,000	–	–	260,000

By virtue of Datuk Haji Sarip bin Hamid and Mohamad Ariff bin Puteh having interest of more than 15% in the shares of the Company, they are deemed to have interest in the shares of the subsidiaries of the Company. Details of their deemed shareholdings in non-wholly owned subsidiaries are as follows:

Shares in:	Number of Ordinary Shares of RM1 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
AIC Microelectronics Sdn. Bhd.	2,531,250	1,218,750	–	3,750,000
AIC Properties Sdn. Bhd.	1,229,917	–	–	1,229,917
AIC Semiconductor Sdn. Bhd.	28,120,250	–	–	28,120,250
AIC Technology Sdn. Bhd.	6,000,000	–	–	6,000,000
AIC Wafer Services Sdn. Bhd.	225,000	–	–	225,000
Alpha Mediatech Sdn. Bhd.	63,000	–	–	63,000
Custom Tooling (Kota Bahru) Sdn. Bhd.	1	–	–	1
Integral CAD Distribution Sdn. Bhd.	2	–	–	2
Integral CAD Technologies Sdn. Bhd.	1,800,000	–	–	1,800,000
Nucleus Components Sdn. Bhd. (formerly known as Vital Components Sdn. Bhd.)	–	1	–	1
Nucleus Electronics Sdn. Bhd.	1	–	–	1

Directors' Report*for the year ended 31 December 2002*

	Number of Ordinary Shares of SGD0.05 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
Nucleus Electronics Ltd.	67,184,700	-	-	67,184,700

	Number of Ordinary Shares of SGD1.00 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
Nucleus India Pte. Ltd.	-	1	-	1

	Number of Ordinary Shares of HKD1 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
Nucleus Electronics (Hong Kong) Limited	1	2,062,499	-	2,062,500

	Number of Ordinary Shares of NTD10 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
Neolec International Inc.	10,491,429	-	-	10,491,429

	Number of Cumulative Preference Shares of RM1 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
AIC Technology Sdn. Bhd.	4,838,035	-	-	4,838,035

	Number of Convertible Preference Shares of RM1 each			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
AIC Semiconductor Sdn. Bhd.	18,578,000	-	-	18,578,000

None of the other Directors holding office at the end of the financial year had any interest in the shares of the Company and of its related corporations during the financial year.

	Number of Warrants			Balance at 31.12.2002
	Balance at 1.1.2002	Bought	Sold	
Warrants in the Company				
Datuk Haji Sarip bin Hamid - indirect interest	4,619,248	-	-	4,619,248
Mohamad Ariff bin Puteh - indirect interest	4,619,248	5,000	-	4,624,248

The options granted to the Directors in respect of the acquisition of shares pursuant to the Employees' Share Option Scheme ("ESOS") of the Company and its related corporation, Nucleus Electronics Ltd., are set out below:

Directors' Report

for the year ended 31 December 2002

<i>Options over shares in the Company</i>	Number of Options over Ordinary Shares of RM1 each			Balance at 31.12.2002
	Balance at 1.1.2002	Granted	Exercised	
Datuk Haji Sarip bin Hamid	42,000	-	42,000	-
Tuan Haji Mohd Ali bin Bawal	86,000	-	-	86,000
Mohamad Ariff bin Puteh	30,000	-	-	30,000

<i>Options over shares in Nucleus Electronics Ltd.</i>	Number of Options over Ordinary Shares of SGD0.05 each			Balance at 31.12.2002
	Balance at 1.1.2002	Granted	Exercised	
Datuk Haji Sarip bin Hamid	200,000	-	-	200,000
Tuan Haji Mohd Ali bin Bawal	200,000	-	-	200,000
Mohamad Ariff bin Puteh	200,000	-	-	200,000

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors and fees paid/payable to Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business and consultancy and management fees payable to and rental payable to and receivable from companies in which certain Directors have significant financial interest, as disclosed in Note 30 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits (other than benefits given to Directors of the Company pursuant to the ESOS of the Company and the related corporation, Nucleus Electronics Ltd.) by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares and debentures

During the financial year, the Company issued the following shares:

Class of Shares	Number of Shares	Terms of Issue	Purpose of Issue
Ordinary shares of RM1.00 each	109,000	RM2.805 per ordinary share	Employees' Share Option Scheme
Ordinary shares of RM1.00 each	122,000	RM4.08 per ordinary share	Employees' Share Option Scheme
Ordinary shares of RM1.00 each	184,000	RM3.80 per ordinary share	Conversion of Warrants into Ordinary Shares

Since the end of the financial year, the Company further issued 24,000 new ordinary shares of RM1 each at an issue price of RM2.805 per ordinary share pursuant to the Company's ESOS.

There were no debentures issued during the year.

Directors' Report

for the year ended 31 December 2002

Options granted over unissued shares or warrants

i) Employees' Share Option Scheme

Under the Company's ESOS which became effective on 22 December 1998, options to subscribe for unissued new ordinary shares of RM1 each in the Company were made available to eligible Directors and employees of the Group.

Date of offer	Option price (RM)	Balance at 1.1.2002	Offered and accepted	Options exercised	Lapsed due to resignation	Balance at 31.12.2002
31.12.1998	2.805	223,000	–	51,000	–	172,000
2.1.1999	2.805	429,000	–	58,000	–	371,000
1.3.2000	10.25	418,000	–	–	188,000	230,000
3.5.2001	4.08	470,000	–	122,000	61,000	287,000
23.5.2002	5.03	–	407,000	–	107,000	300,000

The salient features of the scheme are as follows:

- Eligible employees are Malaysian citizens employed by and on the payroll of the Group, whom are confirmed and have been in the employment of the Group for at least one (1) year prior or up to the date of offer and any non-Malaysian employee and technical staff who have served the Company on a full time basis and for a period of at least one year up to the date of offer.
- The maximum amount of the ordinary shares of the Company which may be subscribed shall not be more than ten percent (10%) of the issued share capital of the Company at any point of time during the existence of the ESOS which shall be in force for a period of 5 years from 23 December 1998.
- The options cannot be assigned, transferred or otherwise disposed of in any manner whatsoever.
- The options price shall be determined based on the average of the mean market quotation of the Company's ordinary shares as shown in the Daily Official List issued by the KLSE for the five (5) trading days preceding the respective date of offer in writing to the grantees or at the par value of the ordinary shares of the Company, whichever is higher.
- The options granted may be exercised at any time within a period of five years from the date of offer of the option or such shorter period as may be specifically stated in the offer upon giving notice in writing.
- the options granted may be exercised according to the following scale in respect of a maximum of the following:

Number of shares in respect of Options granted	Percentage of Options exercisable (%)				
	Year 1	Year 2	Year 3	Year 4	Year 5
Below 20,000	100	–	–	–	–
20,000 to less than 40,000	40	30	30	–	–
40,000 to less than 100,000	25	25	25	25	–
100,000 and above	20	20	20	20	20

Directors' Report

for the year ended 31 December 2002

i) Employees' Share Option Scheme (continued)

f) Notes:

- (i) The percentage of the options exercisable but not exercised in a particular year can be carried forward to the subsequent years within the options period.
- (ii) For non-Malaysian grantees, the options can only be exercised up to a maximum of 20% in each year. Any remaining unexercised percentage of the options can be exercised upon expiry of the employment contract should such expiry fall before the end of the options period.

The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the list of option holders and their holdings.

ii) Warrants

On 18 May 1998, the Company had issued RM50,000,000 nominal value 2.5% coupon Redeemable Unsecured Bank guaranteed Bonds 1998/2003 together with 9,203,002 Warrants A.

On 23 June 2000, the Company issued additional 9,203,002 new Warrants A on the basis of one (1) new Warrant A for every one (1) existing Warrant A held, in accordance with Clause 3.1 of the Second Schedule of the Deed Poll as a result of the Company's bonus issue on the basis of one (1) new ordinary share for every existing share held.

Subsequently, on 30 June 2000, the Company offered a non-renounceable issue of up to 18,406,004 replacement warrants 2000/2003 with an exercise price of RM3.80 ("Warrants B") to the holders of Warrants A at an issue price of RM0.10 per Warrant B on the basis of one (1) Warrant B in substitution for and upon the surrender and cancellation of one (1) Warrant A. A total of 17,446,064 Warrants B were issued on 24 July 2000 to the holders of Warrants A who surrendered and cancelled their Warrants A.

On 23 December 2002, the shareholders of the Company and the holders of Warrants B approved the extension of the exercise period of the outstanding Warrants B of 17,262,064. The extension is in compliance with the announcement by the Securities Commission on 30 October 1998 pertaining to extension of the exercise period of Warrants and the gazette on 1 November 1998 of amendments to Section 68(1) of the Companies Act, 1965 which enables options on shares to have an exercise period of up to ten (10) years. The salient terms of the extension as per the Supplemental Deed Poll dated 23 December 2002 are as follows:

- a) The original exercise period of the Warrants B shall be extended for three (3) years from 16 January 2003 up to and including 15 January 2006 and thereafter the option to extend the exercise period for a further period of one (1) year expiring on 15 January 2007 with a final option to extend the exercise period by one (1) year expiring on 15 January 2008.
- b) The First Extension will be implemented by the Company if the last closing price of the Company's shares quoted on the KLSE are at a premium of not more than 20% over the exercise price of RM3.80 per Warrant B for any market day for a consecutive period of 5 market days preceding 1 December 2002, being one and a half months prior to the expiry date of 15 January 2003.
- c) Following the First Extension, the further extensions of up to 2 periods of one year each from 16 January 2006 to 15 January 2007 and from 16 January 2007 to 15 January 2008 will be implemented by the Company if the weighted average market price of the Company's shares quoted on the KLSE are at a premium of not more than 20% over the exercise price of RM3.80 per Warrant B for any period of 30 consecutive market days preceding 15 October 2005 and 15 October 2006, being 3 months prior to expiry dates of 15 January 2006 and 15 January 2007 respectively.

On 16 January 2003, the exercise period of Warrants B was extended for another three years from 16 January 2003 to 15 January 2006. The duration and exercise period of Warrants A was not extended as the First Deed Poll entered into by the Company does not provide for any extension to the exercise period of Warrants A. Accordingly, all outstanding Warrants A of 959,940 ceased to be valid after the expiry date on 15 January 2003. As at 31 December 2002, 959,940 of Warrants A and 17,262,064 of Warrants B remained unexercised.

Directors' Report

for the year ended 31 December 2002

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) 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, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and the Company misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except as disclosed in the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2002 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:



Datuk Haji Sarip bin Hamid



Mohamad Ariff bin Puteh

Shah Alam,

Date: 12 March 2003

Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 63 to 109, are drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2002 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:



Datuk Haji Sarip bin Hamid



Mohamad Ariff bin Puteh

Shah Alam,

Date: 12 March 2003

Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

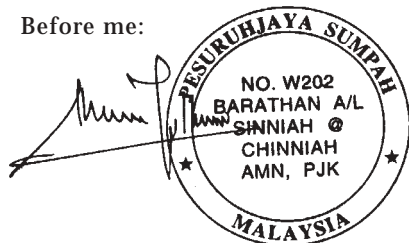
I, **Chen Heng Mun**, the officer primarily responsible for the financial management of AIC Corporation Berhad, do solemnly and sincerely declare that the financial statements set out on pages 63 to 109, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 12 March 2003.



Chen Heng Mun

Before me:



Tingkat 10 Wisma UOA Damansara
50, Jalan Dungun,
Bukit Damansara,
50490 Kuala Lumpur

Report of the Auditors

to the members of AIC Corporation Berhad

We have audited the financial statements set out on pages 63 to 109. The preparation of the financial statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

(a) the financial statements are 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 state of affairs of the Group and of the Company at 31 December 2002 and the results of their operations and cash flows for the year ended on that date; 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 Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

The subsidiaries in respect of which we have not acted as auditors are identified in Note 3 to the financial statements and we have considered their financial statements and the auditors' reports thereon.

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

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment under subsection (3) of Section 174 of the Act.

KPMG

Firm Number: AF 0758

Chartered Accountants

Hew Lee Lam Sang

Partner

Approval Number: 1862/10/03(J)

Kuala Lumpur,

Date: 12 March 2003

Balance Sheets

at 31 December 2002

	Note	Group		Company	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Property, plant and equipment	2	177,251	178,547	8,551	8,915
Investment in subsidiaries	3	-	-	81,892	81,892
Property development expenditure	4	1,832	9,605	-	-
Investments in associates	5	28,539	27,817	12,064	12,064
Other investments	6	4,560	60	4,500	-
Intangible assets	7	39,024	39,963	-	-
Current assets					
Inventories	8	37,028	29,546	-	-
Trade and other receivables	9	79,388	80,999	42,497	44,095
Other investments	6	-	2,626	-	-
Tax recoverable		1,509	-	-	-
Cash and cash equivalents	10	86,675	73,495	60,326	19,650
		204,600	186,666	102,823	63,745
Current liabilities					
Trade and other payables	11	48,189	52,611	1,647	1,109
Borrowings	12	27,467	40,884	177	936
Taxation		1,044	3,828	-	17
Provisions	13	133	-	-	-
Redeemable unsecured bank guaranteed bonds	14	50,000	-	50,000	-
		126,833	97,323	51,824	2,062
Net current assets		77,767	89,343	50,999	61,683
		328,973	345,335	158,006	164,554

Balance Sheets
at 31 December 2002

	Note	Group		Company	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Financed by:					
Capital and reserves					
Share capital	15	68,892	68,477	68,892	68,477
Reserves		132,104	132,701	47,724	49,510
Treasury shares	16	(3,808)	(3,808)	(3,808)	(3,808)
		197,188	197,370	112,808	114,179
Minority shareholders' interests	17	55,153	69,109	-	-
Long term and deferred liabilities					
Borrowings	12	60,381	28,703	45,198	375
Redeemable unsecured bank guaranteed bonds	14	-	50,000	-	50,000
Preference shares	17	16,127	-	-	-
Deferred taxation	18	124	153	-	-
		328,973	345,335	158,006	164,554

The financial statements were approved and authorised for issue by the Board of Directors on 12 March 2003.

The notes set out on pages 72 to 109 form an integral part of, and should be read in conjunction with, these financial statements.

Income Statements

for the year ended 31 December 2002

	Note	Group		Company	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Revenue	19	403,014	321,672	5,970	6,266
Operating profit/(loss)	19	3,859	10,383	(533)	436
Financing costs	21	(4,215)	(6,160)	(1,571)	(1,694)
Interest income	22	1,493	1,882	1,243	1,389
Share of profits in associates		1,550	1,173	-	-
Profit/(loss) before taxation		2,687	7,278	(861)	131
Tax expense	23	(1,254)	(3,974)	17	-
Profit/(loss) after taxation		1,433	3,304	(844)	131
Minority interest		(829)	144	-	-
Net profit/(loss) for the year		604	3,448	(844)	131
Basic earnings per ordinary share (sen)	24	0.89	5.07		
Diluted earnings per ordinary share (sen)	24	0.85	4.97		
Dividends per ordinary share tax exempt (sen)	25	3.0	4.0		

The notes set out on pages 72 to 109 form an integral part of, and should be read in conjunction with, these financial statements.

Group Statement of Changes in Equity

for the year ended 31 December 2002

	Non-distributable						Distributable			
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Capital reserve RM'000	Reserve on consolidation RM'000	Reserve on revaluation RM'000	Merger reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2001	68,268	-	36,970	16,811	6,114	-	1,997	(432)	67,266	196,994
Currency translation differences	-	-	-	-	-	-	-	(1,231)	-	(1,231)
Surplus on revaluation of property, plant and equipment	-	-	-	-	-	4,314	-	-	-	4,314
Net gains and losses not recognised in the income statement	-	-	-	-	-	4,314	-	(1,231)	-	3,083
Net profit for the year	-	-	-	-	-	-	-	-	3,448	3,448
Dividends paid	-	-	-	-	-	-	-	-	(2,731)	(2,731)
Interim dividends declared to minority shareholders	-	-	-	-	-	-	-	-	(200)	(200)
Dividend - underprovision in prior year	-	-	-	-	-	-	-	-	(5)	(5)
Issue of share capital	209	-	380	-	-	-	-	-	-	589
Shares bought back	-	(3,808)	-	-	-	-	-	-	-	(3,808)
At 31 December 2001	68,477	(3,808)	37,350	16,811	6,114	4,314	1,997	(1,663)	67,778	197,370

Note 15

Group Statement of Changes in Equity

for the year ended 31 December 2002

	Non-distributable						Distributable			
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Capital reserve RM'000	Reserve on consolidation RM'000	Reserve on revaluation RM'000	Merger reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2002	68,477	(3,808)	37,350	16,811	6,114	4,314	1,997	(1,663)	67,778	197,370
Currency translation differences	-	-	-	-	-	-	-	1,114	-	1,114
Net gains and losses not recognised in the income statement	-	-	-	-	-	-	-	1,114	-	1,114
Net profit for the year	-	-	-	-	-	-	-	-	604	604
Final dividends paid	-	-	-	-	-	-	-	-	(2,030)	(2,030)
Issue of share capital	415	-	1,088	-	-	-	-	-	-	1,503
Impairment of freehold land and building	-	-	-	-	(1,373)	-	-	-	-	(1,373)
At 31 December 2002	68,892	(3,808)	38,438	16,811	4,741	4,314	1,997	(549)	66,352	197,188

Note 15

The notes set out on pages 72 to 109 form an integral part of, and should be read in conjunction with, these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2002

	Share capital RM'000	Treasury shares RM'000	Non-distributable			Distributable	Total RM'000
			Share premium RM'000	Capital reserve RM'000	Revaluation reserve RM'000	Retained profits RM'000	
At 1 January 2001	68,268	-	37,383	1,537	-	11,914	119,102
Surplus on revaluation	-	-	-	-	901	-	901
Net gains and losses not recognised in the income statement	-	-	-	-	901	-	901
Net profit for the year	-	-	-	-	-	131	131
Issue of share capital	209	-	380	-	-	-	589
Dividends paid	-	-	-	-	-	(2,731)	(2,731)
Dividend – underprovision in prior year	-	-	-	-	-	(5)	(5)
Shares bought back	-	(3,808)	-	-	-	-	(3,808)
At 31 December 2001 / 1 January 2002	68,477	(3,808)	37,763	1,537	901	9,309	114,179
Net loss for the year	-	-	-	-	-	(844)	(844)
Issue of share capital	415	-	1,088	-	-	-	1,503
Final dividends paid	-	-	-	-	-	(2,030)	(2,030)
At 31 December 2002	68,892	(3,808)	38,851	1,537	901	6,435	112,808

Note 15

The notes set out on pages 72 to 109 form an integral part of, and should be read in conjunction with, these financial statements.

Cash Flow Statements

for the year ended 31 December 2002

Note	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Cash flows from operating activities				
Profit before taxation and minority shareholders' interests	2,687	7,278	(861)	131
Adjustments for:				
Allowance for diminution in value of investments	1,650	-	-	-
Amortisation of development expenditure	418	1,396	-	-
Depreciation	26,821	24,793	543	511
Dilution of interest	-	782	-	-
Dividend income	-	-	(3,648)	(4,280)
Gain on disposal of an associate	-	(1,089)	-	-
Gain on disposal of short term investment	(20)	-	-	-
(Gain)/Loss on disposal of property, plant and equipment	(152)	225	(42)	(33)
Interest expense	4,066	5,867	1,571	1,694
Interest income	(1,430)	(1,847)	(1,243)	(1,389)
Property, plant and equipment written off	15	-	1	-
Share of profits in associates	(1,550)	(1,173)	-	-
Unrealised foreign exchange losses	761	787	-	-
Write down of development expenditure	1,700	-	-	-
Operating profit/(loss) before working capital changes	34,966	37,019	(3,679)	(3,366)
(Increase)/Decrease in working capital:				
Inventories	(7,482)	48	-	-
Trade and other receivables	850	(2,788)	1,599	13,003
Trade and other payables	(3,712)	(1,509)	540	219
Provisions	(35)	-	-	-
Cash generated from/(used in) operations	24,587	32,770	(1,540)	9,856
Dividend income received	-	-	3,240	2,500
Income taxes paid	(5,268)	(6,383)	-	-
Proceeds from joint venture development	8,000	9,092	-	-
Interest income received	1,972	1,305	1,243	1,202
Net cash generated from operating activities	29,291	36,784	2,943	13,558

Cash Flow Statements

for the year ended 31 December 2002

	Note	Group		Company	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired	(i)	-	4,003	-	-
Purchase of additional shares in an existing subsidiary		-	(2,447)	-	(2,447)
Purchase of investments		(5,367)	(976)	(4,500)	-
Proceeds from disposal of property, plant and equipment		381	860	42	36
Purchase of property, plant and equipment		(27,116)	(26,678)	(182)	(556)
Development expenditure incurred		(1,179)	(1,872)	-	-
Dividend received from an associate		408	680	408	680
Proceeds from sale of investments		1,861	-	-	-
Proceeds from disposal of investment in an associate		-	4,084	-	-
Net cash used in investing activities		(31,012)	(22,346)	(4,232)	(2,287)
Cash flows from financing activities					
Dividend paid		(2,030)	(2,736)	(2,030)	(2,736)
Drawdown of term loan/bank borrowings		63,130	39,871	45,000	-
Increase in pledged deposits placed with licensed banks		(40,357)	(89)	(38,715)	(89)
Interest paid		(4,066)	(5,233)	(1,571)	(1,679)
Proceeds from issuance of shares		1,503	589	1,503	589
Purchase of own shares		-	(3,808)	-	(3,808)
Repayment of term loan/bank borrowings		(43,566)	(50,005)	(778)	(9,192)
Payment of lease and hire purchase liabilities		(1,525)	(3,100)	(158)	(143)
Net cash (used in)/ generated from financing activities		(26,911)	(24,511)	3,251	(17,058)
Net (decrease)/ increase in cash and cash equivalents		(28,632)	(10,073)	1,962	(5,787)
Cash and cash equivalents at beginning of year	(ii)	60,521	71,825	7,019	12,806
Foreign exchange differences		1,602	(1,231)	-	-
Cash and cash equivalents at end of year	(ii)	33,491	60,521	8,981	7,019

Cash Flow Statements

for the year ended 31 December 2002

(i) Acquisition of subsidiaries

During the year, the Group acquired Nucleus Components Sdn. Bhd. and Nucleus India Pte. Ltd. The net cash acquired is RM2 from the purchase price of RM4 and cash in subsidiaries of RM6.

In 2001, the Group acquired Neolec International Inc. The fair values of assets and liabilities assumed were as follows:

	<u>Group 2001 RM'000</u>
Non-current assets	
Property, plant and equipment	1,359
Current assets	17,218
Current liabilities	(6,242)
Minority interest	(6,045)
	<hr/>
Net assets	6,290
Goodwill on acquisition	23
	<hr/>
Consideration paid, satisfied in cash	(6,313)
Cash acquired	10,316
	<hr/>
Net cash inflow	<u>4,003</u>

(ii) Cash and cash equivalents comprise:

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Cash and bank balances	17,851	28,277	1,124	975
Deposits (excluding deposits pledged)	15,836	32,587	7,857	6,044
	<hr/>	<hr/>	<hr/>	<hr/>
	33,687	60,864	8,981	7,019
Bank overdrafts (secured)	(196)	(343)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>33,491</u>	<u>60,521</u>	<u>8,981</u>	<u>7,019</u>

The notes set out on pages 72 to 109 form an integral part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years except for the adoption of the following:

- (i) MASB 20, Provisions, Contingent Liabilities and Contingent Assets (see Note 13) which are applied retrospectively. Comparative figures have not been restated as the previous accounting policies were in line with the accounting standards;
- (ii) MASB 21, Business Combinations (see Note 33). The Group has chosen to apply this standard prospectively.
- (iii) MASB 23, Impairment of Assets which is applied prospectively. The restatement of comparative figures and prior year adjustment are therefore not presented; and
- (iv) MASB 24, Financial Instruments: Disclosure and Presentation which has been adopted prospectively.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared in compliance with applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting except for certain subsidiaries which are consolidated using the merger method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or reserve on consolidation as appropriate.

Subsidiaries which satisfy the merger relief provisions of Sections 60(4) of the Company Act, 1965 have been consolidated using the acquisition method and the new shares issued for the acquisitions have been recorded at their nominal value in the financial statements of the Company. On consolidation, the premiums arising from the new shares issued have been recorded as a merger reserve. The merger reserve has been used to write off the goodwill arising on the acquisition of the said subsidiaries.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(c) Property, plant and equipment

Freehold and leasehold land together with the attached buildings are stated at valuation. The cost of property, plant and equipment comprises their purchase cost and any incidental costs of acquisition.

The Group revalues its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value (refer Note 1(p)).

Notes to the Financial Statements

1. Summary of significant accounting policies (*continued*)

(c) Property, plant and equipment (*continued*)

Depreciation

Freehold land is not depreciated while leasehold land is amortised over the period of the lease. Buildings are depreciated on a straight line basis over 30 to 50 years.

Depreciation of other property, plant and equipment is provided on a straight line basis so as to write off the cost of the property, plant and equipment over their estimated useful lives.

The annual rates of depreciation adopted are as follows:

Dies and moulds	20% to 33%
Plant and machinery	10% to 20%
Furniture, fittings and office equipment	10% to 40%
Motor vehicles	20%

(d) Investment in subsidiaries

Investment in unquoted subsidiaries, which is eliminated on consolidation, is stated in the Company's financial statements at cost. An allowance is made when the Directors are of the view that there is a diminution in value of investments which is other than temporary.

(e) Property development expenditure

Development properties are stated at cost. The property development expenditure is amortised in proportion to the revenue received from the joint development of the land and is recognised as cost of sales. Where the estimated future realisable revenue is lower than the carrying value of the property development project, an allowance for the difference is made to reduce the carrying value of the project. Anticipated losses are provided for in full.

Interest costs on specific and identifiable borrowings to acquire land held for development are capitalised during the years of active development and carried forward as part of the costs of development.

(f) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

(g) Other investments

Long term and current unquoted investments are stated at cost while current quoted investments are stated at the lower of cost and market value on a portfolio basis. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

(h) Intangible assets

(i) Goodwill or reserve arising on consolidation

Goodwill or reserve arising on consolidation represents the difference of the purchase price over the fair value of the net assets of the subsidiaries and associates at the date of acquisition and is taken up in the Consolidated Balance Sheet as a permanent item.

Notes to the Financial Statements

1. Summary of significant accounting policies (*continued*)

(h) Intangible assets (*continued*)

(ii) *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is amortised and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised over a period not more than ten (10) years, upon commencement of commercial production.

(i) Inventories

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value with weighted average cost being the main basis for cost. For work-in-progress and finished goods, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

(j) Trade and other receivables

Trade and other receivables are carried at cost less allowance for doubtful debts.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(l) Liabilities

Borrowings and trade and other payables are stated at cost.

(m) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

Provision for warranties

A provision for warranties is recognised when the underlying products or services are sold. It is based on historical warranty data and a weighting of all possible outcomes against the associated probabilities.

(n) Finance leases

Leases in which the Group and the Company assume substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses.

In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's incremental borrowing rate is used.

Notes to the Financial Statements

1. Summary of significant accounting policies (*continued*)

(o) Share capital

(i) Preference share capital

Preference share capital is classified as liability if it is redeemable on a specific date or at the option of the shareholders and dividends thereon are recognised in the income statement as interest expense.

(ii) Repurchase of shares

When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are reclassified as treasury shares and presented as a deduction from total equity.

(p) Impairment

The carrying amount of the Group's assets, other than inventories (refer to note 1(i)), deferred tax assets (refer note 1 (q)) and financial assets (other than investments in subsidiaries and associates), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

(q) Taxation

The tax expense in the income statement represents taxation at current tax rates based on profit earned during the year.

Deferred taxation is provided under the liability method for all timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

(r) Foreign currency

i) Foreign currencies transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

Notes to the Financial Statements

1. Summary of significant accounting policies (continued)

(r) Foreign currency (continued)

ii) Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

1SGD	RM2.19	(2001: 1SGD	RM2.06)
1USD	RM3.80	(2001: 1USD	RM3.80)
1HKD	RM0.49	(2001: 1HKD	RM0.49)
1NTD	RM0.11	(2001: 1NTD	RM0.11)
1EURO	RM3.99	(2001: 1EURO	RM3.37)

(s) Revenue

Revenue of the Company represents dividends received and receivable from subsidiaries and associates, rental income and management fee. Revenue for the Group represents the invoiced value of goods sold, less sales tax, trade discounts and allowances and based on progressive payments received from the developer in the joint venture development. Sales between Group companies are excluded from the revenue of the Group.

i) Goods sold and services rendered

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the services at the balance sheet date. The stage of completion is assessed by reference to services performed to date as a percentage of total services to be performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

iii) Progressive payments received from joint venture development

Revenue is based on progressive payment received from developer in the joint venture development.

(t) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield of the asset.

(u) Expenses

i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

ii) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of finance lease payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

Notes to the Financial Statements

2. Property, plant and equipment

<i>Group</i>	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Dies and moulds RM'000	Plant and machinery RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Construction in progress RM'000	Total RM'000
Cost/Valuation								
At 1 January 2002	5,433	42,853	1,243	165,786	22,146	3,535	16,441	257,437
Exchange differences	-	414	-	-	186	65	-	665
Additions	-	1,142	128	21,775	2,974	-	1,097	27,116
Disposals/ write off	-	-	-	(494)	(104)	(959)	-	(1,557)
Revaluation	(1,460)	-	-	-	-	-	-	(1,460)
Reclassification	-	17,538	-	-	-	-	(17,538)	-
At 31 December 2002	3,973	61,947	1,371	187,067	25,202	2,641	-	282,201
Representing items at:								
Cost	973	23,422	1,371	187,067	25,202	2,641	-	240,675
Director's valuation	3,000	38,525	-	-	-	-	-	41,526
	3,973	61,947	1,371	187,067	25,202	2,641	-	282,201
Depreciation								
At 1 January 2002	973	1,136	732	64,409	9,794	1,846	-	78,890
Exchange differences	-	8	-	-	106	36	-	150
Charge for the year	87	995	191	21,482	3,459	607	-	26,821
Disposals/ write off	-	-	-	(5)	(87)	(732)	-	(824)
Adjustment for revaluation	(87)	-	-	-	-	-	-	(87)
At 31 December 2002	973	2,139	923	85,886	13,272	1,757	-	104,950
Net book value								
At 31 December 2002	3,000	59,808	448	101,181	11,930	884	-	177,251
At 31 December 2001	4,460	41,717	511	101,377	12,352	1,689	16,441	178,547
Depreciation charge for the year ended 31 December 2001	99	771	176	20,122	2,952	673	-	24,793

Notes to the Financial Statements

2. Property, plant and equipment (*continued*)

<i>Company</i>	Buildings RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost/Valuation				
At 1 January 2002	8,052	885	1,045	9,982
Additions	136	46	-	182
Disposals/ write off	-	(12)	(105)	(117)
At 31 December 2002	8,188	919	940	10,047
Representing items at:				
Cost	364	919	940	2,223
Valuation	7,824	-	-	7,824
	8,188	919	940	10,047
Depreciation				
At 1 January 2002	80	543	444	1,067
Charge for the year	169	125	249	543
Disposal/ write off	-	(9)	(105)	(114)
At 31 December 2002	249	659	588	1,496
Net book value				
At 31 December 2002	7,939	260	352	8,551
At 31 December 2001	7,972	342	601	8,915
Depreciation charge for the year ended 31 December 2001	157	121	233	511

The Group and Company's land and buildings were last revalued in June/July 2001 using an open market value basis by the following independent qualified valuers using the comparison method to reflect fair value:

- Mr. Khor Boon Soo, an independent registered valuer in Henry Butcher Lim & Long (North) Sdn. Bhd.
- Encik Mohd. Salleh Akram, a chartered valuation surveyor in Akram & Co.
- Ms. Poh Kwee Eng, an independent registered valuer in DTZ Debenham Tie Leung (SEA) Pte. Ltd.

The carrying amount of freehold land and building of a subsidiary was reduced to RM3,000,000 (2001 - RM4,460,000) following the revaluation in July 2002 by the Directors based on valuation carried out by Mr. Tew Kok Huat, an independent registered valuer in Henry Butcher Lim & Long (Selangor) Sdn. Bhd. using the open market value basis. The revaluation was carried out as a result of an impending sale.

Deferred taxation on revaluation of the Group and Company's leasehold land and building of RM265,000 (2001 - RM265,000) and RM5,000 (2001 - RM5,000) respectively are not provided for in the financial statements as the Directors have no firm commitment to dispose of these properties.

Notes to the Financial Statements

2. Property, plant and equipment (*continued*)

Had the freehold and leasehold land and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

	Group	
	2002 RM'000	2001 RM'000
Freehold land and buildings		
Cost	1,244	1,244
Accumulated depreciation	(590)	(568)
Net book value at the end of financial year	654	676
Leasehold land and buildings		
Cost	39,751	39,751
Accumulated depreciation	(3,587)	(2,767)
Net book value at the end of financial year	36,163	36,984
	Company	
	2002 RM'000	2001 RM'000
Buildings		
Cost	8,080	7,944
Accumulated depreciation	(1,034)	(873)
Net book value at the end of financial year	7,046	7,071

The freehold land and buildings of the Group costing RM3,973,000 are charged to a financial institution to secure credit facilities for the Group.

The leasehold land and buildings of the Group costing RM43,847,000 are charged to financial institutions to secure credit facilities for the Company and certain subsidiaries.

The net book value of the Group's property, plant and equipment acquired under hire purchase and finance lease arrangements as at 31 December 2002 amounted to RM1,685,000 (2001 - RM7,093,000).

The net book value of the Company's property, plant and equipment acquired under hire purchase and finance lease arrangements as at 31 December 2002 amounted to RM368,000 (2001 - RM717,000).

Notes to the Financial Statements

3. Investment in subsidiaries

	Company	
	2002 RM'000	2001 RM'000
Unquoted shares – at cost	81,892	81,892

The principal activities of the subsidiaries, their places of incorporation and the interest of AIC Corporation Berhad are as follows:

Name of Company	Principal activities	Country of incorporation	Effective ownership interest	
			2002 (%)	2001 (%)
AIC Inspirasi Sdn. Bhd. <i>and its subsidiaries</i>	Investment holding	Malaysia	100	100
Autovisor Plastics Sdn. Bhd.	Manufacturing of sunvisors and interior car lamps	Malaysia	100	100
Brimal Holdings Sdn. Bhd.	Design and distribution of electronic products and assembly of automotive accessories	Malaysia	100	100
Custom Tooling Holdings Sdn. Bhd. <i>and its subsidiaries</i>	Investment holding	Malaysia	100	100
Custom Tooling (Malaysia) Sdn. Bhd.	Manufacturing and fabrication of high precision engineering plastics and moulding for the automotive, telecommunication and electronics industries	Malaysia	100	100
Custom Tooling Engineering (Malaysia) Sdn. Bhd.	Fabrication of tools, dies and moulds	Malaysia	100	100
Custom Tooling (Kota Bahru) Sdn. Bhd.	Dormant	Malaysia	51	51
CTMS Sdn. Bhd.	Manufacturing of hygiene products. The Company has ceased operation during the year.	Malaysia	100	100
AIC dotCom Sdn. Bhd.	Investment holding	Malaysia	100	100
AIC Technology Sdn. Bhd. <i>and its subsidiaries</i>	Investment holding	Malaysia	75	75
AIC Semiconductor Sdn. Bhd.	Design, procurement, sales, assembly and test of integrated circuit chips and other ancillary activities	Malaysia	74	74
AIC Microelectronics Sdn. Bhd.	Research and design of integrated circuit chips and provision of system solutions	Malaysia	56	56
AIC Wafer Services Sdn. Bhd.	Provision of marketing services and the development of semiconductor and wafer related businesses	Malaysia	75	75

Notes to the Financial Statements

3. Investment in subsidiaries (continued)

Name of Company	Principal activities	Country of incorporation	Effective ownership interest	
			2002 (%)	2001 (%)
*Nucleus Electronics Ltd. <i>and its subsidiaries</i>	Distribution of electronic components for industrial applications	Singapore	41	41
* Nucleus Components Sdn. Bhd. (formerly known as Vital Components Sdn. Bhd.)	Provision of liaison services to its holding company for the distribution and marketing of electronic components.	Malaysia	41	-
* Nucleus Electronics Sdn. Bhd.	Dormant	Malaysia	41	41
* Nucleus Electronics (Hong Kong) Limited	Distribution and marketing of electronic components and acting as sales representative for principals	Hong Kong	41	41
*** Nucleus India Pte. Ltd.	Dormant	Singapore	21	-
* Neolec International Inc.	Trading of electronic business and is an authorised bidding agent	Taiwan	21	21
AIC Properties Sdn. Bhd.	Property development, management and other ancillary activities	Malaysia	61	61
** Inmode Venture Sdn. Bhd.	Providing project management and consultancy services, sub-contractor of general works and property investment	Malaysia	100	100
Integral CAD Technologies Sdn. Bhd. <i>and its subsidiaries</i>	Providing information technology solutions and services	Malaysia	90	90
Integral CAD Distribution Sdn. Bhd.	Sales, support and services of computer aided design technologies, hardware and software systems	Malaysia	90	90
Alpha Mediatech Sdn. Bhd.	Provision of electronic and robotic teaching aids to educational institutions	Malaysia	63	63

* Audited by member firms of KPMG International

** Not audited by KPMG

*** At the date of this report, the statutory auditor has not been appointed

Notes to the Financial Statements

4. Property development expenditure

	Group	
	2002 RM'000	2001 RM'000
Freehold land, at cost	1,443	7,565
Property development expenditure	389	2,040
	<u>1,832</u>	<u>9,605</u>

The freehold land is charged as a security for banking facilities granted to the Company.

5. Investments in associates

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Quoted shares, at cost	13,934	13,934	12,064	12,064
Share of post acquisition retained profits	14,605	13,883	-	-
	<u>28,539</u>	<u>27,817</u>	<u>12,064</u>	<u>12,064</u>
Market value of quoted shares	<u>16,728</u>	<u>22,032</u>	<u>16,728</u>	<u>22,032</u>

This is represented by:

	Group	
	2002 RM'000	2001 RM'000
Group's share of net assets other than goodwill	22,728	22,006
Group's share of goodwill	5,811	5,811
	<u>28,539</u>	<u>27,817</u>

Notes to the Financial Statements

5. Investments in associates (continued)

The details of the associates are as follows:

Name of Company	Principal activities	Country of incorporation	Effective ownership interest	
			2002 (%)	2001 (%)
Jotech Holdings Berhad <i>and its subsidiaries</i>	Investment holding	Malaysia	34	34
Jotech Metal Fabrication Industries Sdn. Bhd. <i>and its subsidiaries</i>	Manufacture and fabrication of tools and dies and stamped metal components for electrical and consumer electronics industries	Malaysia	34	34
JP Metal Sdn. Bhd.	Manufacture and fabrication of tools and dies and stamped metal components for electronics and automotive industries	Malaysia	34	34
PT Indotech Metal Nusantara	Manufacture and fabrication of tools and dies and stamped metal components for electronics and electrical industry	Indonesia	20	20
Prodelcon Sdn. Bhd.	Manufacture of high precision tooling, die sets, semiconductor moulds and parts and high precision jigs and fixtures and the design and manufacture of turnkey automation systems	Malaysia	34	34
Multimatic Systems Sdn. Bhd.	Design, fabrication and commissioning of automatic handling equipment/systems for electronic and semiconductor industries	Malaysia	34	34

Notes to the Financial Statements

6. Other investments

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
<i>Long term</i>				
Quoted investment in unit trusts and shares	87	87	-	-
Unquoted subordinated bonds	4,500	-	4,500	-
	4,587	87	4,500	-
Less : Allowance for diminution in value of quoted investments	(27)	(27)	-	-
	4,560	60	4,500	-
Market value of quoted investments	47	60	-	-

	Group	
	2002 RM'000	2001 RM'000
<i>Short term</i>		
Unquoted shares	1,650	1,650
Quoted debt securities	-	976
	1,650	2,626
Allowance for diminution in value	(1,650)	-
	-	2,626
Market value of quoted debt securities	-	984

The details of the short term investment is as follows:

Name of Company	Principal activities	Country of incorporation	Effective ownership interest	
			2002 (%)	2001 (%)
MteX Corporation Sdn. Bhd.	Electronic commerce technology developer, trade portal and services provider.	Malaysia	35	35

Notes to the Financial Statements

7. Intangible assets

	Group	
	2002 RM'000	2001 RM'000
Development expenditure		
At 1 January	2,726	2,250
Increased during the year	1,179	1,872
Amortised during the year	(418)	(1,396)
Write down during the year	(1,700)	-
At 31 December	1,787	2,726
Goodwill on consolidation		
At 1 January	37,237	36,409
Arising from additional investment	-	856
Decreased during the year	-	(28)
At 31 December	37,237	37,237
Total intangible assets	39,024	39,963

Included in development expenditure incurred during the year are staff costs amounting to RM634,000 (2001 - RM1,023,000).

8. Inventories

	Group	
	2002 RM'000	2001 RM'000
<i>At cost</i>		
Raw materials	6,486	4,479
Work in progress	1,473	833
Goods in transit	1,279	1,647
Finished goods	16,552	16,587
	25,790	23,546
<i>At net realisable value</i>		
Finished goods	11,238	6,000
	37,028	29,546

During the year, there was a reversal of a write down of inventories of RM27,000 (2001 - RM20,000). The reversal arose in respect of part of inventory written down made in prior years that was subsequently not required as a result of improving prices for the inventories.

Notes to the Financial Statements

9. Trade and other receivables

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Trade receivables	70,430	72,305	-	-
Other receivables, deposits and prepayments	8,702	8,393	1,800	966
Subsidiaries	-	-	40,441	42,828
Associates	256	301	256	301
	<u>79,388</u>	<u>80,999</u>	<u>42,497</u>	<u>44,095</u>

Trade receivables of the Group include:

- i) RM10,148,000 (2001 - RM11,138,000) due from a substantial shareholder of a subsidiary.
- ii) RM676,000 (2001 - RM1,985,000) due from related parties (companies with common shareholders).

The currency exposure profile of trade receivables is as follows:

	Group 2002 RM'000	Company 2002 RM'000
Ringgit Malaysia	22,461	-
US Dollar	41,298	-
Hong Kong Dollar	119	-
New Taiwan Dollar	5,886	-
Singapore Dollar	666	-
	<u>70,430</u>	<u>-</u>

Credit terms of trade receivables range from 30 – 90 days.

Other receivables, deposits and prepayments of the Group and the Company are as follows:

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Other receivables	5,739	4,255	501	745
Deposits	789	2,952	57	57
Prepayments	2,174	1,186	1,242	164
	<u>8,702</u>	<u>8,393</u>	<u>1,800</u>	<u>966</u>

Included in other receivables are amounts due from related parties (companies with common Directors) amounting to RM68,000 (2001 – RM49,000). The amounts are unsecured, interest free and have no fixed terms of repayment.

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for amounts due from certain subsidiaries amounting to RM12,569,000 (2001 – RM23,654,000) which bear interest at 3% to 5% (2001 – 2.6% to 9.5%) per annum.

Notes to the Financial Statements

10. Cash and cash equivalents

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Deposits placed with licensed banks	68,824	45,218	59,203	18,675
Cash and bank balances	17,851	28,277	1,123	975
	<u>86,675</u>	<u>73,495</u>	<u>60,326</u>	<u>19,650</u>

Fixed deposits of the Group and the Company include RM52,988,000 (2001 - RM12,631,000) and RM51,346,000 (2001- RM12,631,000) pledged to a licensed bank to secure banking facilities.

The currency exposure profile of deposits, cash and bank balance is as follows:

	Group 2002 RM'000	Company 2002 RM'000
Ringgit Malaysia	76,163	60,326
US Dollar	8,071	-
Hong Kong Dollar	828	-
New Taiwan Dollar	1,361	-
Singapore Dollar	235	-
Others	17	-
	<u>86,675</u>	<u>60,326</u>

The weighted average interest rates of deposits, cash and bank balances that were effective during the year were as follows:

	Group 2002 RM'000	Company 2002 RM'000
Deposit with licensed bank/financial institutions	0.77% - 3.2%	3.0%
Bank balances	0.2% - 2.5%	0.2% - 1.41%

The maturity date of the Group and the Company's deposits ranges from one month to one year or at call with banks.

Notes to the Financial Statements

11. Trade and other payables

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Trade payables	33,255	39,176	-	-
Other payables and accruals	14,934	13,435	1,576	895
Subsidiaries	-	-	71	214
	<u>48,189</u>	<u>52,611</u>	<u>1,647</u>	<u>1,109</u>

Included in trade payables of the Group is an amount due to a related party (company with common Directors) amounting to RM184,000 (2001 - RM39,000). The amount is unsecured, interest free and has no fixed terms of repayment.

The currency exposure profile of trade payables is as follows:

	Group 2002 RM'000	Company 2002 RM'000
Ringgit Malaysia	5,245	-
US Dollar	27,349	-
Japanese Yen	118	-
New Taiwan Dollar	482	-
Others	61	-
	<u>33,255</u>	<u>-</u>

Credit terms of trade payables ranges from 30 – 90 days.

Included in other payables and accruals of the Group and the Company are:

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Other payables	8,261	5,385	1,072	283
Accrued expenses	6,673	8,050	504	612
	<u>14,934</u>	<u>13,435</u>	<u>1,576</u>	<u>895</u>

Included in other payables and accruals of the Group are amounts due to an associate and management fees payable to a shareholder of a subsidiary of RM626,000 (2001 - RM114,000) and RM24,000 (2001 - RM12,000) respectively. The amount due to an associate is unsecured, interest free and is repayable within a period of thirty (30) days. The amount due to a shareholder is unsecured, interest free and has no fixed terms of repayment.

Also included in other payables and accruals of the Group is an amount for advances due to a shareholder of a subsidiary amounting to RM322,000 (2001 - Nil). The amount is unsecured, interest free and has no fixed terms of repayment.

Included in other payables and accruals of the Company are amounts due to related parties (companies with common Directors) amounting to RM364,000 (2001 - RM74,000). The amounts are unsecured, interest free and have no fixed terms of repayment.

The amount due to subsidiaries is unsecured, interest free and has no fixed terms of repayment.

Notes to the Financial Statements

12. Borrowings

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Current				
Overdrafts – secured	196	343	–	–
Trade financing facilities – unsecured	6,459	20,122	–	–
Finance lease and hire purchase liabilities – secured	398	1,453	177	158
Term loans – secured	10,780	10,766	–	–
– unsecured	9,634	7,422	–	–
Revolving credit facilities – unsecured	–	778	–	778
	<u>27,467</u>	<u>40,884</u>	<u>177</u>	<u>936</u>
Non-current				
Finance lease and hire purchase liabilities – secured	480	929	198	375
Term loans – secured	8,352	19,030	–	–
– unsecured	51,549	8,744	45,000	–
	<u>60,381</u>	<u>28,703</u>	<u>45,198</u>	<u>375</u>
Total borrowings	<u>87,848</u>	<u>69,587</u>	<u>45,375</u>	<u>1,311</u>
	Total	Under 1 year	1 – 5 years	Over 5 years
	RM'000	RM'000	RM'000	RM'000
Group				
Term loans – secured	19,132	10,780	8,057	295
– unsecured	61,183	9,634	51,549	–
Overdrafts – secured	196	196	–	–
Finance lease and hire purchase liabilities – secured	878	398	480	–
Trade financing facilities – unsecured	6,459	6,459	–	–
	<u>87,848</u>	<u>27,467</u>	<u>60,086</u>	<u>295</u>
Company				
Term loan – unsecured	45,000	–	45,000	–
Finance lease and hire purchase liabilities – secured	375	177	198	–
	<u>45,375</u>	<u>177</u>	<u>45,198</u>	<u>–</u>

Notes to the Financial Statements

12. Borrowings (continued)

The currency exposure profile of borrowings is as follows:

	Group 2002 RM'000	Company 2002 RM'000
Ringgit Malaysia	66,503	45,375
US Dollar	19,660	-
Singapore Dollar	1,681	-
Others	4	-
	87,848	45,375

The effective interest rates of borrowings that were effective during the year were as follows:

	Group 2002	Company 2002
Overdrafts – secured	2% + BLR	-
Term loans – secured	1.50% – 2.76%	-
– unsecured	6.50% – 6.75%	6.50%
Trade financing facilities – unsecured	1.0% – 1.5% + BLR	-
Finance lease and hire purchase liabilities – secured	2.60% – 9.30%	6.42%

Overdrafts – secured

The bank overdrafts bear interest at 2% (2001 – 2%) per annum above the lending bank's base lending rate.

The bank overdraft is secured by the following:

- i) fixed charge over a subsidiary's leasehold land and buildings;
- ii) joint and several guarantees by certain Directors of a subsidiary.

Trade financing facilities - unsecured

The trade financing facilities, which include trust receipts and banker acceptances, are secured by corporate guarantees given by a subsidiary's immediate holding company and the Company.

The trust receipts bear interest at 1.0% to 1.5% (2001 – 1.0% to 1.5%) per annum above the lending bank's base lending rate.

The banker acceptances bear interest at 3.8% (2001 – 3.8%) per annum.

Term loans – secured

The term loans are secured by the following:

- i) first legal charge over the leasehold landed property of a subsidiary;
- ii) a debenture covering the first fixed and floating charge over the present and future assets of a subsidiary;
- iii) joint and several guarantees by the Directors of a subsidiary;
- iv) a corporate guarantee by a subsidiary's immediate holding company and the Company; and
- v) a first legal mortgage over the leasehold land and building of a subsidiary.

Notes to the Financial Statements

12. Borrowings (continued)

Term loans – secured (continued)

The first term loan of USD12,000,000 bears interest at a rate of 1.5% (2001 – 1.5%) per annum above the lending bank's cost of fund and is repayable in 52 monthly instalments commencing 8 May 2000.

The second term loan of RM290,000 bears interest at a rate of 2% (2001 – 2%) per annum above the lending bank's base lending rate and is repayable in 180 monthly instalments commencing February 1996.

The third term loan of SGD1,000,000 bears interest at a rate to be determined by the bank at the end of each interest period. Currently, the loan bears interest ranging from 2.21% to 2.76% (2001 – 2.55% to 4.37%) per annum and is repayable in 120 instalments commencing April 1999.

Term loan – unsecured

The first term loan of RM22,400,000 has profit sharing payable amounting to RM2,499,000 (Islamic facility) and is repayable in 36 monthly instalments commencing February 2001. The first term loan is secured by a corporate guarantee from the Company.

The second term loan of RM7,462,000 bears a fixed interest rate of 6.75% (2001 – NIL) per annum and is repayable in 36 instalments commencing April 2003. The second term loan is secured by corporate guarantees from a subsidiary's immediate holding company and the Company.

The unsecured term loan of RM45,000,000 represents a primary collateralised loan obligation entered into by the Company on 18 November 2002. The borrowing is for 5 years with interest to be serviced semi-annually at a fixed interest rate of 6.5% per annum and the principal sum is repayable in one lump sum on the last day of the tenor of the facility.

Revolving credit facilities – unsecured

The revolving credit represents a syndicated short term revolving credit facility secured by way of a negative pledge on all unencumbered assets of the Company and its subsidiaries and carries an annual rate of interest of 2.5% per annum above the banks' cost of funds/base lending rates. The revolving credit facilities is fully repaid at 31 December 2002.

Finance lease and hire purchase liabilities

As at 31 December 2002, the Group and the Company have finance lease and hire purchase liabilities that are repayable as follows:

	Payments 2002 RM'000	Interest 2002 RM'000	Principal 2002 RM'000	Payments 2001 RM'000	Interest 2001 RM'000	Principal 2001 RM'000
Group						
Less than one year	451	53	398	1,598	145	1,453
Between one and five years	538	58	480	1,044	115	929
	<u>989</u>	<u>111</u>	<u>878</u>	<u>2,642</u>	<u>260</u>	<u>2,382</u>
Company						
Less than one year	208	31	177	209	51	158
Between one and five years	209	11	198	417	42	375
	<u>417</u>	<u>42</u>	<u>375</u>	<u>626</u>	<u>93</u>	<u>533</u>

Finance lease and hire purchase liabilities bear interest at rates ranging from 2.6% to 9.3% (2001 – 2.6% to 9.3%) per annum and is repayable between 24 to 84 instalments.

Notes to the Financial Statements

13. Provisions

	Warranties RM'000
Balance at 1 January 2002	170
Provision made during the year	165
Provision used during the year	(202)
Balance at 31 December 2002	133

Warranties

The provision for warranties relates to manufactured parts sold by subsidiaries. The provision is based on estimates made from historical warranty data associated with similar parts. The Group expects to incur the liability over the next one year.

92 14. Redeemable unsecured bank guaranteed bonds

The RM50,000,000 nominal value 2.5% coupon Redeemable Unsecured Bank Guaranteed Bonds 1998/2003 ("Bonds") constituted by a Trust Deed dated 21 April 1998 were issued together with 9,203,002 detachable Warrants A. The Warrants are transferable and are quoted on the Kuala Lumpur Stock Exchange. The main features of the Bonds and Warrants are as follows:

- i) The Bonds carry a fixed coupon rate of 2.5% per annum payable semi-annually in arrears on 30 June and 31 December.
- ii) Unless previously redeemed, repurchased or cancelled by the Company, the Bonds will be redeemed by cash at their nominal value together with the interest accrued on maturity date on 17 May 2003.

On 23 June 2000, the Company issued additional 9,203,002 new Warrants A on the basis of one (1) new Warrant A for every one (1) existing Warrant A held, in accordance with Clause 3.1 of the Second Schedule of the Deed Poll as a result of the Company's bonus issue on the basis of one (1) new ordinary share for every existing share held.

Subsequently, on 30 June 2000, the Company offered a non-renounceable issue of up to 18,406,004 replacement warrants 2000/2003 with an exercise price of RM3.80 ("Warrants B") to the holders of Warrants A at an issue price of RM0.10 per Warrant B on the basis of one (1) Warrant B in substitution for and upon the surrender and cancellation of one (1) Warrant A. A total of 17,446,064 Warrants B were issued on 24 July 2000 to the holders of Warrants A who surrendered and cancelled their Warrants A.

On 23 December 2002, the shareholders of the Company and the holders of Warrants B approved the extension of the exercise period of the outstanding Warrants B of 17,262,064. The extension is in compliance with the announcement by the Securities Commission on 30 October 1998 pertaining to extension of the exercise period of Warrants and the gazette on 1 November 1998 of amendments to Section 68(1) of the Companies Act, 1965 which enables options on shares to have an exercise period of up to ten (10) years. The salient terms of the extension as per the Supplemental Deed Poll dated 23 December 2002 are as follows:

- a) The original exercise period of the Warrants B shall be extended for three (3) years from 16 January 2003 up to and including 15 January 2006 and thereafter the option to extend the exercise period for a further period of one (1) year expiring on 15 January 2007 with a final option to extend the exercise period by one (1) year expiring on 15 January 2008.
- b) The First Extension will be implemented by the Company if the last closing price of the Company's shares quoted on the KLSE are at a premium of not more than 20% over the exercise price of RM3.80 per Warrant B for any market day for a consecutive period of 5 market days preceding 1 December 2002, being one and a half months prior to the expiry date of 15 January 2003.
- c) Following the First Extension, the further extensions of up to 2 periods of one year each from 16 January 2006 to 15 January 2007 and from 16 January 2007 to 15 January 2008 will be implemented by the Company if the weighted average market price of the Company's shares quoted on the KLSE are at a premium of not more than 20% over the exercise price of RM3.80 per Warrant B for any period of 30 consecutive market days preceding 15 October 2005 and 15 October 2006, being 3 months prior to expiry dates of 15 January 2006 and 15 January 2007 respectively.

Notes to the Financial Statements

14. Redeemable unsecured bank guaranteed bonds (continued)

On 16 January 2003, the exercise period of Warrants B was extended for another three years from 16 January 2003 to 15 January 2006. The duration and exercise period of Warrants A was not extended as the First Deed Poll entered into by the Company does not provide for any extension to the exercise period of Warrants A. Accordingly, all outstanding Warrants A ceased to be valid after the expiry date of 15 January 2003.

15. Share capital

	Group and Company	
	2002	2001
	RM'000	RM'000
Authorised		
Ordinary shares of RM1.00 each	100,000	100,000
Issued and fully paid		
Ordinary shares		
Balance at 1 January	68,477	68,268
Issued during the year		
- exercised of share options	231	209
- conversion of warrants	184	-
Balance at 31 December	68,892	68,477

(a) During the financial year, the registered holders of 184,000 warrants exercised their rights and subscribed for the equivalent number for new ordinary shares at an exercise price of RM3.80. The main features of the warrants are disclosed in Note 14.

On 16 January 2003, the exercise period of Warrants B was extended for another three years from 16 January 2003 to 15 January 2006. The duration and exercise period of Warrants A was not extended as the First Deed Poll entered into by the Company did not provide for any extension to the exercise period of Warrants A. Accordingly, all outstanding Warrants A (959,940) ceased to be valid after the expiry date on 15 January 2003. At the end of the financial year, 959,940 of Warrants A (2001 - 959,940) and 17,262,064 of Warrants B (2001 - 17,446,064) remained unexercised.

(b) At the end of the year, options to subscribe for 1,360,000 ordinary shares under the Company's ESOS remained unexercised.

The details of options granted to subscribe for shares which were outstanding at 31 December 2002 are as follows:

Option expiry date	Issue price	Number of options over ordinary shares of RM1 each
22.12.2003	2.805	172,000
22.12.2003	2.805	371,000
22.12.2003	10.25	230,000
22.12.2003	4.08	287,000
22.12.2003	5.03	300,000

(c) The number of outstanding shares in issue after deducting treasury shares held is 67,892,346 (2001 - 67,477,346) ordinary shares of RM1 each. Treasury shares have no rights to voting, dividends and participation in other distribution.

Notes to the Financial Statements

16. Treasury shares

Repurchased shares are held as treasury shares and carried at cost.

The details of the shares bought back as at 31 December 2002 are as follows:

Month	Number of shares bought back (‘000)	Highest price paid RM	Lowest price paid RM	Average price paid RM	Total consideration RM’000
June 2001	268	4.184	3.960	4.072	1,094
July 2001	618	3.960	3.520	3.670	2,269
November 2001	114	3.960	3.780	3.906	445
	<u>1,000</u>				<u>3,808</u>

During the financial year, there were no repurchases of shares.

17. Minority shareholders’ interests

This consists of the minority shareholders’ proportion of share capital and reserves of subsidiaries, net of their share of subsidiary’s goodwill on consolidation to the minority shareholders.

Following the introduction of MASB 24 which became effective on 1 January 2002, minority share of Cumulative Redeemable Preference Shares amounting to RM16,127,000 (2001 – RM16,127,000) in a subsidiary has been reclassified from equity to long term liability.

18. Deferred taxation

	Group	
	2002 RM’000	2001 RM’000
At 1 January	153	323
Arising from exchange differences	–	(9)
	<u>153</u>	<u>314</u>
Transfer to income statement	(29)	(161)
At 31 December	<u>124</u>	<u>153</u>

Subject to agreement by the Inland Revenue Board, the Group and the Company has potential deferred tax benefits not taken up in the financial statements under the liability method in respect of the following items:

	Group		Company	
	2002 RM’000	2001 RM’000	2002 RM’000	2001 RM’000
Unutilised tax losses	18,847	15,903	9,835	7,872
Other timing differences	1,294	(1,572)	993	(3,297)
	<u>20,141</u>	<u>14,331</u>	<u>10,828</u>	<u>4,575</u>

Notes to the Financial Statements

19. Operating profit/(loss)

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Revenue				
– sale of goods	377,494	292,438	–	–
– revenue from joint venture development	8,000	9,092	–	–
– dividend	–	–	3,648	4,280
– services	17,520	20,142	2,322	1,986
	<u>403,014</u>	<u>321,672</u>	<u>5,970</u>	<u>6,266</u>
Cost of inventories sold	(340,793)	(250,808)	–	–
Other cost of revenue	(23,626)	(26,639)	–	–
	<u>(364,419)</u>	<u>(277,447)</u>	<u>–</u>	<u>–</u>
Gross profit	38,595	44,225	5,970	6,266
Administration expenses	(12,694)	(14,780)	(3,783)	(2,637)
Distribution costs	(6,635)	(7,741)	–	–
Other operating expenses	(16,477)	(13,983)	(2,803)	(3,354)
Other operating income	1,070	2,662	83	161
Operating profit/(loss)	3,859	10,383	(533)	436
Operating profit is arrived at after crediting:				
Dividend income from:				
– unquoted subsidiaries	–	–	3,240	3,600
– quoted associate	–	–	408	680
Bad debts recovered	32	–	–	–
Exceptional item				
**Gain on disposal of an associate	–	1,089	–	–
Gain on disposal of property, plant and equipment – net	152	–	42	33
Gain on disposal of short term investment	20	–	–	–
Management fee received from an associate	250	322	1,352	1,340
Rental of premises	483	305	970	646
Realised foreign exchange gain – net	–	296	–	–
Reversal of inventory written down to net realisable value	27	20	–	–

Notes to the Financial Statements

19. Operating profit/(loss) (continued)

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
and after charging:				
Allowance for doubtful debts	150	118	-	-
Amortisation of development expenditure	418	1,396	-	-
Auditors' remuneration				
- Holding company auditors	145	93	27	15
- Overseas KPMG auditors	182	156	-	-
- Other auditors	1	11	-	-
- Under/ (over) provision in prior year				
- Holding company auditors	10	3	10	-
- Overseas KPMG auditors	6	(21)	-	-
Consultancy fees paid to a company in which a Director has interest	-	83	-	-
Depreciation	26,821	24,793	543	511
Directors' emoluments				
Fees	203	264	58	53
Remuneration				
- Directors of the Company	890	393	890	393
- Other Directors	2,169	1,868	-	-
Retirement gratuity	990	-	990	-
Other emoluments	20	-	20	-
Doubtful debts written off	199	-	184	-
Exceptional items				
* Allowance for diminution in value of investment	1,650	-	-	-
** Loss on dilution of shareholding in a subsidiary	-	782	-	-
* Write down of development expenditure	1,700	-	-	-
Inventories written down to net realisable value	2,346	2,707	-	-
Inventories written off	57	437	-	-
Loss on disposal of property, plant and equipment - net	-	225	-	-
Management fees paid/payable to a company in which certain Directors have interest	184	504	184	504
Management fees payable to a shareholder	24	24	-	-
Operating lease rentals	-	455	-	-
Property, plant and equipment written off	15	-	1	-
Provision for warranty claims	165	-	-	-
Rental of premises	23	100	-	-
Rental of premises paid to a company in which a Director has interest	-	33	-	-
Realised foreign exchange loss - net	345	-	-	-
Unrealised foreign exchange loss - net	761	787	-	-

Notes to the Financial Statements

19. Operating profit/(loss) (continued)

* The exceptional items for the current year relate to:

- i) Allowance for diminution in value of investment arising from the impairment of an investment held by a subsidiary.
- ii) Write down of development expenditure by a subsidiary to reflect the non-recoverability of the expected future economic benefits.

** The exceptional item in 2001 relates to the Group's gain on disposal of an associate and the Group's loss on dilution of shareholding in a subsidiary.

The estimated monetary value of Directors' benefit-in-kind for the Group and the Company are RM66,000 (2001 - RM265,000) and RM60,000 (2001 - RM33,000) respectively.

Details of Directors' emoluments of the Company paid/payable for the financial year are as follows:

	Remuneration RM'000	Other emoluments RM'000	Fees RM'000	Retirement gratuity RM'000	Benefits in kind RM'000
Datuk Haji Sarip bin Hamid	318	1	4	495	20
Tuan Haji Mohd Ali bin Bawal	277	-	-	495	20
Mohamad Ariff bin Puteh	295	-	-	-	20
3 Non-Executive Directors	-	19	54	-	-
	890	20	58	990	60

20. Employee information

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Staff costs				
- charged to income statement	33,252	31,990	3,358	2,292
- capitalised in development expenditure (Note 7)	634	1,023	-	-
	33,886	33,013	3,358	2,292

The number of employees of the Group and of the Company (including Directors) at the end of the year was 1,262 and 25 (2001 - 1,057 and 21) respectively.

Notes to the Financial Statements

21. Financing costs

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Interest payable				
Term loans	2,200	3,421	260	-
Bank overdrafts	19	25	-	15
Bonds	1,250	1,250	1,250	1,250
Hire purchase and finance leases	141	378	51	72
Trust receipts	446	435	-	-
Revolving credit	10	358	10	357
	4,066	5,867	1,571	1,694
Others	149	293	-	-
	4,215	6,160	1,571	1,694

22. Interest income

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Interest receivable				
Subsidiaries	-	-	412	870
Fixed deposits	1,430	1,847	831	519
	1,430	1,847	1,243	1,389
Others	63	35	-	-
	1,493	1,882	1,243	1,389

23. Tax expense

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Current tax expense				
Malaysian – current	1,601	2,690	-	-
– prior year	(91)	-	(17)	-
Overseas – current	628	1,147	-	-
– prior year	(1,172)	57	-	-
	966	3,894	(17)	-
Deferred tax expense				
Malaysian – current	(29)	(161)	-	-
Tax expense on share of profits in associates	317	241	-	-
	1,254	3,974	(17)	-

Notes to the Financial Statements

23. Tax expense (continued)

The effective tax rate of the Group in the current year and 2001 is higher than the statutory tax rate of 28% due to certain expenses being disallowed for taxation purposes and no group relief available for losses incurred by certain subsidiaries.

Subject to agreement by the Inland Revenue Board, the Company has Section 108 tax credit of approximately RM258,000 and tax exempt income of approximately RM8,808,000 to frank the payments of dividends from its distributable reserves as at 31 December 2002.

24. Earnings per share – Group

Basic earnings per share

The basic earnings per share for the financial year has been calculated on the Group's profit after taxation and minority interests of RM604,000 (2001 - RM3,448,000) based on the weighted average number of ordinary shares in issue of 67,678,000 (2001 - 67,957,000).

	2002 '000	2001 '000
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares at beginning of year	68,477	68,268
Effect of shares issued during the year	201	209
Effect of share buy back	(1,000)	(520)
Weighted average number of ordinary shares	<u>67,678</u>	<u>67,957</u>

Diluted earnings per share

The diluted earnings per share for the year has been calculated based on the Group's profit after taxation and minority interests for the year of RM604,000 (2001 - RM3,448,000) on the adjusted weighted average number of ordinary shares issued and issuable of 71,153,000 (2001 - 69,401,000) during the year.

	2002 '000	2001 '000
<i>Weighted average number of ordinary shares (diluted)</i>		
Issued ordinary shares at beginning of year	68,477	68,268
Effect of shares issued during the year	201	209
Effect of warrants and share options	3,475	1,444
Effect of share buy back	(1,000)	(520)
Weighted average number of ordinary shares (diluted)	<u>71,153</u>	<u>69,401</u>

25. Dividends

	Group and Company	
	2002	2001
	RM'000	RM'000
Ordinary		
Final dividends paid: 3% per share tax exempt (2001 – 4% per share tax exempt)	<u>2,030</u>	<u>2,731</u>

The proposed final tax exempt dividend of 1% per ordinary share less treasury shares amounting to RM678,923 has not been accounted for in the financial statements of the Group and the Company as at 31 December 2002.

Notes to the Financial Statements

26. Segmental reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following major business segments:

Investment holding	Comprising activities of investment holding companies.
Test and assembly and other semiconductor related activities	Research and design, procurement, sales, assembly and test of integrated circuit chips and other semiconductor ancillary services.
Distribution	Trading, distribution and marketing of electronic components for industrial application.
Information technology	Providing information technology solutions and services and provision of electronic and robotic teaching aids to educational institutions.
Electronic	Manufacturing and assembly of automotive accessories, consultation design, development of plastic products and plastic injection moulding, manufacturing and fabrication of high precision engineering plastic and moulding.
Property	Property development

Geographical segments

The Group principally operates in the following geographical areas apart from its home country, Malaysia:

Singapore	Trading, distribution and marketing of electronic components for industrial application.
Hong Kong	Trading, distribution and marketing of electronic components for industrial application.
Taiwan	Trading of electric business and is an authorised bidding agent.

The other major business segments activities are conducted in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location in which the customers are located. Segment assets and capital expenditure are determined based on where the assets are located.

Notes to the Financial Statements

26. Segmental reporting (continued)

Group 2002	Investment holding RM'000	Test and assembly and other semiconductor related activities RM'000	Distribution RM'000	Information Technology RM'000	Electronics RM'000	Property RM'000	Group RM'000
Business segments							
Total revenue	5,562	93,337	246,836	20,360	33,988	8,000	408,083
Inter segment revenue	(5,036)	-	-	(33)	-	-	(5,069)
Revenue from external customers	526	93,337	246,836	20,327	33,988	8,000	403,014
Segment result	(3,809)	1,125	2,048	124	7,563	158	7,209
Financing costs							(4,215)
Interest income							1,493
Allowance for diminution in value of investment							(1,650)
Write down of development expenditure							(1,700)
Share of profits in associates							1,550
Profit before taxation							2,687
Tax expense							(1,254)
							1,433
Minority interests							(829)
Net profit for the year							604
Segment assets	62,121	204,249	80,246	24,996	48,104	7,551	427,267
Investment in associates							28,539
Total assets							455,806
Segment liabilities	1,840	12,506	28,952	1,589	3,380	55	48,322
Borrowings							87,848
Income tax liabilities							1,168
Unallocated corporate liabilities							66,127
Total liabilities							203,465
Capital expenditure	182	22,958	259	49	3,668	-	27,116
Depreciation and amortisation	543	23,474	1,245	109	1,808	60	27,239

Notes to the Financial Statements

26. Segmental reporting (continued)

Group 2001	Investment holding RM'000	Test and assembly and other semiconductor related activities RM'000	Distribution RM'000	Information Technology RM'000	Electronics RM'000	Property RM'000	Group RM'000
Business segments							
Total revenue	6,060	86,376	140,715	50,364	35,066	9,092	327,673
Inter segment revenue	(5,691)	(13)	-	(297)	-	-	(6,001)
Revenue from external customers	369	86,363	140,715	50,067	35,066	9,092	321,672
Segment result	(3,101)	5,250	(123)	2,443	5,773	(166)	10,076
Financing costs							(6,160)
Interest income							1,882
Gain on disposal of an associate							1,089
Loss on dilution of shareholding in a subsidiary							(782)
Share of profits in associates							1,173
Profit before taxation							7,278
Tax expense							(3,974)
Minority interests							3,304 144
Net profit for the year							3,448
Segment assets	18,168	215,321	69,551	50,147	45,985	15,669	414,841
Investment in associates							27,817
Total assets							442,658
Segment liabilities	1,079	12,119	22,847	10,404	5,959	203	52,611
Borrowings							69,587
Income tax liabilities							3,981
Unallocated corporate liabilities							50,000
Total liabilities							176,179
Capital expenditure	556	23,594	1,016	242	1,270	-	26,678
Depreciation and amortisation	511	22,505	1,210	79	1,831	53	26,189

Notes to the Financial Statements

26. Segmental reporting (continued)

	Malaysia		Singapore		Hong Kong		Taiwan		United States of America		Group	
	2001 RM'000	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000	2002 RM'000
Geographical segments												
Revenue from external customers by location of customers	84,008	107,786	78,768	89,406	139,380	33,810	28,689	17,499	72,169	73,171	403,014	321,672
Segment assets by location of assets	347,381	345,289	33,632	51,089	33,559	11,028	13,055	7,435	-	-	427,627	414,841
Capital expenditure by location of assets	26,857	25,663	83	645	146	244	30	126	-	-	27,116	26,678

Notes to the Financial Statements

27. Contingent liabilities - unsecured

The Company has executed corporate guarantees in favour of licensed banks for facilities of up to a limit of RM104.9 million and USD12 million granted to its subsidiaries.

Litigation

Subsidiary

On 17 April 2001, Integral CAD Technologies Sdn. Bhd. ("ICT"), a subsidiary of the Company, claimed for refund of the deposit of RM1,550,000 paid to two parties ("Defendants") in relation to a Call Option Agreement which ICT decided not to exercise. ICT's application for summary judgement was allowed and judgement was entered against the Defendants. Subsequent to that, the Defendants filed an appeal against the Senior Assistant Registrar's decision in allowing the summary judgement which is now fixed for hearing on 3 April 2003 before a High Court Judge in Chambers. The solicitors of ICT are of the opinion that the Defendants' are unlikely to be successful in their appeal to the Judge against the Registrar's decision.

On 7 November 2002, ICT was served with an unsealed copy of the Defendants' application for leave from Court to amend their defence and to include a counter-claim. The Defendants in their proposed counter claim alleged that ICT, as an agent to the Company and AIC dotCom Sdn. Bhd., had breached a tripartite agreement between AIC dotCom Sdn. Bhd. and two other parties. The Defendants claimed that they had suffered losses amounting to RM13,350,000 mainly for loss of reputation and goodwill and damages for breach of contract. The court has yet to fix a hearing for the Defendants' application for leave, nevertheless the solicitors acting for ICT are of the view that ICT stands a reasonably good chance in opposing the Defendants' application as well as defending themselves against the counter claim put forward by the Defendants.

28. Operating leases

Leases as lessee

Total future minimum lease payments under non-cancellable operating lease are as follows:

	Group	
	2002 RM'000	2001 RM'000
Less than one year	516	265
Between one and five years	165	90
	<u>681</u>	<u>355</u>

A subsidiary leases a number of office spaces under operating leases. Lease payments are usually increased annually to reflect market rentals.

29. Capital commitments

Capital expenditure for property, plant and equipment not provided for in the financial statements are as follows:

	Group	
	2002 RM'000	2001 RM'000
Approved and contracted for	12,867	7,096
Approved but not contracted for	612	696
	<u>13,479</u>	<u>7,792</u>

Notes to the Financial Statements

30. Related parties

Controlling related party relationship are as follows:

- i) Subsidiaries and associates as disclosed in notes 3 and 5.
- ii) Companies in which certain Directors who are also shareholders are deemed to have substantial financial interests:
 - Automako Sdn. Bhd. ("AUSB")
 - Autokorsia Sdn. Bhd. ("AKSB")
 - Asteria Sdn. Bhd. ("ASB")
 - Asteria Industries Sdn. Bhd. ("AISB")
 - Asteria Manufacturing Sdn. Bhd. ("AMSB")
 - Asteria Electronics Sdn. Bhd. ("AESB")
 - Asteria Corporation Sdn. Bhd. ("ACSB")
 - Brimal Stampress Engineering Sdn. Bhd. ("BSE")
 - Cergas Resmi Sdn. Bhd. ("CRSB")
 - Hakikat Seri Sdn. Bhd. ("HSSB")
 - Hamodal Sdn. Bhd. ("HSB")
 - HKR Manufacturing Sdn. Bhd. ("HKR")
- iii) Khazanah Nasional Berhad ("KNB"), a substantial shareholder of AIC Technology Sdn. Bhd., a subsidiary.
- iv) Meranti Teguh Sdn. Bhd. ("MTSB"), a company in which a Director and shareholder in Integral CAD Technologies Sdn. Bhd. ("ICT"), is deemed to have substantial financial interests.
- v) Atmel Corporation ("AC"), a substantial shareholder of AIC Semiconductor Sdn. Bhd. ("AICS"), a subsidiary.

Notes to the Financial Statements

30. Related parties (continued)

Significant related party transactions are as follows:

	2002 RM'000	2001 RM'000
Rendering of services		
a) Transactions with subsidiaries:		
Management fees charged by the Company	1,102	1,238
Rental charged by the Company	694	595
Interest charged by the Company	411	870
b) Transactions with Jotech Holdings Berhad ("JHB"), an associate of the Company:		
Management fees received and receivable by the Company	252	297
Rental income receivable by the Company	24	24
c) Transactions with HSB:		
Consultancy fees charged to:		
– The Company	–	30
– The Group	–	111
d) Transaction with CRSB:		
Management fees charged to the Company	92	370
e) Transaction with HSSB:		
Management fees charged to the Company	92	62
f) Transactions with MTSB:		
Consultancy fees charged to the Group	–	83
Rental of premises charged to the Group	–	33
g) Transaction with KNB:		
Management fees charged to the Group	24	24
h) Transactions with ACSB:		
Rental income receivable by the Company	21	21
Management fees charged to the Company	316	240
i) Transactions with AISB:		
Rental income receivable by the Company	231	233
Management fees charged by the Group	–	60
Provision of networking facilities by the Company and sharing of software maintenance costs	15	19
j) Transaction with BSE:		
Rental income receivable by the Group	84	84
Sale of goods by the Group to:		
AMSB	4,899	4,178
AISB	10	28
AESB	–	196
AC	72,169	73,171
AKSB	41	–
AUSB	70	–
HKR	249	–
Purchase of goods by the Group from:		
AESB	212	–
BSE	266	364
Prodelcon Sdn. Bhd., a subsidiary of an associate of the Group	793	626

The transactions have been transacted in the normal course of business and have been established under negotiated terms.

Notes to the Financial Statements

31. Financial instruments

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including foreign currency exchange risk, interest rate risk, credit risk, market risk, liquidity and cash flow risk. The Group's overall financial risk management objective is to ensure that the Group creates value for its shareholders. Financial risk management is carried out through risk reviews, internal control system, an insurance programme and adherence to Group financial risk management policies. The Board regularly reviews these risk and approves such policies that covers the management of these risks.

Foreign currency exchange risk

The Group is exposed to currency risk as a result of the foreign currency transactions entered into by subsidiaries in currencies other than their functional currency. The Group does not engage in foreign currency hedging on its foreign currency exposures but the management is monitoring these exposures on an ongoing basis.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits, and is managed through the use of fixed and floating rate debt. The Group does not use derivative financial instruments to hedge its debt obligations.

Market risk

The Group does not face significant exposure from the risk from changes in debt and equity prices.

Credit risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised via strictly limiting business relationships to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

As at 31 December 2002, approximately 63% of the Group's trade receivable were due from 5 major customers.

Counterparties for fixed deposits consist of a number of prime financial institutions. The Group does not expect any counterparties to fail to meet their obligations, given their high credit ratings.

Liquidity and cash flow risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by maintaining committed credit lines available. In addition, the objective for debt maturities is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and/or refinance.

Notes to the Financial Statements

31. Financial instruments (*continued*)

Fair values

The carrying amount of financial assets and liabilities carried at the balance sheet approximate their fair values except as set out below:

	Note	Group		Company	
		Carrying amount	Fair value	Carrying amount	Fair value
		2002	2002	2002	2002
		RM'000	RM'000	RM'000	RM'000
Quoted shares in an associate company	5	28,539	16,728	12,064	16,728
Other investments:					
Quoted investment in unit trust and shares	6	60	47	-	-
Unquoted subordinate bond	6	4,500	*	4,500	*
Secured term loans	12	19,132	*	-	-
Unsecured term loans	12	61,183	*	45,000	*
Finance lease and hire purchase liabilities	12	878	*	375	*

The fair value of quoted securities is based on quoted market prices at the balance sheet date.

The carrying amount for financial assets and liabilities with a maturity of less than one year approximated their fair values due to the relatively short term nature.

* It was not practicable within the constraints of timeliness and cost to estimate these fair values reliably.

32. Events subsequent to the balance sheet date

On 28 February 2003, Brimal Holdings Sdn. Bhd. ("BHSB") entered into a Sale and Purchase Agreement with Brimal Stampress Engineering Sdn. Bhd. ("BSE") for the sale of a freehold industrial land with two offices cum factory buildings erected on it for a cash consideration of RM3 million. The proposed disposal is deemed to be a related party transaction by virtue of one of the Directors in BHSB having an indirect interest in BSE.

33. Acquisition of subsidiaries

a) *Nucleus Components Sdn. Bhd.*

On 8 January 2002, the Group acquired all the shares in Vital Components Sdn. Bhd. ("VCSB") for a consideration of RM2 satisfied by cash. On 30 March 2002, VCSB changed its name to Nucleus Components Sdn. Bhd. The acquisition was accounted for using the acquisition method of accounting. For the 12 months ended 31 December 2002, the subsidiary contributed a net loss of RM25,000 to the consolidated net profit for the year.

b) *Nucleus India Pte. Ltd.*

On 26 December 2002, Nucleus India Pte. Ltd. ("NIPL") was incorporated as a joint venture company between Nucleus Electronics Ltd. ("NEL"), a subsidiary company and Accurex Technologies Pte. Ltd. ("ATPL"). The authorised share capital of NIPL is SGD200,000 with an initial issued and paid-up capital of SGD2 with one share held by NEL and one share held by ATPL. The issued and paid-up share capital will be increased by the allotment and issue of additional shares to NEL and ATPL with shareholdings in the ratio of 51% and 49% respectively. The joint venture was accounted for using the acquisition method of accounting. As the subsidiary company is a dormant company, the post-acquisition results do not have an impact on the consolidated net profit for the year.

Notes to the Financial Statements

34. Liabilities payable by and debts payable to the Company

The amounts estimated by the Directors are as follows:

	Not later than 2 years RM'000	2 to 5 years RM'000
At 31 December 2002		
Liabilities payable by the Company		
Current liabilities	1,647	-
Borrowings	227	45,148
Bonds	50,000	-
	51,874	45,148
Debts payable to the Company:		
Other receivables	42,497	-
Conversion of warrants*:		
Estimated proceeds to be received	-	65,596
Other current assets:		
Deposits	59,203	-
Cash and bank balances	1,123	-
	60,326	-
At 31 December 2001		
Liabilities payable by the Company		
Current liabilities	1,126	-
Borrowings	1,094	217
Bonds	50,000	-
	52,220	217
Debts payable to the Company:		
Other receivables	44,095	-
Conversion of warrants**:		
Estimated proceeds to be received	70,615	-
Other current assets:		
Deposits	18,675	-
Cash and bank balances	975	-
	19,650	-

* Assuming full conversion of 17,262,064 of Warrants B at an exercise price of RM3.80 (2001 - RM3.80) at the first expiry date on 15 January 2006. All outstanding Warrants A at 31 December 2002 remained unexercised at the expiry date of 15 January 2003.

** Assuming full conversion of 959,940 Warrants A and 17,446,064 of Warrants B at an exercise price of RM4.50 and RM3.80 respectively.