Chairman's Statement

I do not believe you can do today's job with yesterday's method and be in the business of tomorrow.

Datuk Sarip bin Hamid
Chairman

Dear Shareholders,

The financial year 2003 has proven to be yet another challenging year for the Group. The global economic recovery never really did gain momentum and the outbreak of war in Iraq had caused even more uncertainties in the already volatile industries that the Group is currently in. The onset of SARS compounded the problem not only for the Group but also other businesses in general.

The semiconductor industry too was not spared especially in the first half of the year and naturally, we did not achieve the kind of results that we had originally expected to, this year. Similarly, our automotive business also took a beating as total industry volume in year 2003 contracted by nearly 7% to 405,000 units as compared to the year before. Proton, a major customer of our electronics division, reported a decline of 27.5% in their sales for year 2003 compared to the previous year largely attributable to the consumers' wait and see attitude in anticipation of a general price reduction of imported vehicles when the AFTA agreement finally takes effect.

As a result of these factors, the Group registered its first year of loss in the recently concluded financial year despite of an improved turnover. Turnover increased by 8% to RM437.06 million during the year mainly due to an improvement in the semiconductor business, from both the distribution and the assembly and test segments, as well as contribution from a newly acquired subsidiary, TLG Electronics Ltd by our distribution arm in the 4th quarter of 2003. However, increases in the commodity prices such as gold and copper during the year which resulted in increases in the cost of raw materials, low loading of some of the high margin products and lower average selling prices had seriously affected the margins of our assembly and test business.

We have partly energised our second plant in Kulim in the 4th quarter of 2003, in preparation for the additional business from new customers and this too was one of the contributing factors to the loss incurred for the financial year under review. However we anticipate that the infrastructure cost and additional overhead will be gradually absorbed after the ramping of the new business. Nevertheless, despite the difficult operating conditions, the Group remained EBITDA positive at approximately RM28 million for financial year 2003.

The Group's balance sheet remains strong. Net assets as at 31 December 2003 was RM188.4 million while net cash generated from the operations during the year amounted to RM21.1 million. Your Group is well resourced to implement its strategic plans for a sustainable future growth in order to strengthen its position and add value to all our stakeholders.

Rewarding Our Shareholders

As a reward to our loyal investors, subject to the approval of the shareholders, the Board has proposed a bonus issue on the basis of 1 bonus share for every 2 existing ordinary shares held on a date to be determined later. The said proposed bonus issue has been approved by the relevant authorities on 10 March 2004 and your approval is expected to be obtained during the forthcoming EGM scheduled on 27 April 2004. Despite posting a loss this financial year, the Board has recommended a first and final tax exempt dividend payment of 1% per share for the financial year ended 31 December 2003, which is also subject to your approval.

Corporate Governance

This year, AIC continues to achieve excellence in corporate governance by being the proud recipient of the KLSE corporate award for the fourth year in a row. AIC was awarded the KLSE Corporate Excellence Award 2003 under the Main Board category after having been the recipient of the KLSE Corporate Sectoral Award for three consecutive years, 2000, 2001 and 2002. These awards are recognitions of the Group's constant efforts and commitment in practising the highest standards of corporate conduct. Your Board endeavours to ensure that the highest levels of transparency, accountability and disclosure are upheld by the Group at all times.

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

Investor Relations and Shareholders Communications

Our Investor Relations Unit has consistently structured proactive programmes in order to provide updated and consistent information of the Group to shareholders, analysts and fund managers. To meet this objective, this unit has been placed directly under the purview of the Group President/Chief Executive Officer, the Chief Financial Officer and the Head of Investor Relations and Corporate Finance, which ensures more comprehensive and updated information are given to the investors.

We have always valued our shareholders' views and comments through forums such as general meetings as well as meetings and conferences with analysts and fund managers. Prompt feedback is channelled to the top management and the Board on investors' concerns and market perceptions thus, ensuring effectiveness in information dissemination and action plans. Interaction with fund managers, analysts and major shareholders via quarterly analysts' briefings, one-to-one meetings and teleconferences proved to be effective means in enhancing the investors' understanding of the Group's operations, strategies and future plans. The quarterly analysts' briefings involves a presentation of the Group's performance for the quarter concerned, updates in the operations, corporate developments as well as future strategies and plans, followed by a question and answer session.

We will continue to pursue these efforts to reach out to the investing public, both foreign and local, making our Company's profile, manufacturing capabilities, sound management and good governance practice more accessible for better market acceptance.

Chairman's Statement

(Continued)

Strategies and Future Plans

In order to check the slide in your Group's performance and to provide a stronger platform for the Group to return to sustainable profitability, the Board and senior management had deliberated on the Group's operations and the long-term strategic business direction and subsequently formulated a number of key strategies, some of which were implemented immediately and some over the next three years.

The Semiconductor Business – Assembly and Test Division

In our continuous effort to expand our customer base as a long-term measure to mitigate the risks faced by the Group for being overly dependent on a major customer which contributed approximately 60% to its assembly and test revenue in 2003, the Group had, in August 2003, taken steps to intensify its sales and marketing efforts by setting up offices in both the United States of America and Taiwan to market our products and services to prospective customers and to service these new customers. Since then, we have managed to secure a number of new customers whilst increasing the geographical diversification as most of our new customers are from the Asia Pacific region.

The enlarged customer base will bring significant improvements to our average selling prices and margins. Pursuant to this, the contribution from the new customers will have a significant positive impact in the second half of 2004.

In order to better maximise our capacity utilisation, some of our equipments and resources which were meant for products with low capacity utilisation are being redeployed to fill the new businesses' orders as the products have more linear loading giving better margins. With the increased volume coming from both existing and new customers, our plant's capacity utilisation will improve in the financial year 2004.

We aim to improve the utilisation of our second plant in Kulim Hi-Tech Park with the completion of the second phase of the transfer of equipments from National Semiconductor, which was delayed during the industry downturn. Furthermore, in line with our business strategy of providing full turnkey services to all our customers, we are increasing our test capabilities, whether by way of consigned or new test equipments, and hence will improve the utilisation rate of our assembly capacity.

On 3 February 2004, AIC Semiconductor Sdn. Bhd. entered into a joint marketing and technical support agreement with 1st Silicon (Malaysia) Sdn. Bhd., a dedicated semiconductor foundry in the Malaysian State of Sarawak. The collaboration is expected to expand our customer and product mix through cross marketing of products and services offered by both parties while at the same time guiding us with the industry's technology roadmap.

The Display Business

Your Board realises that maintaining the Original Equipment Manufacturer ("OEM") business model in today's global environment is no longer viable and sustainable. The China magnet, well known as a low cost producer, and the Taiwan Own Design Manufacturer ("ODM") model have revealed weaknesses in the OEM model that we currently use. In addition, as your Board also recognises the need for the Group to insure itself against the inherent risks associated with the extremely volatile semiconductor business, the management has been constantly on the lookout for suitable businesses with good long-term growth potential to hedge against the erratic performance of the semiconductor business of the Group. As such, your Board has decided to re-strategise the Group's business direction and transform the Group into an ODM and end product player, developing our own intellectual properties and strong product identities and brands to enable AIC to move up the value chain. Upon identifying technology platforms that offer tremendous growth opportunity in the world market, we intend to focus on product design and development for those platforms.

We have identified the display business as one of such platforms and in July 2003, AIC entered into a joint venture agreement with MTN Inc. ("MTN"), South Korea, to carry out the design, research, development, manufacture, branding, marketing and sale of multimedia displays and multimedia products, including Thin Film Transistor–Liquid Crystal Display ("TFT-LCD") monitors and television sets. Apart from transferring technical knowledge and rendering technical assistance, MTN will also be purchasing an agreed amount of TFT-LCD monitors and televisions at a fixed margin under the five-years buy-back arrangement with the joint venture company to kick-start its operations. The joint venture company has completed trial runs for the TFT-LCD monitors and televisions on its manufacturing lines and has recently commenced commercial production.

Although we plan to secure more OEM customers in 2004, this joint venture arrangement will eventually result in AIC designing, developing and producing its own brand of TFT-LCD and plasma televisions and monitors once the technology transfer process is completed and manufacturing excellence is achieved. Our ability to tap into the resources of our strategic partner in Korea to "jump-start" our technology and marketing capabilities for the TFT-LCD business whilst leveraging on our Group's existing manufacturing capability will enable us to achieve our strategic business direction.

Being competitive and focused
Meanwhile, the Group will continue to take steps to improve its current business operations and increase productivity while strengthening its financial resources and management. In a move to better focus resources of the Group on its core businesses (which are chiefly semiconductor and display), the Group will be undertaking a rationalisation exercise to strengthen its balance sheet, putting it in a better position to take advantage of opportunities arising in the future with a view to enhance long-term shareholders' value.

In line with today's competitive world, the Group has placed greater emphasis on performance management and developing competencies in the employees as the Group relies on its people to achieve its objectives and targets. 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.

Our directions and priorities remain clear. We will continue to increase our business focus and execute our strategic imperatives which include strengthening our business model and driving our growth initiatives to deliver long-term premium value and returns to our stakeholders in the years ahead.

Prospects
According to the Semiconductor Industry Association ("SIA"), worldwide sales of semiconductor chips are expected to grow by 19.4% in 2004. Gartner Dataquest projected that the global outsourced assembly and test revenues will achieve a cumulative average growth rate ("CAGR") of approximately 19.2% from 2002 to 2007. Judging by the growing signs of a pickup in the semiconductor industry, the long-awaited recovery appears to be promising. Barring unforeseen circumstances, the optimistic outlook of the semiconductor industry will improve the revenue and earnings of our semiconductor division.

The Market Intelligence Centre of the Institute for Information Industry in Taiwan projected the global LCD shipment to increase at 35.2% to 68.7 million units in 2004 or 53% of the global monitor market, surpassing the shipment volume of cathode-ray tube monitors for the first time. In addition, global LCD television demand is projected to show a strong growth from 7.8 million units in 2004 to 26.5 million units in 2006, translating into an average growth of 90.3% per annum. The industry outlook is encouraging and your Board is optimistic that the business will emerge as one of the major revenue winner and profit contributor to the Group in the next few years.

On the automotive front, the recent launch of the Gen-2 model and the eventual rolling out of other new models in the near future by our customers, Proton and Perodua, is expected to generate additional revenue for the Group. Top with the fact that the earlier uncertainties surrounding the local car tariffs expected to impact the local car prices are now finally put to rest should augur well for the automotive industry generally.

According to the latest World Economic Outlook report published by the International Monetary Fund in September 2003, the global Gross Domestic Product growth is expected to rise from 3.2% in 2003 (which was expected at that time) to 4.1% in 2004. In line with the widely expected global economic recovery, the Malaysian government projected that Malaysia's gross domestic product will grow by 5.5% to 6% in year 2004. We believe that this will spur demands for our products and services particularly in the semiconductor and display segments. Barring any unforeseen circumstances, the Board is confident that the Group will be able to turnaround and perform much better in the coming financial year given the more favourable operating environment and the sound strategies in place.

Appreciation
On behalf of the Board of Directors, I would like to extend our sincere and utmost appreciation to our shareholders, valued customers, vendors, business associates, government authorities and regulatory bodies for their continuous confidence and support. We would also like to express our heartfelt thanks to the management team and staff for their unwavering dedication and commitment in propelling the Group to greater heights.

Datuk Haji Sarip bin Hamid
Chairman

Date: 20 April 2004