

CHAIRMAN'S STATEMENT



DATUK HAJI SARIP BIN HAMID

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2004 marked yet another year of tough operating conditions for your Group. The semiconductor industry did show encouraging growth but the momentum was often checkered by the constant concerns of high levels of inventory and mounting price pressure within the industry. Rising world oil and gold prices and the protracted war in Iraq too played a part in keeping the global economic recovery in check.

The Group recorded a revenue of RM182.9 million and net loss of RM17.9 million as compared to a revenue and net loss of RM437.1 million and RM11.2 million respectively in the previous financial year.

The decline in revenue is attributable to the non-consolidation of Nucleus Electronics Ltd ("Nucleus") following a placement exercise undertaken by Nucleus in January 2004. The dilution of interest has effectively reduced Nucleus' status from that of a subsidiary company to one of an associate company, and thus the revenue was not consolidated in the financial statements of the Group as compared with previous financial years. Comparing like with like however, by excluding the revenue of Nucleus from prior year figures, the Group's turnover has actually improved by 40%. The higher loss this year is largely explained by a RM8.8 million goodwill written off in connection with the scaling down of operations of a subsidiary engaged in the provision of information technology solutions and services which was acquired in 1997 and a RM9.5 million loss incurred by the Display division which only commenced operations during the financial year.

On closer examination of the Group's segmental reporting, one will realize that results from the assembly and test operations has in fact, shown significant improvements with year-on-year increase in turnover of almost RM35 million which translates into nearly 35% of growth. Loss before tax from that segment has also reduced to RM1.8 million from the whopping RM12 million recorded in the previous year. The much-improved performance of this segment is mainly attributable to general improvement of the semiconductor industry and the contribution from new customers acquired.



The Display division, which only commenced production during the financial year, had contributed RM22.2 million in turnover to the Group. Our in-house developed TFT-LCD monitor was only in production towards the end of the year and huge amount of resources were engaged in design and development activities and marketing efforts. As a result the division, as expected, registered a net loss of RM9.5 million for the year.

Nevertheless, it is worth noting that after excluding the one-time goodwill written off, the Group's EBITDA has improved from RM28 million (EBITDA margin of 7%) in 2003 to RM29.9 million (EBITDA margin of 16%).

COMMITTED TO GOOD CORPORATE GOVERNANCE

In spite that Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange or KLSE) has in 2004, abolished the KLSE Corporate Awards, where the Company emerged winner for four years in a row, the Group is committed in continuing its pursuit of corporate excellence by promoting a culture of good governance within the Group and maintaining high levels of transparency and accountability.

Measures and principles undertaken by the Group are highlighted in our Corporate Governance Report found on pages 28 to 37 of this Annual Report.

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If I'm going to do something, I do it spectacularly or I don't do it at all.



Prince Alwaleed Bin Talal Al Saud

INVESTOR RELATIONS AND SHAREHOLDERS COMMUNICATIONS

Our Investor Relations Unit continues to structure programs to promote the value of the Group to the investing public. In keeping with its objective of promoting greater level of transparency and good corporate governance, the Unit is committed to holding quarterly briefings for analysts, institutional investors and fund managers with the aim of providing them with up-to-date information of the Group as well as keeping them abreast of key developments. We value feedback from our stakeholders. Views and comments obtained from forums such as shareholders general meetings as well as meetings and conferences with analysts and fund managers are channeled to senior management and the Board in a timely fashion to help shape action plans.

GOOD CORPORATE CITIZENSHIP

AIC recognizes the needs of the community at large and thus strives to play an active role as a socially responsible corporate citizen in the society.

The Group has, to the best of its ability, been providing support in financial contributions and initiatives in promoting education, society welfare and welfare of the needy and less fortunate. In response to the Government's call to assist victims of the recent tsunami that has hit the region at the end of the year, the staff of the Group has gone out in force to collect donations among themselves. Cash donations together with some clothing and food items that were collected were handed over to various non-profit organisations to be distributed to the needy.

In line with the rising global environmental consciousness, the Group also recognizes the need to play a crucial part in becoming an environmental friendly corporation. Our semiconductor business has already obtained the ISO14001 certification in November 2001 and our display business is in the midst of qualifying for the same certification. By obtaining these environmental management system certifications, we can be assured that our core business operations are in compliance with global environmental standards and as such co-exist in harmony with the environment.

STRATEGIES AND FUTURE PLANS

As highlighted in last year's report, the Board and senior management had gone back to the drawing board to revisit the Group's long term strategic business direction and subsequently formulated a number of key strategies to be implemented over a period of time. The Group has since undergone a rationalisation exercise to streamline and strengthen its core businesses and operations. Among the strategies employed were to focus on core businesses of the Group namely, semiconductor and display which are expected to be the two major income earners of the Group; to wind down less synergistic businesses of the Group and take concrete measures to strengthen the balance sheet and cash flow position of the Group.

The Semiconductor Business – Assembly and Test Division

Our relentless efforts in strengthening our marketing team and expanding our customer base is finally paying off. 2004 saw 5 new customer engagements in the assembly and test division, which effectively reduced the division's level of dependence on a single major customer who used to contribute about 60% of its business last year to about 48% this year. The enlarged customer base should result in significant improvements to our capacity utilisation, average selling prices and margins in 2005. In addition to this, contributions from the new customers

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should also see some positive impact on the Group's result in the second half of 2005 barring any unforeseen circumstances. We will however, not rest on our laurels but continue with our efforts in expanding our customer base with the confidence of bringing a few more new customers on board by the end of 2005.

The Group also aims to be the world-leading independent merchant in the assembly and test of smartcard modules. As of December 2004, the Group holds a favourable global market share in the assembly and test of smartcard modules and plans to increase its output by the end of 2005. It is our intention to grow the smartcard module business to eventually contribute at least one-third of the total revenue of the assembly and test division as there is a huge global demand for this business and we have a niche position in the region.

Besides the smartcard module, the Group is also tooling up for other more lucrative margin products such as the quad flatpack no leads ("QFN") package. According to Jim Walker, the research vice president of Gartner, "These QFN, small outline no leads and bump chip carrier variations of CSPs are experiencing the fastest ramp-up rate of any package since the beginning of the surface mount era in 1985." This fast growing package should show some contribution by the last quarter of 2005.

The Display Business

In keeping with the Group's goal of moving up the value chain and becoming an Own Design Manufacturer ("ODM") and Own Brand Manufacturer ("OBM"), our display division is proud to be the first local display manufacturer to have our own in-house design and development capabilities. The design and development team, which has successfully developed the Company's 17" and 19" TFT-LCD monitors, has given the Company a distinct advantage in terms of speed and flexibility in meeting customers' requirements. Apart from successfully completing the development and production of the 17" and 19" TFT LCD monitors towards the end of 2004, the development team is currently developing the 19" TFT LCD TV and 42" and 50" Plasma Display Panel ("PDP") TVs, which are expected to be completed by mid 2005. The products are currently mainly sold in the export market under established brand names as well as under our own brand name. The Group plans to actively embark on the OBM business model once market awareness has been created and sales volume has reached a critical mass to make OBM a viable business model.

As mentioned earlier in this statement, we have invested in marketing efforts and technical support to build customer confidence and establish a good relationship with our distributors for our in-house developed TFT-LCD monitors from the last quarter of 2004. Our distributors have invested in the distribution channels, warehousing, marketing, after sales services and call centres for our products. We are pleased that most of our distributors have by far done a good job in building the channels and establishing market awareness for our products.



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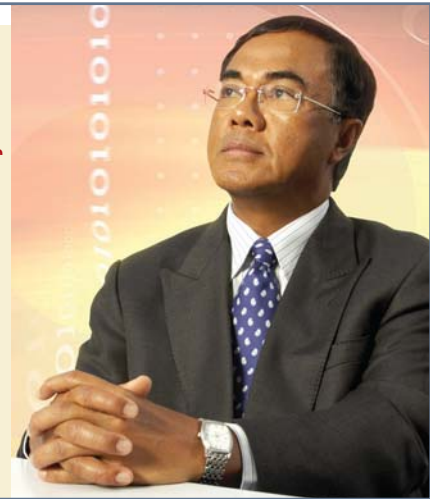


PROSPECTS

Market consensus on the economic outlook of the country for year 2005 is fairly upbeat especially in the second half of the year. A GDP growth of between 5% and 6% is projected by Bank Negara Malaysia ("BNM"), which is fairly optimistic albeit at a more moderate pace than the 7.1% growth in 2004. BNM is of the view that the cyclical slowdown in the electronic industry is likely to be modest and growth will recover in the second half of 2005 on the back of strong Asian demand, the rapid inventory adjustments and relatively low inventory levels. According to RHB Research Institute's economic update on 23 March 2005, although the world economy is undergoing a phase of slower growth and consolidation in the first half of 2005, they are beginning to see indicators pointing to an improvement in global economic outlook and consumer and business confidence will likely improve in the second half of the year, paving way for a brighter macro economic outlook and growth.

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“ In keeping with the Group's goal of moving up the value chain and becoming an Own Design Manufacturer (“ODM”) and Own Brand Manufacturer (“OBM”), our display division is proud to be the first local display manufacturer to have our own in-house design and development capabilities. ”



Despite most market researchers predicting a more or less flat to small market growth in the semiconductor sector in 2005 where the Semiconductor Industry Association has forecasted chip sales to be flat, your Board remains cautiously optimistic about the growth prospects of our semiconductor business. Seasonal trends and guidance from key customers especially for the smartcard modules, has led the Board to believe that our business will improve in the second half of 2005, barring unforeseen circumstances. This is further complemented by our product and marketing strategies as well as improvements in our operational efficiency.

We expect the coming year to be a challenging one for our display business in view of the price erosion, the marketing of our in-house developed Plasma and TFT-LCD TVs from the second quarter of 2005 and the commencement of the penetration of our products into more and larger markets such as the USA and Europe. However, recent sales trends and market researches have pointed towards exponential growth in the global demands

for TFT LCD and PDP monitors and TVs in the medium and long term and the Group is certainly well positioned to capitalize on this growth opportunity. We are optimistic that sales for the current financial year will be much better with more new in-house models being rolled out during the year and based on the encouraging customer demands we receive.

Barring unforeseen circumstances, the Board is confident that the Group will perform better in the coming year in view of our implementation of the strategic imperatives and our continuous focus in strengthening our business model and driving our growth initiatives.

REWARDING OUR SHAREHOLDERS

During the year, the Company has issued bonus shares to its shareholders on the basis of 1 bonus share for every 2 existing ordinary shares held as a reward to our loyal investors. Due to the losses suffered by the Group and in view of the tough operating conditions, the Board of Directors does not recommend any dividends to be distributed for the year under review.

Nevertheless, our directions and priorities remain clear and we will continue to increase our business focus to consolidate and strengthen our financial and market position. We are determined to reward our shareholders with increased long term value and returns in the coming years.

APPRECIATION

On behalf of the Board of Directors, I would like to record my sincere appreciation and thanks to our valued shareholders, customers, vendors, business associates, bankers, governmental authorities and regulatory bodies for their valuable feedback and support. Last but not least, I would also like to thank the management team and staff for the professionalism and dedication they bring to their job.


Datuk Haji Sarip bin Hamid
Chairman