

REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

SEMICONDUCTOR DIVISION

Assembly And Test Activities

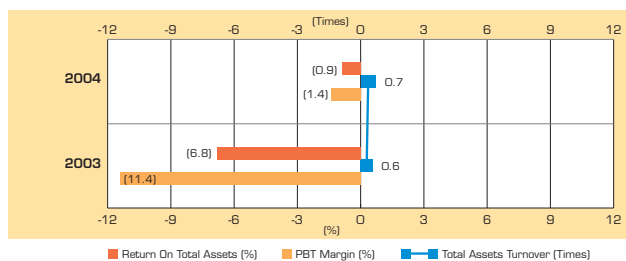
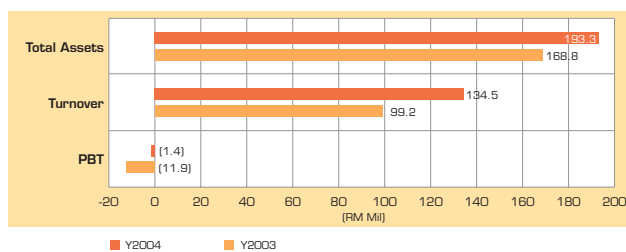
The year 2004 was yet another challenging year for our semiconductor assembly and test business despite worldwide sales of semiconductors reached a record of USD213 billion, a year-on-year increase of 28% from year 2003. In line with the worldwide growth, our assembly and test business registered a 35% year-on-year revenue growth, surpassing the worldwide growth rate, to RM134 million (2003: RM99.2 million). Despite making progress on the top-line, our assembly and test business is still in the red by registering a net loss of RM1.4 million for the full year. Nevertheless, this results mark a significant improvement from a net loss of RM11.9 million in year 2003 and an improved EBITDA of RM28.8 million (2003: RM15.3 million) or EBITDA margin of 21% (2003: 15%). Our average factory utilization rate also improved modestly to 59% as compared to year 2003, where our assembly and test business was operating at below half the capacity.



Our assembly and test business attributed its improved performance for year 2004 to solid revenue development and careful cost management. Following up from year 2003, our assembly and test business established its presence in Taiwan towards the end of 2003, by setting up its own global sales and marketing offices. Today, this office alone have added 6 additional customers, mainly from Taiwan to our growing list of customers and have contributed 15% of the year 2004 revenue. Our decision to expand and penetrate into the Asia Pacific Region, which includes Taiwan, was in line with the growth trend as once again the Asia Pacific Region led the world in semiconductors sales growth with a year-on-year increase of more than 41%.

Another segment that saw significant growth in our top-line during the year was the smartcard modules. Revenue contribution from our smartcard modules more than doubled or increased by 124% year-on-year from the huge growing demand for smartcard applications, accounting for 18% of the year 2004 revenue. In 2004, we were successful in securing two new customers for the assembly and test of smartcard modules to the existing fleet of three. Our smartcard contribution was evident in the fourth quarter, attributing 28% of the revenue portfolio, where the other Integrated Circuit ("IC") packages suffered a decline to coincide with the slower growth experienced by the worldwide semiconductors sales in the second half of 2004.

Test & Assembly Activities



REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

In the past, we had relied heavily on a single major customer, influencing the core business decision that we made and our performance was very much correlated to them. Moving forward, with the establishment and strengthening of our global sales and marketing team, our customer base will continue to multiply and reduce our risk on single reliance and provide us the flexibility and options in our business decisions.

Despite the worldwide semiconductors sales growth, we continue to operate in a difficult but yet challenging environment. The year 2004 again saw the increase of commodity prices, namely on gold and oil, soaring to record high that inevitably led to the increase in the cost of materials and other manufacturing costs. The strengthening of the EURO dollar and Japanese YEN also made certain of our imports more costly now. Coupled by the norm of pricing erosion within the industry, our margins were also affected.

Global Semiconductor Sales Forecast (Growth in %)

	2004 (a)	2005 (f)	2006 (f)
Gartner	23.9%	3.4%	2.1%
SIA	28.0%	0.0%	6.3%

Sources: The websites of the respective research sources.

On recognizing this effect and to maintain our competitiveness, the continuous strengthening of our engineering arm has always been pivotal to our business strategy to improve on productivity and efficiency. To reduce the impact of higher cost of materials, our engineering team has undertaken studies to reduce the usage of materials in the IC's while maintaining its optimum functionality, as well as to qualify for cheaper sources of materials. We have also gone on an aggressive vendor management to undertake localisation of vendors, multiple sourcing and vendor management inventory to further reduce the cost of materials.

In the second half of 2004, the plant wide "Waste Eradication Program" was launched and implemented to reinforce the need for continuous careful cost management to counter the effects of the difficult environment that we are operating in. The

effectiveness of this program was evident, as we remain in the black in the second half of 2004 despite the slowdown of semiconductors sales.

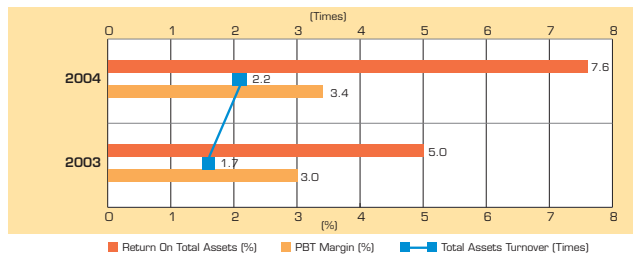
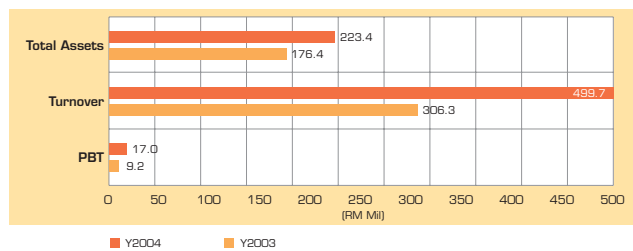
We believe that with our stronger marketing arm to intensify our marketing objectives, the enlarged customer base and our continuous efforts to improve productivity and efficiency, our assembly and test business is in the position to register a better performance and improved results in the coming year.

Distribution Activities

The 2004 financial year has so far been the most challenging year ever in the history of our distribution business. Despite this, the Nucleus Group has made significant achievements and maintained its leadership position through its strategies of acquisition and organic growth.

During the financial year ended 31 December 2004, the distribution segment registered a net profit of S\$5.0 million on a revenue of S\$222.1 million. This represents a significant growth rate of about 72% over the previous financial years' net profit, and a corresponding increase of 58% in turnover.

Distribution Segment



REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

During 2004, Nucleus has continued to strengthen its financial resources, management and the quality of its customer base. Nucleus is committed to better serve its customers' needs and be their preferred choice partner. These initiatives include improving supply chain management, setting up of dedicated liaison offices next to its customers and offering prompt warehousing cum logistic support services to its customers. Through its "merging into strengths" strategy, Nucleus has also successfully secured new product lines, developed a wide range of reference designs, secured new customers as well as concluded various strategic alliances. In addition to the acquisition of TLG Electronics Ltd. Group in 2003 which was successfully restructured in 2004, Nucleus added another two strategic partnership and alliances with TopTrend Technologies Inc. and Crypton Group. These alliances are considered long term, value adding and would increase Nucleus's competitiveness in the electronic components distribution industry in the Asia Pacific region.

Moving forward and barring any unforeseen circumstances, Nucleus is cautiously optimistic about the financial performance for 2005. Nucleus is confident of maintaining its leadership position as the preferred choice for the distribution of electronic components in the Asia Pacific region through continuous investment in excelling its core capabilities and business network, including further streamlining its operations to enhance productivity and cost effectiveness. Nucleus will also continue to seize opportunities to accelerate its growth and improve its profitability.

DISPLAY DIVISION

2004 was the first year of operations for our display business upon the successful completion and commissioning of the plant and machineries in early 2004. The first batch of commercial production run was carried out in April 2004.

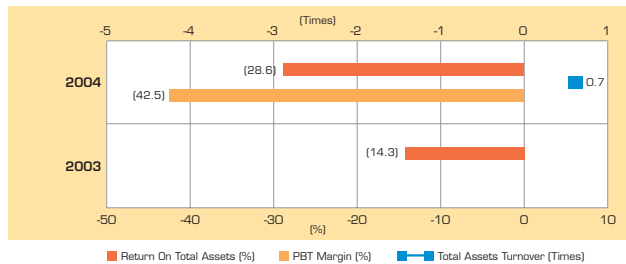
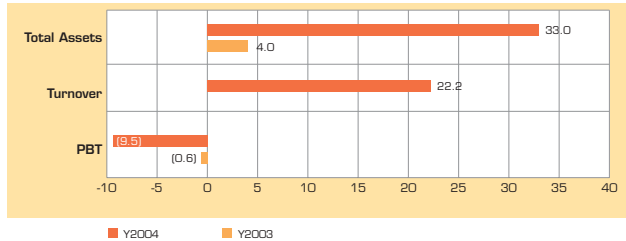
In line with our aspiration to move up the value chain from merely being an Original Equipment Manufacturer to eventually owning our very own intellectual properties and brand name, our in-house design and development team wasted no time in coming up with the 17" and 19" thin-film transistor liquid crystal display ("TFT-LCD") monitors which started production in our plant since November 2004. The products are currently being sold in overseas markets known for their stringent quality standards such as Korea, Japan and Europe.

(Million units)	2001	2002	2003	2004	2005(F)	2006(F)	2007(F)	2008(F)
TFT-LCD Monitors	15.40	32.00	51.00	67.50	90.90	107.00	121.50	135.30
LCD-TV	0.84	2.10	4.30	8.33	15.53	24.09	33.20	48.32
PDP-TV	0.26	0.53	1.12	2.30	4.23	7.16	10.17	13.69
Total	16.50	34.63	56.42	78.13	110.66	138.25	164.87	197.31
YoY Growth (%)								
TFT-LCD Monitors	+140.6	+107.8	+59.4	+32.4	+34.7	+17.7	+13.6	+11.4
LCD-TV		+151.5	+104.8	+93.7	+86.4	+55.1	+37.8	+45.5
PDP-TV		+104.2	+112.3	+104.8	+83.9	+69.3	+42.0	+34.6

Source: Market Intelligence Center ("MIC"), Institute for Information Industry, February 2005

REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

Display Division



The first year of operations proved to be a tough and challenging one as a substantial amount of time, efforts and financial resources were invested in marketing activities to build a strong customer base and create market awareness. So far, we have been successful in developing a pool of distributors and customers who have invested in the distribution and marketing channels, warehousing, after sales service and call centers. Since the in-house designed and developed 17" and 19" TFT-LCD monitors were only introduced late in 2004, bulk of the sales during the year was on a Semi-Knocked Down ("SKD") model basis which did not give good margin. Moreover, in order to seed the market, we were expected to provide samples, training on after sales technical service, repair and maintenance support to our distributors causing operating expenses to be high.

All these, coupled with the fact that the industry was affected by rapid erosion of average selling prices worldwide caused by falling prices of TFT-LCD and plasma panels in the last quarter of 2004, have affected our performance and results for the year. Total revenue for the year was RM22.2 million while losses before tax amounted to approximately RM9.5 million.

Despite the dismal results achieved in its maiden year of operations, the division remains viable given the fact that its marketing team together with the distributors have done a good job in developing good distribution channels and marketing strategies for its products. Since production date in April 2004, AIC Display has successfully exported to 21 countries in East Asia, the US, Europe, the Middle East, Australia, South Africa, Latin America as well as our very own home market, Malaysia. Our in-house developed TFT-LCD monitors were launched in the Korea market towards the end of 2004.

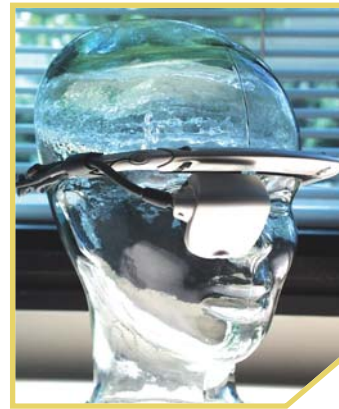
In order to meet the increasing demands for larger screen display televisions and enjoy better margin, the Design & Development team have been tireless in their efforts to develop the 42" and 50" Plasma Display Panel ("PDP") TV. Both models are scheduled to go into commercial production in the 2nd quarter of 2005. Apart from giving us a competitive edge in terms of speed and flexibility to meet customer demands, having an in-house design and development team will enable us make that quantum leap to our vision of becoming an Own Brand Manufacturer ("OBM"), providing a wide range of products with our very own design and brand name.

With the migration towards digital TV broadcasting in many countries such as in Japan, Korea, the European Union, US, China, India and in Malaysia, we strongly believe that the flat panel display and digital TV market which is currently growing at an exciting pace worldwide, will eventually make inroads into almost every single household in the world. According to recent projections by the Market Intelligence Center ("MIC") of the Institute



REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

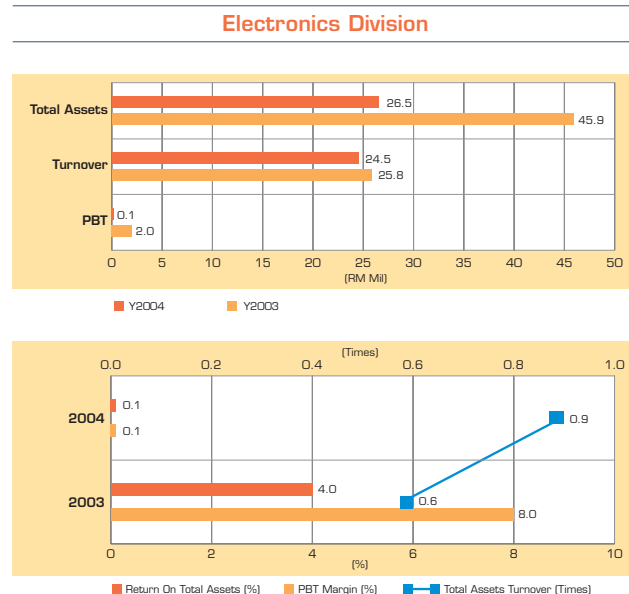
for Information Industry in Taiwan, the global shipment of LCD and Plasma monitors and TV is expected to reach 138.2 mil units by 2006, a growth of 77% from 2004. The robust growth is largely due to increased price affordability, growing consumer adoption and demand push by the vendors of PCs and consumer electronics. Based on the forecast and barring any unforeseen circumstances, we are optimistic that the contribution from the display division will improve substantially in the coming years.



ELECTRONICS DIVISION

2004 saw a recovery in the country's automotive sales trend. 487,605 units of vehicles were sold in 2004, up 20% from the 2003's 405,745 units recorded. This was largely brought about by the Government's announcement of post-AFTA duty and tax structures which ended buyers' speculations and prompted car manufacturers and distributors to engage in aggressive marketing strategies and introduce many new models resulting in general

reduction of vehicles' on-the-road ("OTR") prices. While this development is welcome by the car buyers, car part suppliers like us, are bearing the brunt of things. During the year, the industry experienced an unprecedented rise in oil prices and increased demands in metal and plastics drove costs of raw material to unseen levels. At the same time, car assemblers are not willing to absorb the rise in cost at their end and in the interest of staying competitive in the market, did not consider passing the cost to the car buyers as an option either as competition in the automotive industry intensifies. Sources revealed that Proton's market share was trimmed 3% from 38% in 2003 to 35% in 2004, whilst, Perodua's market share shed 6% to 25% in 2004 from 31% in 2003.



The above developments brought on an adverse effect on the financial performance of the electronics division in 2004 as we were forced to take heavy cuts in our margin due to the steep rise in cost of production. The division reported a profit before taxation of approximately RM100,000 (Y2003: Profit before tax of RM1.99 million) on the back of RM24.47 million revenue (Y2003: RM25.77 million).

In order to overcome the challenges and take full advantage of AFTA in 2005, the division undertook a review of its strategies and is now focused on expanding its customer base to include more manufacturers and assemblers while at the same time, making sure that existing customers remain satisfied with the delivery and quality of its products.

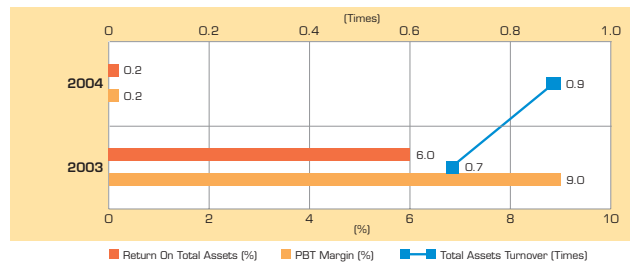
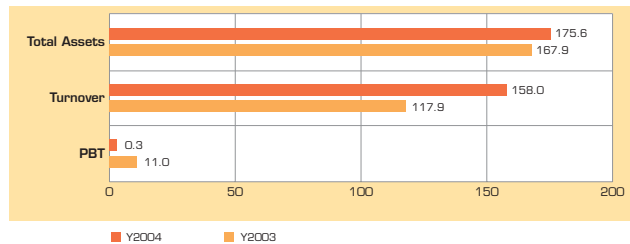
REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

METAL DIVISION

Revenue from Jotech Holdings Berhad and its subsidiary companies ("Jotech Group" or "Metal Division") increased by RM40 million (34%) in 2004 as compared to the previous financial year. This was mainly due to an increase in revenue from its electronics division as compared to the previous financial year when the Jotech Group's electronics division was just formed. The electronics division of the Jotech group comprises mainly of Palladine Technology Pte Ltd which develops and markets its own trademarked LCD products used in personal computers, televisions, multipurpose monitors and plasma displays and Cabletron Electronics (M) Sdn Bhd which manufactures its own CTVs, DVD players and electronics household products. Jotech Group's precision stamping business also recorded an increase in revenue of 36% from RM75.4 million in 2003 to RM102.7 million in 2004.

Despite the increase in revenue, the net profit of the Metal Division for the financial year ended 31 December 2004, declined to RM2.2 million from RM8.3 million in the previous financial year. This was mainly due to losses incurred by its electronics division amidst poor trading conditions and management issues in Cabletron group which accounted for over RM6.5 million in losses and lower profits recorded by the semiconductor tooling and automation business as a result of lower revenue generated.

Metal Division



With the expected improvement in the operational efficiency and contribution from the Jotech Group's electronics division as a result of the reorganization activities carried out, coupled with the strategic measures planned to enhance the Jotech Group's business in 2005, the outlook remains positive and profitable. The division's performance for 2005 is expected to improve substantially from that recorded in 2004.