

E Executive Chairman's Statement

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Dear Shareholders,

The Year 2000 had been a truly memorable period for AIC and its group of Companies. Your group had achieved many significant milestones during the year. One of the most significant event was the transfer of AIC from the Second Board to the Main Board of the Kuala Lumpur Stock Exchange ("KLSE") in July 2000. Prior to that, we also witnessed the transfer of AIC from the Industrial Sector to the newly introduced Technology Sector in the KLSE.

On the national level, the expansionary fiscal and monetary policies implemented by the Government in the last two years coupled with the selective capital controls and fixed exchange rate regime have continued to be effective in making the country's economy more resilient to external challenges. The country ushered in the Year 2000 with an upbeat sentiment backed by a strong Gross Domestic Product's ("GDP") growth of 11.8% and 8.4% buoyed by the incessant demand for semiconductor products and proliferation of e-commerce trading in the first two quarters respectively. This is complimented by a bullish stock market performance driven by much hype in the surging internet industry and intensive interest in technology stocks. However, the economy especially in the semiconductor and electronics sector started to show signs of softening in the third quarter where real GDP growth was 7.8% and the signs of slowdown was even more apparent in the last quarter where real GDP only registered a 6.5% growth. The slowdown was attributed to a slowdown in exports cascaded from the slowdown in the global semiconductor and electronics market. Stockmarket performance worldwide was also badly affected by the less-than-expected corporate earnings and the disappointment in E-commerce expectations along with many collapse of the dot.com start-ups. Overall, the country's GDP recorded an 8.5% growth in 2000 as compared to the 5.8% growth recorded in 1999.

Having the core business in semiconductor industry, your Group was ideally positioned to benefit from the growth in the national economy and the demand in the semiconductor and electronics market particularly in the first three quarters of Year 2000. Your Group had continued to record a growth both in turnover and profits and a better overall financial performance.

On behalf of the Board of Directors, it gives me great pleasure to present to you the Annual Report and Audited Accounts of your Group for the financial year ended 31 December, 2000.

FINANCIAL HIGHLIGHTS

Your Group's revenue grew by 12.7% to RM322.8 million in 2000 as compared to RM286.4 million in 1999. Meanwhile, your Group's profit before taxation of RM51.5 million in 2000 as compared to 1999's RM37.9 million shows an increase of 36%. Due to the improvement in margins particularly in our Integrated Circuits ("IC") distribution business and improved efficiency in our IC test and assembly business, the profit before taxation had increased more than the increase in turnover.

The shareholders' funds increased from RM158.1 million in 1999 to RM194.3 million in 2000 mainly due to the profits retained during the year and proceeds from the listing of a subsidiary company.

Basic earnings per ordinary share had improved from 40.15 sen to 47.30 sen, after adjusting for the bonus issue of 34,122,673 ordinary shares that was allotted in June 2000, reflecting an improvement in the Group's performance.

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DIVIDENDS

Your Board is recommending a first and final tax-exempt dividend of 4.0% (1999-4.0%) amounting to RM2.73 million (1999-RM1.36 million) for the financial year 2000, which is subject to your approval.

CORPORATE DEVELOPMENTS

During the year, your Company completed a one for one bonus issue in June 2000 to reward the shareholders and to satisfy the minimum share capital requirement imposed on the Main Board companies by the Securities Commission ("SC"). Subsequently on 31 July 2000, the Company transferred the listing of its enlarged issued and paid-up share capital from the Second Board to the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

As another measure to reward the warrant-holders, the Company had also issued 17,446,064 replacement warrants - Warrants B (out of a total of 18,406,004 warrants) which had a lower exercise price of RM3.80. The remaining warrants (Warrants A) have an exercise price of RM4.50.

Nucleus Electronics Ltd ("NEL"), a 60% effective interest subsidiary company and Jotech Holdings Berhad ("Jotech"), a 40% associated company had also made their listing debut in the Stock Exchange of Singapore Dealing And Automated Quotation System ("SGX Sesdaq") in May 2000 and the Second Board of the Kuala Lumpur Stock Exchange ("KLSE") in August 2000 respectively. After their listing, the Company holds 41.25% and 34% in NEL and Jotech respectively.

To affirm our commitment in breeding young local talents in the field of microelectronics and advanced semiconductor packaging, your Group had on 16 February 2001 entered into a Memorandum of Agreement ("MOA") with Universiti Telekom Sdn Bhd via Multimedia University ("MMU") for the establishment of a collaboration and strategic relationship. Under the MOA, Your Group shall contribute RM400,000 per annum for a period of 5 years for the formation of an AIC Professorship Chair of Microelectronics at the Faculty of Engineering in the MMU campus for the purposes of facilitating the advancement of the microelectronics industry, including but not limited to technologies involving advance semiconductor packaging and testing and IC design. Both your Group and MMU had agreed to jointly explore and accelerate all research and development activities in the microelectronics industry. As part of the move, AIC has relocated AIC Microelectronics Sdn Bhd ("AICM"), our Research and Development ("R & D") arm to the MMU campus in Cyberjaya.

GROUP HIGHLIGHTS

In the past year, your Board had been focussing resources on the Group's core business and investments. The strategy had resulted in better earnings and a much healthier balance sheet with lower gearing. Moving forwards, we anticipate that the Semiconductor and IT business would continue to form the backbone of the Group.

The promotion of the listing of your Company to the Main Board of the KLSE, and the successful listing of our investments namely, NEL and Jotech during the year under review has enhanced your Group's prestige, credit standing and prominence among the investors and thus enhanced the shareholders' value.

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SEMICONDUCTOR DIVISION

The year 2000 had also been an eventful year for the semiconductor division which continues to be the driving force of the Group. This division had registered strong growth both in turnover and pre-tax profits. The semiconductor division contributed RM255.7 (1999:RM191.4) million and RM41.8 (1999:RM22.7) million in turnover and pretax profit or about 79% (1999:67%) and 81% (1999:60%) respectively to the Group.

Our semiconductor plant in Kulim had continued to deliver favourable results with improved margins due to better utilisation in capacity and efficiency, wider product range such as the Ball Grid Arrays ("BGA") packages and customer base. The performance of the plant could have been better if not for the slowdown in the worldwide semiconductor industry in the last quarter of 2000.

The management's commitment to quality assurance was evident from our semiconductor plant in Kulim being awarded the prestigious Standard QS9000 3rd Edition award in December 2000 by Lloyd's Register Quality Assurance, Melbourne.

In a bid to further broaden our customer and product base, your Group had been proactively seeking out strategic alliances with potential joint venture partners. We are pleased to announce that AIC Semiconductor Sdn Bhd ("AICS") had on 16 February 2001 entered into a subcontract agreement with National Semiconductor International B.V. ("National Semiconductor") where AICS will assemble and test certain semiconductor products for National Semiconductor for a period of five years. On the same date, your Company had entered into a Joint Venture Agreement with Kletterm Pte Ltd, an associate of Roth & Partners GmbH, where both partners will form a joint venture in the business of system integration for smart card solutions including manufacturing of modules for customers throughout Asia. The above partnerships as a result of increased outsourcing trends are expected to contribute positively towards your Group's earnings in the semiconductor businesses and also provide an excellent opportunity for your Group to diversify its product range to also include analog ICs which are widely used for power management in electronics industry. To cater for the above expansion, we had constructed a second plant in Kulim Hi Tech Park that was officially opened on 16 February 2001 by our honorary Prime Minister, YAB Datuk Seri Dr Mahathir Mohamad via virtual technology.

On the same date, we also had the privilege of having our Prime Minister to launch our new logo that reinforce our commitment to your Group's vision for the millennium being "**LEADING MALAYSIA IN TECHNOLOGY**". With this vision, your Group aims to be a leader in the semiconductor world within and beyond Malaysian shores.

Our distribution in Singapore had also fared well in the year under review. Against a backdrop of incessant demand in the semiconductor market particularly during the first three quarters of year 2000, our distribution arm in Singapore, NEL has taken advantage of the inventory shortage in the market and registered an impressive performance with much improved margins. It remains as one of the major contributor to this Division and to your Group.

Following its listing on the SGX-Sesdaq in May 2000, NEL had expanded its business in the identified new markets. To tap into the huge Asian Pacific Region market in particular the China market, it had established its presence in Hong Kong by incorporating Nucleus Electronics (Hong Kong) Limited in July 2000 and acquired 51% equity interest in a Taiwanese distribution company called Neolec International Inc. in January 2001. By strategically locating its offices in the region, NEL is able to respond more promptly to its customers needs.

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METAL DIVISION

The Metal Division continued to benefit from the growth in the semiconductor and electronics market during the year. The Division's emphasis of delivering excellent quality products and services to their customers had assisted the Division in establishing a wide base clientele consisting mainly of established multinationals. Coupled with its strategy to increase its product and customer base with increased export content, the Division had again outperformed its forecast profit in year 2000. Our share of profits before tax from this Division for 2000 has increased to RM4.6 million from RM3.9 million in 1999.

Recognising that the key to achieve sustainable growth is keeping abreast with the latest technology, this Division had invested substantially in the latest state of art machinery and equipment to promote greater automation and to enhance their competitive edge. A new business line in high volume precision machining services was developed during the year to seize the business opportunities from the increased outsourcing activities by the multinational companies overseas. In addition to that, the metal stamping business has also established a new business line in high value added precision metal fabrication services through the use of advanced laser technology. This has successfully reduced the development lead times to the customers.

INFORMATION TECHNOLOGY ("IT") DIVISION

Well poised to benefit from the fast growing and increased use of Internet, e-commerce and the information technology in the education, business and industrial sectors, the IT Division had once again contributed positively towards the Group's profitability. Despite some delay in granting of contracts by the Government, the Division managed to execute certain contracts in hand in the last quarter and it has contributed a positive result of RM4.0 million as compared to RM3.3 million to the Group in 1999. With that, the vendors of Integral CAD Technologies Sdn Bhd ("ICT") had met all their warranted profit before tax since our acquisition in 1997.

With the Government's continuing emphasis in the use of IT particularly in the education sector, which forms this Division's primary market, we foresee that the IT Division will continue to contribute positively to the Group.

Our internet initiative through 35% equity interest in MTeX did not take off as planned due to the abrupt change in market conditions for e-commerce products. We have managed to minimize cost very quickly and is now pursuing certain streamlining measures for this investment.

ELECTRONICS DIVISION

The Electronics Division contributed about RM4.7 million (1999: RM6.4 million) pretax profit on the back of RM36.9 million (1999: RM61.5 million) turnover. The decline of contribution from this Division was mainly due to the disposal of our seatbelt related business and assets in 1999.

We had highlighted in our last year's Annual Report that it is our plan to upgrade your Group's capabilities to design and manufacture higher end automotive and consumer electronic products through the manufacturing facilities of this Division and tapping the research and development expertise of AICM, the design house and the R&D division in the Group. We are proud to announce that on 16 February 2001, we had the honour of having our Prime Minister YAB Datuk Seri Dr Mahathir Mohamad launch two of our very own design and manufactured automotive electronic products namely Trilogy, an electronic car immobiliser

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system and Night Vision, an Electro-chromic Mirror which is a feature only found in high end luxury cars but we have now made it available for our local cars at an affordable price.

PROPERTY DIVISION

Following the Shareholder's approval on the Joint Venture with Prosper Place Sdn Bhd in January 2000, development work had commenced on the Hulu Kelang Land. We are pleased to inform that proceeds from the Joint Venture had been received as scheduled and gearing had been lowered as planned.

The Division had however registered a higher loss of RM0.8 million (1999: RM0.1 million) against a turnover of RM4.9 million (1999: RM0.1 million) as interest expense was charged out since January 2000. We however expect that this Division will turn to profitability from the development for year 2001 and the following year when the project is nearing its completion.

PROSPECTS

With the forecast of slower semiconductor sales and low visibility of customer orders, your Board anticipates your Group would not be spared from the effects of the continued slowdown and that the year 2001 would pose a challenging time for your Group. Nevertheless, we had placed some risk management measures in place to ensure stability in our financial performance. This is done through cost cutting, enlarging our customer base like entering into subcontract arrangement with National Semiconductor which is on consignment basis and inter alia, widening our product base through the joint venture with Klettern Pte Ltd to manufacture the smart card modules.

We hope that with the measures introduced coupled with the dedication of our professional management and staff, your Group is able to continue to achieve profitability. Barring any unforeseen circumstances, we remain hopeful that the second half year results of year 2001 should be better than the first half's results.

CORPORATE GOVERNANCE

In its move to encourage greater transparency and accountability of listed companies, the KLSE had introduced various guidelines in relation to corporate governance and had adopted the Code of Best Practices in Corporate Governance contained in the Report on Corporate Governance by the High Level Finance Committee appointed by the Ministry of Finance, Malaysia. Your Board is fully supportive of the measures taken by the authorities to promote corporate governance and endeavours to ensure compliance at all times.

We have, in the past, implemented some of these measures and these have been recognised by KLSE in awarding your Company the KLSE Corporate Sectoral Award 2000 - Second Board Technology Category. This is in recognition of the Group's effort in having established and practised highest standard of corporate governance and high level of accountability and responsibility to the Group's shareholders and investors. The basis period for the adjudication of the Award was for the calendar year 1999. Inspired by this juncture, your Group will continue to take further steps to strengthen and enhance corporate governance measures. We have highlighted in our Corporate Governance report some principles/measures that had been implemented by your Group in relation to the Code of Best Practices in Corporate Governance.

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INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATIONS

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

These efforts have to a large extent been successful in transforming your Company's image from an automotive concern in the past to a serious semiconductor player in the international marketplace. Combined with the euphoria for technology stocks in the early 2000, your Company has reached its highest market capitalisation of RM1.2 billion, after including capitalisation of our warrants issue on the Kuala Lumpur Stock Exchange.

Our Investor Relations Unit has structured more proactive programmes so as to ensure that shareholders 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, 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 one-to-one meetings and teleconversations proved to be one of the most effective mediums to enhance investors' understanding of the Company. In the year 2000, we have regularly participated in various conferences organised by research houses and financial houses both locally and overseas to further promote the understanding of the Company's operations and sound management.

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 sound management, good governance, proven manufacturing capabilities and sustainable growth for better market acceptance.

APPRECIATION

On behalf of the Board, I would like to convey my sincere appreciation and gratitude to all our valued shareholders, customers, suppliers and business associates for their unwavering support and confidence over the years that had contributed to our successful performance. I would especially like to commend our management and staff for their dedicated efforts and loyal commitment towards achieving our common goal.

Our sincere appreciation also extends to the relevant authorities for their invaluable guidance and timely advice. Among them the Securities Commission, Bank Negara Malaysia, Kuala Lumpur Stock Exchange, other Federal, State and Statutory Authorities for their co-operation extended to us over the years.

Finally, I would like to thank the Members of the Board and also the President, Mohamad Ariff bin Puteh for their guidance and whose capable stewardship had helped to make 2000 another successful year for AIC.

DATUK HAJI SARIP BIN HAMID

Executive Chairman