

metal

Datuk Haji Sarip bin Hamid  
Executive Chairman

## *Chairman's Statement*

*Looking forward, there is no question that the semiconductor industry is still in for a tough and challenging year especially in the first half. Visibility is still rather poor but with recent trends and volume loading, we are more optimistic beyond the short term than we were six months ago.*

Dear Shareholders,

What a change this past twelve months have been while AIC and its group of Companies ("the Group") had experienced an exciting time in Year 2000, the Group had seen a Year 2001 that is characterised by a global economic slow down, one of the worst semiconductor downturn ever seen, massive job cuts and unprecedented corporate failures. Whilst I was writing this letter to you it brought back recent memories of the letter which I wrote in 1998. We had just gone through the 1997/98 Asian financial crisis and warned about difficult operating environment to come. Just after last year's Annual Report was issued, we went through another bleak operating environment for all our semiconductor based activities and the amazing thing about this downturn is the speed at which it happened.

The slowdown of the United State of America ("US") economy in 2001 had negatively affected the Malaysian economy with the weakening of the US economy since the 2nd quarter of 2001 and further

## Chairman's Statement

(continued)

compounded by the September 11 terrorist attack, the trail of poor earnings emanated from technology companies to even established blue chips eventually resulting in the collapse of Enron Corp. in the 4th quarter of 2001. The Malaysian economy marginally recorded a positive gross domestic product's ("GDP") growth of 0.4% in 2001 against an 8.5% growth in 2000. On a quarterly basis, the economy grew by 3.1% and 0.5% in the first two quarters before dipping into negative growth of minus 1.2% and minus 0.5% in the remaining two quarters.

In spite of the unfavourable economic circumstances, the Group proves to be resilient and continues to be profitable albeit smaller than what we are hoping for. On behalf of the Board of Directors, it gives me great pleasure to present to you the Annual Report and Audited Accounts of the Group for the financial year ended 31 December, 2001.

### FINANCIAL HIGHLIGHTS

Your Group's revenue contracted by RM1.1 million representing less than 1% to RM321.7 million in 2001 as compared to RM322.8 million in 2000. On the other hand, the Group's profit before taxation of RM7.3 million in 2001 contracted 85% as compared to 2000's RM51.5 million. The profit before taxation had contracted more than the decrease in turnover as the profit margins of our Integrated Circuits ("IC") test and assembly and distribution business were affected by severe price erosion and capacity loading as a result of a weak global semiconductor demand which contracted by a hefty 32%. This was a learning experience for us in a severe down cycle which was much worse than the contraction of 8% experienced in 1998.

In line with the decline in profitability, basic earnings per ordinary share is 5.07 sen (2000: 47.30 sen).

### DIVIDENDS

I am pleased to announce that your Board is recommending a first and final tax exempt dividend of 3.0% (2000 - 4.0%) amounting to RM2.02 million (2000 - RM2.78 million) for the financial year 2001, which is subject to your approval.

### CORPORATE GOVERNANCE

In recognition of your 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, your Company has been awarded, for two years consecutively, the KLSE Corporate Sectoral Award 2001 - Main Board Technology Category (Y2000: KLSE Corporate Sectoral Award 2000 - Second Board Industrial Category).

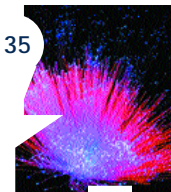
We have highlighted in our Corporate Governance Report the measures / principles that have been implemented by your Group in relation to the Malaysian Code On Corporate Governance. Your Board have and will take further steps to enhance corporate governance and is committed to ensuring that the highest standards of corporate governance are practised throughout the Group.

### INVESTOR RELATIONS AND SHAREHOLDERS COMMUNICATIONS

Your Company has always maintained 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 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 one-to-one meetings and teleconversations proved to be one of the most effective mediums to enhance investors' understanding of the Company. In Year 2001, we have regularly participated in various conferences organised by local research houses and financial houses including those organized under the KLSE Investors' 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 as a semiconductor player in the local and international marketplace. These participation in road shows and investor'



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

### PROSPECTS

The series of fiscal and monetary stimulus measures implemented by the US government in the past year appear to have averted their country from recession and a more prominent global recovery is expected to be sometime in second half year of 2002. On the domestic front, the Malaysian government had also prescribed various fiscal and monetary policies to revive the domestic economy. The economy is forecast to post a growth of 3.5% in Year 2002 in view of the improving outlook on the home front and abroad, particularly in the US. The growth in Year 2002 is expected to be led by manufacturing and services sectors which augurs well with our semiconductor business.

In the past year, the government has maintained a low interest rate policy which encouraged consumer spending as easy credit is made available to the consumers. We anticipate that the automotive industries in the country will continue to benefit from this policy and we will position our electronics division to take advantage of this with more innovative products and better efficiency.

Looking forward, there is no question that the semiconductor industry is still in for a tough and challenging year especially in the first half. Visibility is still rather poor but with recent trends and volume loading, we are more optimistic beyond the short term than we were six months ago. We are of the view that the semiconductor and electronics division will continue to be the major contributor to your Group's revenue and profit in Year 2002. Barring any unforeseen circumstances, Your Board remains cautiously optimistic that we will see a positive growth for the Group in Year 2002.

### APPRECIATION

On behalf of the Board and management, I would like to welcome Encik Md Yusof bin Hussin and Mohamad Ariff bin Puteh who joined the Board of Directors on 1 August 2001 and 6 November 2001

respectively. Mohamad Ariff bin Puteh has been the President of AIC since 1996. We are confident that your Group would be able to benefit enormously from the wealth of experience, leadership skills and business acumen that they would bring to the Board.

We would also like to extend our sincere appreciation to Tuan Haji Rahim bin Kassim who resigned from the Board on 17 January 2002 to fully concentrate on his business, for his significant contribution to your Group during his 11 year tenor as director with us.

On behalf of the Board of Directors and Management, I thank all the customers, shareholders and business associates, bankers, SC, BNM, KLSE and other government agencies for providing continued guidance and support for the Group. In closing, I would also like to thank the management team and staff of all levels for their efforts and commitment, without which the achievement of the Group's vision, mission and strategy would not have been possible.

### DATUK HAJI SARIP BIN HAMID

*Executive Chairman*



## Review of Operations and Financial Performance

### SEMICONDUCTOR DIVISION

Year 2001 has been a challenging year for our Semiconductor Division due to the depressed global semiconductor market. The global semiconductor market has contracted from a growth rate of 37% in 2000 to a negative growth of 32%, an astounding 69% backflip. As a result, your Semiconductor Division is not spared, registering a 96% contraction in profit before tax to RM1.522 million as compared to RM41.829 million in 2000 even though the turnover of the Division has contracted by a mere 11% to RM227.078 million from RM255.702 million in 2000. This is due to our subsidiary company, Nucleus Electronics Ltd. has commenced its distribution business in China from July 2001 on a wholesale basis. We are encouraged by the volume of business registered albeit at a much lower margin.

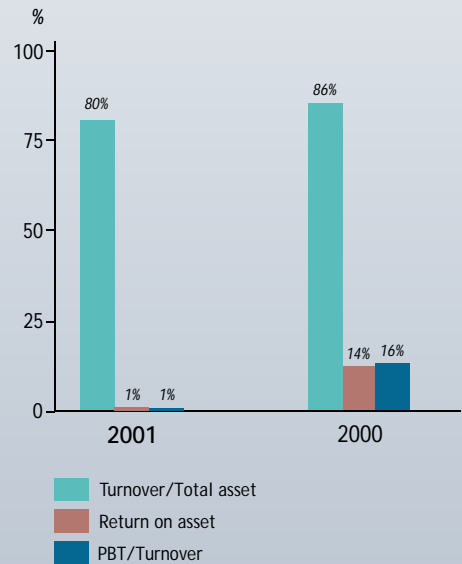
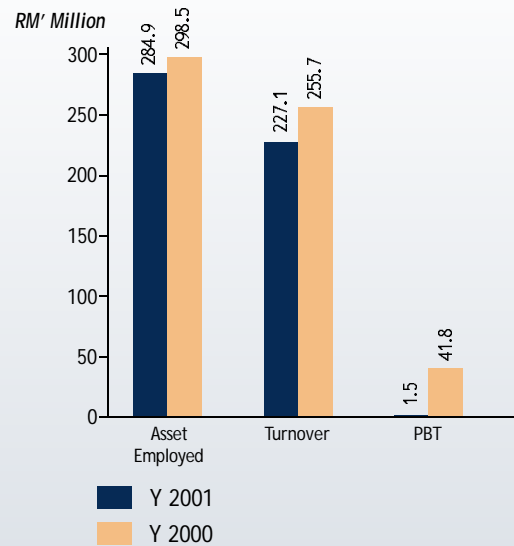
The pricing pressure, slow orders and low capacity utilisation have resulted in a much lower margin for our assembly and test business. In addition, the low margin was also exacerbated by stock provisioning from the distribution business and redundancy payments from the assembly and test business. Nevertheless, with the implementation of the various cost cutting measures like reduced work days and expenses and rationalising the work force, reduction in material cost coupled with the dedication and support from the staff and management, the Division is still able to remain profitable.

Due to the slow orders, uncertain semiconductor industry outlook and excess capacity available from the first plant, the Board has decided not to equip the second plant for better cost control and avoiding the second plant being left idle. Nevertheless the Board believes that with the second plant in place the Group is poised to capitalise the potential upside to be derived from the recovery of the worldwide semiconductor industry.

The Group has been proactively seeking out strategic alliances with potential joint venture partners with an objective to further broaden our customer and

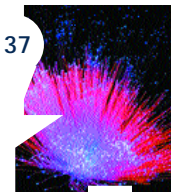
product base. In connection to this AIC Semiconductor Sdn Bhd ("AICS") had entered into a subcontract agreement in February 2001 with National Semiconductor International B.V ("NS") where AICS will assemble and test certain semiconductor products for NS for a period of five years. Due to the downturn in the semiconductor industry, the business from NS was outsourced to AICS at a deferred pace. We anticipate that the complete transfer of the said semiconductor products will be in the second half of 2002 as compared to the original plan in second half of 2001.

SEMICONDUCTOR DIVISION



## Review of Operations and Financial Performance

(continued)



The Division is committed to continuous improvement in quality and business process. This is evidenced by our test and assembly plant, AICS being awarded the UKAS Accreditation QS9000 for Quality Management System in March 2001. We have also in May 2001 officially launched our internal Total Quality Management program that aims to cultivate a quality culture and works on key projects which includes cost reduction, improving cycle time etc. We have seen results from this program and our cycle time has been reduced. In addition, AICS was also being awarded the prestigious ISO14001 for environmental conservation in November 2001.

As further testimonies to our quality and customer focus services, AICS has also received the Achievement Award for Q3 Year 2001 and Sub-con for the Year 2001 award from Atmel Corporation Colorado. We are also being awarded the Supplier Excellence Award for Q3 Year 2001 from another customer, International Rectifier Corporation.

The current slowdown has indeed quickened the pace of the ongoing rationalisation and reorganisation of the global semiconductor industry. As such, your Division will continue to seek investment opportunities to expand and strengthen its vision of becoming a major global player in the dynamic and challenging semiconductor industry. We will continue to intensify our efforts to broaden our product packages and customer base. Our distribution business is also making impressive inroads in the huge Hong Kong /China market during the year and would start to support multinational corporations that are operating in China from our very own offices there.

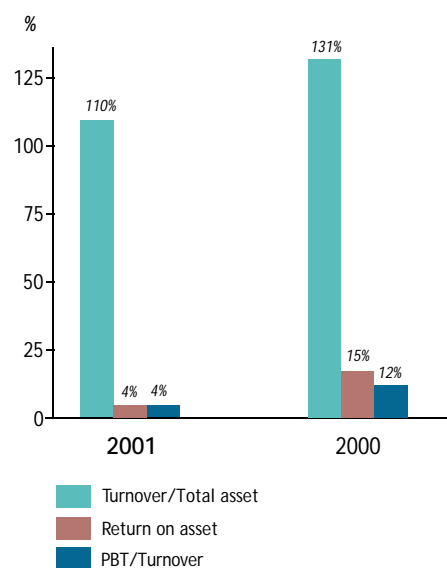
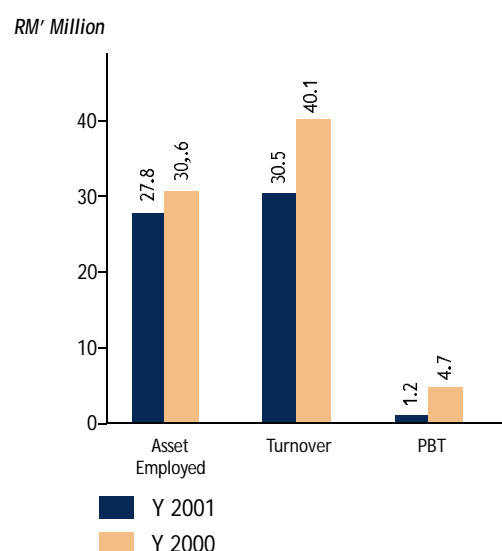
### METAL DIVISION

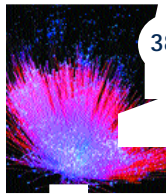
The effect of the slowdown of the global semiconductor market had rippled through to our Metal Division. As the business of the Metal Division is closely linked to that of the electronics and semiconductor industries, the contribution from this Division in terms of profit before taxation has tumbled from RM4.673 million in 2000 to RM1.173

million in 2001 or a decrease of 75% as compared to 2000.

This Division is continuously seeking investment opportunities to expand its core business and to diversify geographically and at the end of December 2001, Jotech Holdings Berhad, the investment holding company through its wholly-owned subsidiary, Jotech Metal Fabrication Industries Sdn Bhd completed acquisitions of 60% and 100% equity

### METAL DIVISION





## Review of Operations and Financial Performance (continued)

interest in PT Indotech Metal Nusantara, Indonesia and JP Metal Sdn Bhd respectively. They are based in Jakarta and Kuala Lumpur respectively. Both the companies which are also in the business of precision metal stamping will complement the business performance of this Division as they increase their geographical coverage in the areas where electronics manufacturing activities are located.

The Division's commitment to quality is also evident when Prodelcon Sdn Bhd, one of our associated company being awarded the internationally acclaimed ISO9001:2000 by SGS Yarsley International Certification Services on 18 September 2001.

Looking ahead, the year 2002 is expected to be a tough and challenging period as the equipment market is still weak. The audio visual industry is itself undergoing a shakeout and most manufacturers are consolidating or moving aggressively into China where most manufacturing are concentrated at the moment. However, we believe that smaller contract manufacturers like Jotech, especially when we are located in this region have still got a role to contribute.

### INFORMATION TECHNOLOGY ("IT") DIVISION

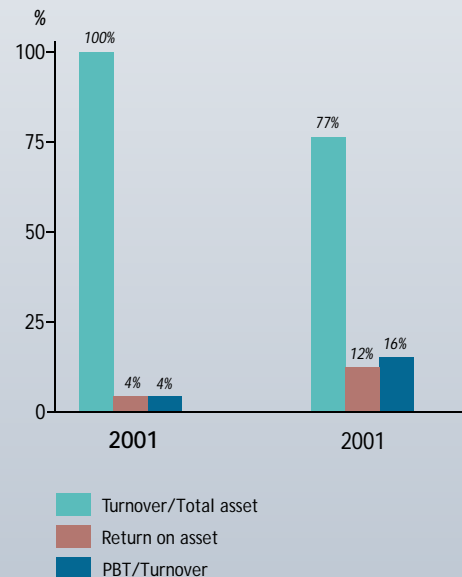
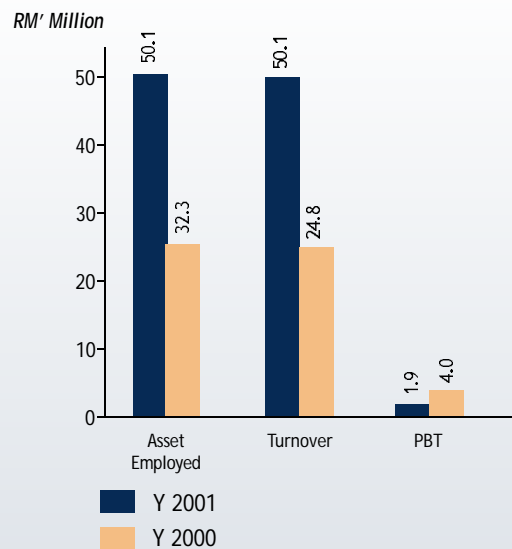
Our IT Division continues to contribute positively to the Group's profitability. However, due to the product mix experienced by your Division this year where more hardware are being distributed in year 2001 to the Ministry Of Education compared to previous years, the profit before tax of the Division dips 53% to RM1.891 million in 2001 as compared to RM4.025 million in 2000 even though turnover registered a hefty improvement of more than 100% to RM50.067 million in 2001 (2000: RM24.835 million). This is due to hardware business being traditionally low margin business as compared to software and IT solutions business in 2000.

During the financial year under review the office of the IT Division had been relocated from Setapak, Kuala Lumpur to Wisma AIC Shah Alam with a view to further consolidate our Group's operations under

one location to facilitate control and management and to fully utilise the floor space available in Wisma AIC. The Division had also undergone a change in top management and resulted in a poor performance reported in the second quarter of 2001. Nevertheless a new management team has been appointed and more businesses had been procured and executed in the second half of 2001.

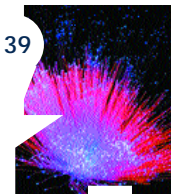
The Government had announced in the Y2002 Budget that a total expenditure of RM750 million will be spent on smart school projects and computerisation

### INFORMATION TECHNOLOGY ("IT") DIVISION



## Review of Operations and Financial Performance

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of government departments, agencies and schools. As the Division's main target market is the government and schools, we believe that this Division is well poised to benefit from the above budget.

### ELECTRONICS DIVISION

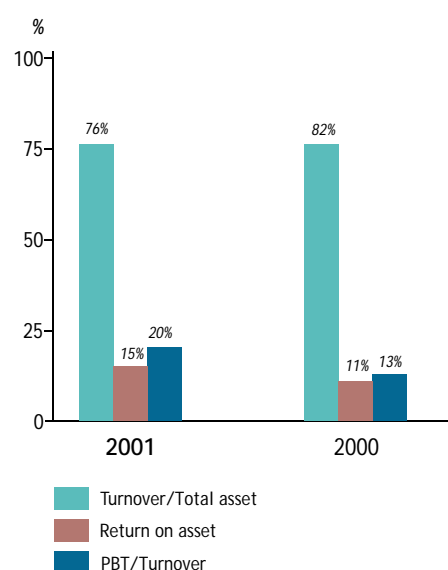
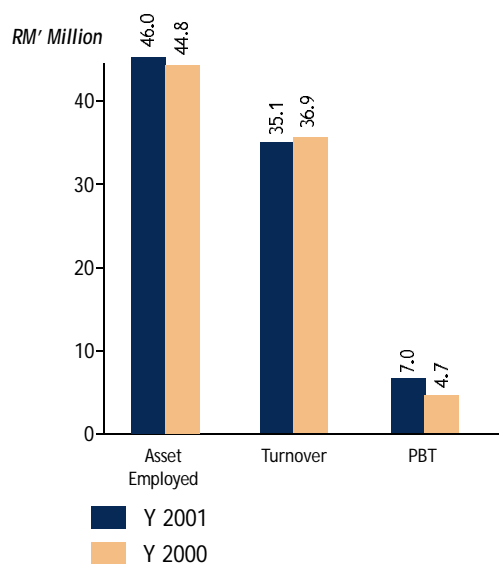
Our Electronics Division, in particular the automotive business had outperformed our expectations on a back of a booming automotive industries in year 2001. With the availability of easy and cheap credit to the public, the automotive industries continue to experience double-digit growth despite the economic downturn. In tandem with this, the Division had recorded a profit before tax of RM7.039 million in 2001 as compared to RM4.732 million in 2000, an impressive 48% improvement as against a relatively flat revenue of RM35.066 million in 2001 as compared to RM36.888 million in 2000. With that, the Division becomes the major contributor to the Group's profitability contributing approximately 97% of the Group's profit before tax for year 2001 as compared to only 9% in 2000.

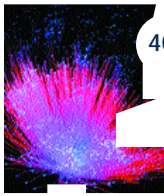
Your Board is also pleased to announce that in addition to achieving such impressive financial performance, Autovisor Plastics Sdn Bhd and Brimal Holdings Sdn Bhd, two subsidiary companies under the Electronics Division had been awarded the prestigious QS9000 certification by RWTUV Anlagentechnik GmbH in February 2002 for the establishment and application of a quality system for the manufacture of sunvisors, lamps and mirrors for automobiles. Our other subsidiary, Custom Tooling (Malaysia) Sdn Bhd which is involved in the manufacturing of plastic injection products for automotive, telecommunication, electronics and consumers industry has also been awarded the prestigious BS EN ISO9001:2000 by the AJA Registrars in October 2001.

To widen the product base and target market of this Division, our subsidiary CTMS Sdn Bhd has also entered into a Contract Manufacturing Agreement in November 2001 with DMR Diversified Manufacturing

Resources Sdn Bhd for a joint venture effort to manufacture/assemble dispenser and sanitizer for export market. We however expect that our core business of manufacturing automotive parts will continue to be the driving force for this Division in year 2002.

### ELECTRONICS DIVISION



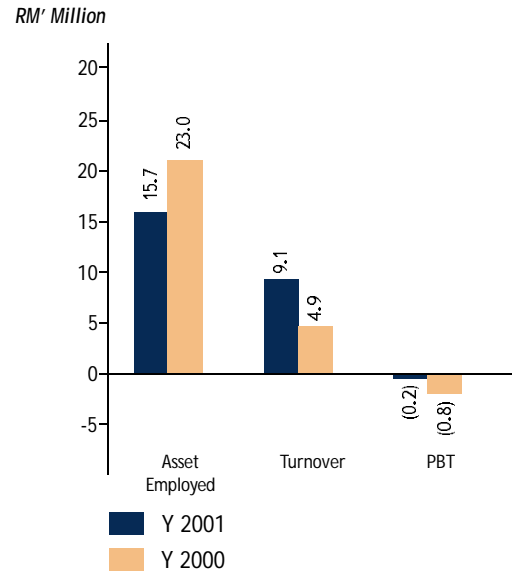


## Review of Operations and Financial Performance (continued)

### PROPERTY DIVISION

The proceeds from the joint venture development had been received as scheduled and gearing has been continuously reduced as planned. The Division incurs a lesser loss of RM0.194 million (Y2000: RM0.830 million) against a higher turnover RM9.092 million (Y2000: RM4.908 million). Barring any unforeseen circumstances, we anticipate that the development project would be completed as scheduled, i.e. by early 2003.

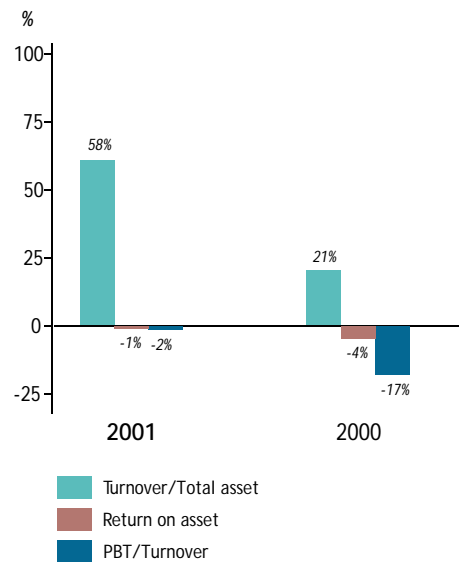
### PROPERTY DIVISION



## Mark of EXCELLENCE



*These achievements in the area of quality standards are endorsement to the Group's strong commitment on quality towards its products and services to its customers.*



*KLSE Corporate Sectoral Award for 2001 (Main Board Technology Category) and 2000 (Second Board Industrial Category).*