

**General Announcement**Reference No **MM-070531-57432**Submitting Merchant Bank : **MIMB INVESTMENT BANK BERHAD**Company Name : **AIC CORPORATION BERHAD**Stock Name : **AIC**Date Announced : **31/05/2007**Type : **Announcement**Subject : **AIC CORPORATION BERHAD ("AIC" OR "COMPANY")**

**PROPOSED ACQUISITION BY AIC OF THE REMAINING 25% EQUITY INTEREST IN AIC TECHNOLOGY SDN BHD ("AICT") NOT HELD BY AIC COMPRISING 2,000,000 ORDINARY SHARES OF RM1.00 EACH ("AICT SHARES") AND 1,237,678 CUMULATIVE REDEEMABLE PREFERENCE SHARES OF RM1.00 EACH ("AICT CRPS") FROM DARULNAS (M) SDN BHD ("DARULNAS") FOR A TOTAL PURCHASE CONSIDERATION OF RM14,000,000 TO BE SATISFIED BY THE ISSUANCE OF 12,600,000 NEW ORDINARY SHARES OF RM1.00 EACH IN AIC ("AIC SHARES") AT AN ISSUE PRICE OF RM1.00 PER SHARE AND CASH OF RM1,400,000 ("PROPOSED ACQUISITION")**

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**1. INTRODUCTION**

On behalf of the Board of Directors of AIC ("Board of AIC"), MIMB Investment Bank Berhad (*formerly known as Malaysian International Merchant Bankers Berhad*) ("MIMB") wishes to announce that the Company had on 31 May 2007 entered into a sale and purchase agreement ("SPA") with Darulnas for the Proposed Acquisition.

**2. THE PROPOSED ACQUISITION****2.1 Details of the Proposed Acquisition**

As at the date of this announcement, the ordinary and preference shares of AICT are as follows:-

	<b>No. of AICT Shares held</b>	<b>%</b>	<b>No. of AICT CRPS held</b>	<b>%</b>
AIC	6,000,000	75.0	3,713,035	75.0
Darulnas	2,000,000	25.0	1,237,678	25.0
<b>Total</b>	<b>8,000,000</b>	<b>100.0</b>	<b>4,950,713</b>	<b>100.0</b>

The Proposed Acquisition entails the acquisition of the remaining ordinary and preference shares of AICT not held by AIC comprising:

- (i) 2,000,000 AICT Shares; and
- (ii) 1,237,678 AICT CRPS

for a total purchase consideration of RM14,000,000 to be satisfied by:-

- (i) the issuance of 12,600,000 new AIC Shares at an issue price of RM1.00 per share; and
- (ii) cash of RM1,400,000.

The new AIC Shares to be issued pursuant to the Proposed Acquisition shall,

upon allotment and issue, rank *pari passu* in all respects with the existing AIC Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the said shares.

The purchase consideration of RM14,000,000 for the 2,000,000 AICT Shares and 1,237,678 AICT CRPS was arrived at on a willing buyer-willing seller basis after taking into consideration the following:-

(i) the adjusted audited consolidated net tangible assets ("NTA") of AICT as at 31 December 2006 as follows:-

	<b>RM'000</b>
Audited NTA as at 31 December 2006	27,698
Add: Outstanding AICT CRPS as at 31 December 2006*	64,507
Less: Redemption of AICT CRPS ^	(29,400)
<b>Adjusted NTA</b>	<b>62,805</b>
25% of Adjusted NTA (A)	15,701
Purchase consideration (B)	14,000
Discount of (B) from (A)	10.8%

*Notes:*

\* *Comprises preference share capital of RM6,450,713 and preference share premium of RM58,056,417. The AICT CRPS were issued at RM10.00 per share.*

^ *A total of 1,500,000 AICT CRPS were redeemed from 1 January 2007 up to the date of this announcement at a total cash redemption price of RM29,400,000.*

(ii) the future earnings potential of AICT and its subsidiary ("AICT Group"); and

(iii) the prospects of the global semiconductor industry.

The issue price of RM1.00 per AIC Share ("Issue Price") is based on the par value of AIC Shares of RM1.00 each. The Issue Price represents a premium of approximately 79% over the five (5)-day weighted average market price of AIC Shares up to 30 May 2007 (*being the market day preceding the date of this announcement*) of RM0.56 per share.

The cash component of the total purchase consideration amounting to RM1,400,000 is expected to be financed through AIC's internally generated funds.

## **2.2 Background information on AICT**

AICT was incorporated in Malaysia on 13 February 1996 as a private limited company under the Companies Act, 1965. As at the date of this announcement, AICT has an authorised share capital of RM25,000,000 comprising 15,000,000 AICT Shares and 10,000,000 AICT CRPS, of which 8,000,000 AICT Shares and 4,950,713 AICT CRPS are credited as fully paid-up.

The salient terms of the AICT CRPS are as follows:-

(a) The holders of the AICT CRPS are entitled to dividends based on the prevailing rate of dividends payable to the ordinary shareholders of AICT;

(b) Each AICT CRPS has the right to one (1) vote on any resolution at any general meeting of AICT which will affect the interest of the AICT CRPS holders;

(c) The AICT CRPS have the right on a winding-up, in priority to all other classes of shares to repayment in full and payment of all arrears of dividends in respect of such AICT CRPS up to the commencement of winding-up;

(d) Each AICT CRPS can be converted into one (1) AICT Share and the Board of Directors of AICT ("Board of AICT") shall have the discretion to determine the time and all other terms governing the conversion of the AICT CRPS; and

(e) The redemption amount for each AICT CRPS shall be equal to the prevailing value of each ordinary share and is redeemable as and when AICT is in a financial position to do so and subject to the approval of the Board of AICT.

AICT is an investment holding company whilst the principal activities of its subsidiary are as follows:-

<b>Company</b>	<b>Date/Place of Effective incorporation</b>	<b>Effective equity interest</b>	<b>Issued and paid-up share capital</b>	<b>Principal activities</b>
AIC Semiconductor Sdn Bhd ("AICS")	15 August 1995/ Malaysia	75.0%	RM38,885,000	Design, divided into procurement, sales, 38,885,000 assembly and test ordinary shares of integrated circuit of RM1.00 chips and other each ancillary activities
			RM28,000,000	divided into 28,000,000 preference shares of RM1.00 each

As at the date of this announcement, AICT does not have any associated company. The corporate structure of the AICT Group is shown in **Table 1**.

The principal markets for the AICT Group's products include the United States of America ("US"), Taiwan, Malaysia and Singapore.

The financial information of the AICT Group for the past five (5) financial years ended ("FYE") 31 December 2002 to 2006 is set out in **Table 2**.

### 2.3 Salient Terms of the SPA

The salient terms of the SPA include *inter-alia*, the following:-

(i) AIC shall acquire the 2,000,000 AICT Shares and 1,237,678 AICT CRPS free from all claims, charges, liens, encumbrances and equities whatsoever together with all rights attached thereto and all dividends, rights and distributions declared paid or made in respect thereof as at the completion of the Proposed Acquisition;

(ii) The purchase consideration for the Proposed Acquisition of RM14,000,000 shall be satisfied by:

(a) the payment to Darulnas by way of cheque, the sum of RM1,400,000; and

(b) the issuance to Darulnas of 12,600,000 new AIC Shares, at the completion date of the Proposed Acquisition;

(iii) The Proposed Acquisition is conditional upon the fulfillment of the following conditions within six (6) months from the date of the SPA (or such extended period as the parties may mutually agree in writing):-

(a) AIC obtaining the approval of the Securities Commission ("SC") for the issuance of the new AIC Shares as consideration for the Proposed Acquisition;

(b) AIC obtaining the letter of no objection from the SC for the Proposed Acquisition pursuant to the Guidelines on the Acquisition of Interests, Mergers and Take-overs by Local and Foreign Interests issued by the Foreign Investment Committee ("FIC");

(c) if applicable, AICT obtaining the approval of the Ministry of International Trade and Industry ("MITI");

(d) AIC obtaining the approval of Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing and quotation of the new AIC Shares to be issued pursuant to the Proposed Acquisition; and

(e) AIC obtaining the approval of its shareholders in a general meeting.

## **2.4 Details of Darulnas and its original cost of investment in AICT**

Darulnas was incorporated in Malaysia on 11 December 2006 as a private limited company under the Companies Act, 1965. As at the date of this announcement, Darulnas has an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which two (2) ordinary shares of RM1.00 each has been issued and fully paid-up.

Darulnas is an investment holding company. The directors are Faidzan bin Hassan and Abdul Rashid bin Mohamad Isa. They are also the shareholders of Darulnas with each holding one (1) ordinary share of RM1.00 each.

Based on AICT's records, Darulnas acquired the 2,000,000 AICT Shares and 1,237,678 AICT CRPS on 6 February 2007 at a total cost of RM7.5 million.

## **2.5 Liabilities to be assumed**

AIC will not assume any additional liabilities (including contingent liabilities and guarantees (if any)) under the Proposed Acquisition. The existing liabilities of the AICT Group will be settled by the AICT Group in the normal course of business.

### **3. RATIONALE FOR THE PROPOSED ACQUISITION**

The AIC group of companies ("AIC Group") had since 2006 commenced the implementation of its strategic plans to streamline its businesses through the reduction of its interest in the precision stamping and electronics components distribution businesses. Concurrently, the AIC Group plans to focus primarily in the semiconductor business. The Proposed Acquisition will result in the AIC Group consolidating its interest in the AICT Group, which is involved in the semiconductor business, in a move that is in line with the AIC Group's strategic plans.

### **4. INDUSTRY OUTLOOK AND PROSPECTS**

#### **4.1 Outlook of the semiconductor industry**

The global uptrend in demand for electronics will impact positively on Malaysia's exports of electrical and electronic ("E&E") products, leading to a stronger growth in manufacturing output.

Export-oriented industries registered a significant growth during the first half of 2006 following the upturn in global demand for E&E products, particularly for semiconductors and other electronic products. Growth in global demand for semiconductors, which rebounded since the second half of 2005, expanded by 8.3% in the first half of 2006. This was reflected in the stronger book-to-bill ratio of North American-based semiconductor equipment and Japan's chip-making devices industries. Meanwhile, development of cyber cities as well as rising levels of shared services and outsourcing activities also contributed to increasing domestic demand to E&E products, which is anticipated to expand by more than 7% for the whole year.

At the industry level, output of semiconductors, which has the highest weightage in the Industrial Production Index, recorded a remarkable growth of 14.3% (January-June 2005: -0.5%).

Concerted efforts are also underway to further enhance Malaysia's competitiveness in the electronics industry, facilitating the shift of E&E products, processes and production up the value chain. These efforts include, among others, developing Malaysia as a centre of excellence for semiconductors in the areas of design and development, upgrading capabilities in wafer fabrication, packaging and testing as well as increasing competencies of workforce through capacity building.

In addition, collaboration is being further intensified between the private sector and institutions of higher learning and Government's research institutions to carry out research to development to commercialisation activities. These ongoing efforts are expected to attract existing as well as potential manufacturers, including multinational corporations, to invest in higher value-added activities of the E&E industries. The up-scaling of investments is expected to further strengthen and enhance Malaysia's capabilities and ranking in semiconductors design and manufacturing activities.

*(Source: Ministry of Finance, Malaysia – Economic Report 2006/2007)*

#### **4.2 Prospects of the AICT Group**

The prospects of the AICT Group appear to be favourable due to the following factors:-

**(i) Continued trend toward outsourcing**

Semiconductor manufacturers that design, manufacture and market their proprietary brands of semiconductors are known as Integrated Device Manufacturers ("IDMs"). The trend towards outsourcing is driven by the semiconductor industry's needs to improve time-to-market, maximise utilisation of equipments and technologies and reduce manufacturing costs. Additionally, packaging and testing are increasingly becoming key contributors to performance and cost, and must be considered early in the design cycle. As a result, IDMs are forging stronger strategic relationships with independent providers of assembly and test services like the AICT Group.

**(ii) Growth of fabless companies**

Fabless companies, which concentrate their efforts and resources on the design and marketing of semiconductors, outsource virtually every step of the semiconductor production process, allowing them to utilise the latest manufacturing technologies without committing significant amounts of capital and other resources. The growth rates of fabless companies continue to outpace that of IDMs which in turn stimulates the growth for the independent assembly and test service providers like the AICT Group.

**(iii) Expansion of wafer fabrication facilities in Asia**

The growth of wafer fabrication facilities in Asia provides complementary needs for assembly and test facilities in this region and has the expertise and ability to cater to the needs of these facilities. The geographical proximity of wafer fabrication facilities to assembly and test facilities improves efficiency in process development, volume production ramp-up, cycle time and yield enhancement.

**(iv) Increasingly pervasive use of semiconductors in electronics**

The increasingly pervasive use of semiconductors in electronics in the computing, communication, consumer electronics, and automotive sectors will drive the growth of the semiconductor industry. This will in turn create growth opportunities for semiconductor assembly and test service providers like the AICT Group.

## **5. RISK FACTORS**

The risk factors associated with the Proposed Acquisition include, without limitations, the following:

**(i) Business risks**

The AICT Group's business activities are subjected to certain risks inherent in the semiconductor industry. These may include changes in the general economic and political conditions, inflation, taxation, interest rates, exchange rates of foreign currencies and changes in business conditions and material supply shortages. Although the AICT Group seeks to minimise these risks through

inter-alia, prudent cashflow management and maintaining good relationship with its suppliers and customers, there can be no assurance that any changes to these factors will not have material effect to the AICT Group's business.

**(ii) Cyclical nature of the semiconductor industry**

The AICT Group is principally involved in the assembly and testing of integrated circuit chips and smartcard modules. The AICT Group's services are affected by the cyclical changes of the semiconductor industry and have experienced significant downturns, driven by factors such as demand volatility and excessive build up of inventories. Depending on the severity of the downturn, the AICT Group's business and financial performance may be adversely affected resulting in lower utilisation rates which will ultimately cause an erosion in average selling prices.

Resulting from the slowdown of the semiconductors industry, the test and assembly division of the AICT Group recorded losses for the three (3) FYE 31 December 2003 to 2005. However, the Board of AICT believes that the AICT Group is well positioned to capitalise on the anticipated upturn in the semiconductor industry moving forward.

**(iii) Financial resources of the AICT Group**

The semiconductor industry is capital intensive and requires a large amount of investment to keep pace with the current technological advances. There can be no assurance that any funding shortfall would not have any material impact on the AICT Group.

However, the AICT Group would seek to minimise this risk through *inter-alia*, prudent cashflow management, taking steps to secure the necessary financing with financial institutions and improving operational efficiency.

**(iv) Dependence on a major customer**

Atmel Corporation ("Atmel") is a major customer, contributing approximately 25% of the AICT Group's total turnover for the FYE 31 December 2006. There can be no assurance that the loss of Atmel as its customer would not have any material impact on the AICT Group. However, the Board of AICT believes that the good relationship with Atmel will be maintained due to the fact that Atmel is a strategic partner to the AICT Group who directly holds 6.1% ordinary equity interest in AICS. Further, the AICT Group is also expanding its customer base by securing new customers from the US, Europe and Taiwan.

**(v) Government control, regulation and policy**

Adverse developments in political, economic and regulatory conditions in Malaysia and other countries where the AICT Group markets its products and services could materially and adversely affect the financial prospects of the AICT Group. Political and economic uncertainties include, but not limited to changes in the general economy, government legislations and policies affecting manufacturers, risks of wars, changes in political leadership, expropriation, nationalisation, renegotiation or nullification of existing contracts, changes in interest rates, methods of taxation and currency exchange controls.

Whilst the AICT Group strives to take effective measures such as prudent financial management and efficient operating procedures, there can be no assurance that adverse political, economic and regulatory factors will not have material effect to the AICT Group's business.

**(vi) Foreign exchange risk**

The strengthening of the RM against the US Dollar is expected to have a direct impact on the revenue and income of the AICT Group as a large portion of its turnover is denominated in the US Dollar. The AICT Group seeks to minimise this risk through foreign exchange hedging.

**6. EFFECTS OF THE PROPOSED ACQUISITION**

**6.1 Share Capital**

The proforma effects of the Proposed Acquisition on the issued and paid-up share capital of AIC are set out in **Table 3**.

**6.2 Substantial Shareholdings**

The proforma effects of the Proposed Acquisition on AIC's substantial shareholders' shareholdings are set out in **Table 4**.

**6.3 Net Assets ("NA") and Gearing**

Based on the consolidated audited financial statements of the AIC Group for the FYE 31 December 2006, the proforma effects of the Proposed Acquisition on the NA and gearing of the AIC Group are set out in **Table 5**.

**6.4 Earnings**

The Proposed Acquisition is expected to contribute positively to future earnings of the AIC Group. However, resulting from the issuance of additional AIC Shares pursuant to the Proposed Acquisition, there may be dilutive effects on the AIC Group's earnings per share.

**6.5 Dividends**

The potential effect of the Proposed Acquisition on the dividends to be declared by AIC for the future financial years would be dependent on the dividend rate to be determined after taking into consideration the financial performance of the AIC Group.

**7. APPROVALS REQUIRED**

The Proposed Acquisition is subject to and conditional upon the approvals from the following:-

(i) the SC pursuant to the Policies and Guidelines on Issue/Offer of Securities ("SC Guidelines");

(ii) the SC pursuant to the Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests issued by the FIC;

(iii) the MITI;

(iv) the shareholders of AIC at an extraordinary general meeting to be convened for the Proposed Acquisition;

(v) Bursa Securities, for the listing of and quotation for the new AIC Shares to be issued pursuant to the Proposed Acquisition; and

(vi) other relevant authorities and/or persons (if necessary).

## **8. ESTIMATED TIMEFRAME FOR THE COMPLETION OF THE PROPOSED ACQUISITION**

Barring unforeseen circumstances, the Proposed Acquisition is expected to be completed within six (6) months from the date of this announcement.

## **9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST**

None of the Directors or major shareholders of AIC and any persons connected with them have any interest, direct or indirect in the Proposed Acquisition.

## **10. DIRECTORS' STATEMENT**

The Board of AIC, after having considered all aspects of the Proposed Acquisition, is of the opinion that the Proposed Acquisition is in the best interest of the Company.

## **11. DEPARTURE FROM THE SC GUIDELINES**

The Board of AIC and MIMB are not aware of any departure from the SC Guidelines in respect of the terms of the Proposed Acquisition.

## **12. ADVISER**

MIMB has been appointed as adviser to the Company for the Proposed Acquisition.

## **13. APPLICATION TO THE AUTHORITIES**

Barring any unforeseen circumstances, the application to the relevant authorities for the Proposed Acquisition is expected to be made within three (3) months from the date of this announcement.

#### **14. DOCUMENTS FOR INSPECTION**

The SPA may be inspected at the registered office of AIC at Wisma AIC, Lot 3, Persiaran Kemajuan, Section 16, 40200 Shah Alam, Selangor Darul Ehsan during normal business hours from Monday to Friday (except public holidays) for a period of three (3) months from date of this announcement.

This announcement is dated 31 May 2007.



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