

Company Name : **AIC CORPORATION BERHAD**
Stock Name : **AIC**
Date Announced : **19/09/2007**

Type : **Announcement**
Subject : **AIC CORPORATION BERHAD ("AIC" OR "THE COMPANY")
PROPOSED DIVESTMENT OF SUBSIDIARIES**

Contents :

1. INTRODUCTION

The Board of Directors wishes to announce that AIC Inspirasi Sdn Bhd ("AICI"), a wholly owned subsidiary of AIC, had on 19 September 2007 entered into a conditional sale and purchase agreement ("SPA") to divest its entire equity interests in Brimal Holdings Sdn Bhd ("Brimal") and Autovisor Plastics Sdn Bhd ("AVP") (collectively referred to as the "Target Companies"), two wholly-owned subsidiaries of AICI to AV Ventures Corporation Berhad ("AVCB") ("Proposed Divestment").

2. DETAILS OF THE PROPOSED DIVESTMENT

On 16 July 2007, Brimal and AVP had entered into separate management agreements ("Management Agreements") with AVCB for the provision of management services by AVCB to Brimal and AVP. The Management Agreements also provided AVCB with the first right of refusal to purchase the automotive parts business of Brimal and AVP.

On 19 September 2007, AICI and AVCB entered into the SPA for the disposal by AICI of the entire equity interest, comprising of:

- i) 8,000,000 ordinary shares of RM1.00 each in Brimal ("Brimal Shares"); and
- ii) 1,000,000 ordinary shares of RM1.00 each in AVP together with 2,500,000 AVP Capitalised Shares as defined herein ("AVP Shares"),

for a total consideration of RM12,291,684 ("the Consideration") to be satisfied via the issuance of 9,833,347 new ordinary shares of RM1.00 each in AVCB ("AVCB Shares") at an issue price of RM1.25 per AVCB Share.

Pursuant to the SPA, AVP will increase its issued share capital by capitalising the shareholder's advances of RM2,500,000 owing by AVP to AICI ("Shareholder's Advances") through the allotment and issuance of fully paid up 2,500,000 new ordinary shares in AVP ("AVP Capitalised Shares").

The new AVCB Shares to be issued pursuant to the Proposed Divestment shall, upon allotment and issue, rank *pari passu* in all respects with the existing AVCB 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. Based on the enlarged issued and paid-up share capital of AVCB following the issuance of the new AVCB Shares pursuant to the Proposed Divestment, AICI will have a 17% equity interest in AVCB.

AVCB will make an application to Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for the AVCB Shares to be issued pursuant to the Proposed Divestment on the Second Board of Bursa Securities.

The AVCB Shares would be retained as short term investment by AICI and the subsequent resale of the AVCB Shares would be dependent on inter-alia, the market condition, pricing and demand level at the material point in time.

The Consideration of RM12,291,684 was arrived at on a willing buyer-willing seller basis after taking into consideration the following:

- (i) the unaudited net assets ("NA") value of Brimal and AVP as at 31 July 2007 as follows:-

RM'000

Unaudited NA value of AVP as at 31 July 2007 8,578 ⁽¹⁾
Unaudited NA value of Brimal as at 31 July 2007 3,711

Amalgamated Unaudited NA value as at 31 July 2007 12,289

Note

(1) After taking into account the AVP Capitalised Shares as defined herein.

(ii) the future earnings potential of Brimal and AVP.

The issue price of RM1.25 per AVCB Share (“Issue Price”) was arrived at after taking into account the six (6)-month weighted average market price of AVCB Shares up to 18 September 2007 (*being the market day preceding the date of this announcement*) of RM1.26 per share. The Issue Price also represents a discount of approximately 1.6% over the five (5)-day weighted average market price of AVCB Shares up to 18 September 2007 (*being the market day preceding the date of this announcement*) of RM1.28 per share.

For illustrative purposes, based on the amalgamated NA value of the Target Companies as at 31 July 2007, the Proposed Divestment is expected to result in a net gain on disposal of approximately RM3,000 to the consolidated financial statements of AIC.

AIC and AVCB will not assume any additional liabilities (including contingent liabilities and guarantees, if any) under the Proposed Divestment. The existing liabilities of the Target Companies will be settled by the Target Companies in the normal course of business.

3. BACKGROUND INFORMATION

3.1 Background information on AICI

AICI was incorporated in Malaysia on 4 March 1994. AICI is principally an investment holding company whilst its subsidiaries are principally engaged in the design, assembly, manufacturing and fabrication of sunvisors, interior car lamps, rear view mirrors, headlining and side mirrors for motor vehicles, electronic products and other automotive accessories. AICI does not have any associated company.

AICI has an authorised share capital of 100,000 ordinary shares of RM1.00 each of which all of them have been credited as fully paid-up.

The original costs and dates of investment in the Target Companies are as shown in Table 1 below.

3.2 Background information of the Target Companies

Brimal was incorporated in Malaysia on 10 September 1975. Brimal is principally engaged in the assembly of car rear view mirrors, side mirrors, car headlining and other automotive accessories and components. Brimal has an authorised share capital comprising of 22,000,000 ordinary shares of RM1.00 each and 3,000,000 redeemable preference shares of RM1.00 each of which 8,000,000 ordinary shares of RM1.00 each are issued and credited as fully paid up.

AVP was incorporated in Malaysia on 20 February 1990. AVP is principally involved in the manufacturing of sunvisors and interior car-lamps for the automotive industry. AVP has an authorised share capital of 1,000,000 ordinary shares of RM1.00 each of which all have been credited as fully paid-up.

The audited net losses and net assets of Brimal for the financial year ended (“FYE”) 31 December 2006 amounted to RM2.2 million and RM4.0 million respectively.

The audited net profit and net assets of AVP for the FYE 31 December 2006 amounted to RM0.1 million and RM5.3 million respectively.

3.3 Background Information on AVCB

AVCB was listed on the Second Board of Bursa Securities on 6 August 1997. AVCB is an investment holding company whilst its subsidiaries are principally involved in the manufacturing, assembly and sale of automotive parts and components. As at the date of this announcement, AVCB has an authorised share capital of 100,000,000 ordinary shares RM1.00 each of which 47,984,400 ordinary shares are credited as fully paid-up.

The directors of AVCB are Kong Kok Keong, Mak Siew Wei, Sabidi bin Abu Bakar and Ashari bin Ayub whereas the substantial shareholder of AVCB is Kong Kok Keong.

The principal products for AVCB group of companies’ (“AVCB Group”) are window regulators, washer systems, electric horns, steering columns and power rack and pinions, and other components for the automotive industry.

The AVCB Group’s products are principally for the Malaysian market.

The relevant financial information of the AVCB Group based on its audited financial statements for the past five (5) FYE 31 December 2002 to 2006 and the unaudited financial statements for the six (6) month

4. SALIENT TERMS OF THE SPA

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

(i) AVCB shall acquire the Brimal Shares and AVP Shares 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 Divestment on an as-is-where-is basis upon the terms and subject to the conditions contained in the SPA;

(ii) The Consideration of RM12,291,684 shall be satisfied on or before the expiry of thirty (30) days or on such mutually extended period after the date that the SPA becomes unconditional or if such a day is not a market day, the next succeeding market day, AVCB shall allot and issue 9,833,347 new AVCB Shares at the issue price of RM1.25 per AVCB Share, each credited as fully paid-up;

(iii) The Proposed Divestment is conditional upon the following being obtained, procured and/or fulfilled within six (6) months from the date the SPA by AVCB and/or AICI (where relevant) or such extended period as the parties may mutually agree:-

(a) AVCB obtaining the approval of the Securities Commission (“SC”) pursuant to the Policies and Guidelines on Issue/Offer of Securities (“SC Guidelines”) for the issuance and allotment of the 9,833,347 new AVCB Shares pursuant to the Proposed Divestment;

(b) AVCB obtaining the approval of the SC pursuant to the Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests issued by the Foreign Investment Committee for the Proposed Divestment;

(c) AVCB obtaining the approval of Bursa Securities for the listing of and quotation for the 9,833,347 new AVCB Shares issued pursuant to the Proposed Divestment on the Second Board of Bursa Securities;

(d) AVCB obtaining the approval of the Ministry of International Trade and Industry (“MITI”), if applicable;

(e) the approval of the shareholders of AVCB in a general meeting for the Proposed Divestment; and

(f) such other waivers, consents or approvals as may be required (or deemed necessary by the parties) from any third party or governmental, regulatory body or competent authority having jurisdiction over any part of the Proposed Divestment.

(iv) AICI shall procure AVP to capitalise the entire Shareholder’s Advances by the completion date through the allotment and issuance of fully paid-up 2,500,000 new AVP shares to AICI or in such manner directed by AICI; and

(v) The proposed divestment of the Brimal Shares and AVP Shares by AICI are co-dependent upon each other. Should either of the proposed divestment fail, the SPA shall be deemed terminated in its entirety.

5. RISKS RELATED TO AVCB

As the Proposed Divestment entails the issuance of 9,833,347 new AVCB Shares to AICI, the Company would be exposed to the business risk faced by the AVCB Group and certain inherent risk in the automotive industry where the AVCB Group principally operates in.

5.1 Business risks

The AVCB Group is subject to risks inherent in the automotive parts and components manufacturing industry including, *inter alia*, constraints in labour supply, changes in cost of labour, changes in raw material prices, changes in general economic and business conditions, foreign exchange rate fluctuations, unfavourable changes in Government and international policies and the introduction of new and superior technology or products and services by competitors.

Although the AVCB Group seeks to limit these risks through, *inter alia*, increasing the efficiency of its operations, expanding the AVCB Group’s business through increasing its range of customers, products and services for both local and export markets and improving its technological competence in research and development and advanced technologies, no assurance can be given that any change to the factors above will not have a material adverse effect on the AVCB Group’s business.

5.2 Government control, regulation and policy

Adverse developments in the political, economic and regulatory conditions in Malaysia and other countries where AVCB currently markets or proposes to market its products and services could materially and adversely affect the financial prospects of AVCB. 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 AVCB 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 on AVCB's business.

5.3 Dependence on certain customers

AVCB Group operates principally in the Malaysian automotive industry which has restricted number of customers. As such, the companies have substantial reliance on certain key customers.

While the management of AVCB Group believe that it will be able to retain its key customers and has not experienced any difficulty in retaining these customers in the past, there can be no assurance of the procurement volume of these customers. There also can be no assurance that AVCB Group will not breach the terms and/or conditions currently imposed by these customers.

Failure by AVCB Group to retain any of the key customers may result in the interruption of AVCB Group's operations and may have a material adverse effect in AVCB Group's results of operations, financial condition and prospects.

5.4 Inability to Renew or Maintain Permits, Approvals and Licences Required to Operate

In its ordinary course of business, the AVCB Group requires certain permits and approvals to operate its business. In the future, the AVCB Group may be required to renew such permits and approvals and/or to obtain new permits, approvals and licences.

While the management of the AVCB Group believes that it will be able to obtain such permits, approvals and licences and the AVCB Group has not experienced any difficulty in renewing and maintaining these permits, approvals and licences in the past, as and when required, there can be no assurance that the relevant authorities will issue any of such permits, approvals and licences in the time-frame anticipated by the AVCB Group or at all. There also can be no assurance that the AVCB Group will not breach the terms and/or conditions currently imposed by the relevant authorities.

Failure by the AVCB Group to renew, maintain or obtain the required permits, approvals and/or licences may result in the interruption of the AVCB Groups' operations and may have a material adverse effect in the AVCB Groups' results of operations, financial condition and prospects.

5.5 Trade and market liberalisation of the automotive industry

The AVCB Group operate substantially in the Malaysian automotive industry and are directly affected by the effects of trade and market liberalisation of the industry. Any adverse effect arising from changes in policies and conditions within the industry could materially and adversely affect the financial and business prospects of the AVCB Group.

6. PROSPECTS OF AVCB

The automotive sector is a key industry in the Malaysian economy, with significant linkages to the manufacturing and services sectors. It began with the wholesale importation of vehicles, which then progressed to assembly operations and the establishment of a wide network of automotive components and parts manufacturers. The establishment of Perusahaan Otomobil Nasional Bhd ("Proton") and Perusahaan Otomobil Kedua Sdn Bhd ("Perodua") provided the necessary catalyst for growth and this propelled Malaysia into a new automotive era.

The Government announced its National Automotive Policy ("NAP") in March 2006, with the overall objective of generating sustainable economic value creation in the domestic automotive industry as well as stimulating the formation of Malaysia as an automotive hub in the region. The NAP is envisioned to facilitate the required transformation and integration of the national automotive industry with the regional and global automotive networks in view of the progressive liberalization and competitive global environment.

Based on the information from the Malaysian Automotive Association (“MAA”), a record number of 552,316 new vehicles were registered in 2005, however in 2006 the number of car sales dropped by approximately 11%. The biggest decline was seen in the passenger car segment which accounts for 81% of the total drop in new vehicle registrations.

Notwithstanding the above, the year-on-year sales trend has shown signs of improvement. After negative year-on-year performance from January to May 2007, June 2007 sales broke the trend by registering a 4% year-on-year growth. The outlook for the 2nd half of 2007 appears better than the 1st half and MAA forecast that, 6% lower than 2006 but 8.4% higher than the 1st half of 2007.

Vehicle sales continued the upward trend in the month of July 2007, with 44,926 units being sold, the highest level of sales since August 2006. This represents a 2.6% increase over sales in the month of June as well as a 10% increase over sales in July 2006. This increase has boosted the total sales for the year to date to 265,666 units with most of the upside being in the passenger car segment.

AVCB’s acquisitions of Brimal and AVP are also expected to create new opportunities with other carmakers and reduce the AVCB Group’s reliance on any particular customer. In view of the above developments in the local automotive industry, the future prospects of AVCB Group appear to be positive.

7. RATIONALE FOR THE PROPOSED DIVESTMENT

The AIC group of companies (“AIC Group”) had since 2006 commenced the implementation of its strategic plans to streamline its businesses through the divestment 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 Divestment represents a divestment of our non-core assets, a move that is in line with the AIC Group’s strategic plans.

8. EFFECTS OF THE PROPOSED DIVESTMENT

a) Share Capital and Substantial Shareholding

The Proposed Divestment will not have any effect on the share capital and substantial shareholding of the Company.

b) NA and Gearing

The proforma effects of the Proposed Divestment on the consolidated NA and consolidated NA per AIC share and gearing of AIC Group based on the audited financial statements for the FYE 31 December 2006 are shown in Table 3 below.

c) Earnings

The Proposed Divestment is not expected to have a material effect on the consolidated earnings of AIC Group for the financial year ending 31 December 2007 as the Proposed Divestment is expected to be completed by the second quarter of 2008. However, for illustrative purposes, based on the amalgamated NA value of the Target Companies as at 31 July 2007, the Proposed Divestment is expected to result in a net gain on disposal of about RM3,000. The said net gain on disposal will not have any significant effect on the earnings per share of the AIC Group.

d) Dividends

The Proposed Divestment is not expected to affect the dividend policy of the Company as future dividend payable by the Company would be dependent on the future profitability and cash flow position.

9. DIRECTORS' STATEMENT

The Board of Directors of AIC is of the opinion that the Proposed Divestment is in the best interest of the AIC Group.

10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and major shareholders of AIC nor persons connected with them has any interest, direct or indirect, in the Proposed Divestment.

11. APPROVALS AND APPLICATION TO AUTHORITIES

Save for the approval/consent from the MITI (which will be procured by AVCB and the submission to MITI, barring any unforeseen circumstances is expected to be made within 3 months from the date of this announcement.), the Proposed Divestment is not subject to the approval of the shareholders of the Company or any regulatory authorities.

12. ESTIMATED TIME FRAME FOR COMPLETION

Barring unforeseen circumstances, the Proposed Divestment is expected to be completed by the second quarter of 2008.

13. COMPLIANCE WITH THE SC GUIDELINES

To the best of the knowledge and belief of AIC, the terms of the Proposed Divestment have not departed from the SC's Guidelines.

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 19 September 2007.



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