4. PARTICULARS OF THE PUBLIC ISSUE

4.1 Opening and Closing of Applications

Applications will be accepted from 10.00 a.m. on 7 June 2002 and will close at 8.00 p.m. on 20 June 2002 or such other later date or dates as the Directors of AEM and the Underwriters may in their absolute discretion mutually decide. Late applications will not be accepted.

4.2 Indicative Timetable

The indicative timing of events leading up to the Listing is set out below:-

Event	Date
Opening of Application for the Issue Shares	7 June 2002
Closing of Application for the Issue Shares	20 June 2002*
	Tentative Date
Balloting date for applications for the Issue Shares	26 June 2002
Allotment of the Issue Shares to successful applicants	9 July 2002
Listing date	15 July 2002

Note:-

* *The application for the Public Issue will close at the time and date as stated above or such other later date or dates as the Directors of AEM and the Underwriters may in their absolute discretion mutually decide.*

4.3 Share Capital

	RM
Authorised	
100,000,000 ordinary shares of RM0.50 each	50,000,000
Issued and fully paid-up as at the date of this Prospectus	
68,000,000 ordinary shares of RM0.50 each	34,000,000
To be issued pursuant to the Public Issue	
12,000,000 ordinary shares of RM0.50 each	6,000,000
	40,000,000

The issue price of RM0.80 for each Issue Share is payable in full on application.

There is only one class of shares in AEM, being ordinary shares of RM0.50 each. The Issue Shares shall rank pari passu in all respects with the existing issued and paid-up ordinary shares of RM0.50 each of AEM including voting rights, dividends and distributions that may be declared subsequent to the date of allotment and issuance of the Issue Shares.

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of ordinary shares in the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company, in accordance with its Articles of Association.

At every general meeting of AEM, each shareholder shall be entitled to vote in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney to a shareholder shall have one vote and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

4.4 Details of the Public Issue

The Public Issue is subject to the terms and conditions of this Prospectus and upon acceptance, the Issue Shares will be allocated in the following manner:-

(i) **Private Placement**

5,000,000 of the Issue Shares have been reserved for private placement to identified investors of which at least 30% is to be placed, to the extent possible, to Bumiputera investors.

(ii) **Eligible Directors and Employees of AEM and its subsidiaries in Malaysia**

4,000,000 of the Issue Shares have been reserved for eligible Directors and employees of AEM and its subsidiaries in Malaysia. Any Issue Shares not allocated to eligible Directors and employees of AEM and its subsidiaries in Malaysia will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions.

(iii) **Malaysian Public**

3,000,000 of the Issue Shares will be available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions.

2,000,000 of the Issue Shares in respect of Sections 4.4 (ii) and all Issue Shares mentioned in Section 4.4 (iii) above have been fully underwritten by the Underwriters. Details on the brokerage and underwriting commission relating to the Public Issue are set out in Section 4.9 of this Prospectus.

Any Issue Shares in respect of Section 4.4(ii) above not taken up by eligible Directors and employees of AEM and its subsidiaries in Malaysia will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions.

CIMB as placement agent, has entered into various placement agreements to place out the Issue Shares mentioned in Section 4.4(i) above.

The minimum number of AEM shares to be subscribed pursuant to the Public Issue is 12,000,000 ordinary shares of RM0.50 each at an issue price of RM0.80 per share to meet the funding requirements of AEM.

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4.5 Details of Allocation to Eligible Directors and Employees

Each of the Directors are allocated 60,000 shares whilst the criteria of allocation of the Issue Shares to eligible employees of the AEM and its subsidiaries in Malaysia is as follows:-

	No. of shares reserved for each employee according to length of service			
Category	**3 months to 3 years**	**Above 3 years to 6 years**	**Above 6 years to 9 years**	**Above 9 years**
Managers	100,000	200,000	250,000	300,000
Department Heads	50,000	100,000	200,000	250,000
Section Heads/Executive	40,000	80,000	120,000	150,000
Engineers/Supervisors	14,000	20,000	30,000	50,000
Technicians/Planners	4,000	6,000	9,000	15,000
Clerks/Leaders	4,000	6,000	9,000	15,000
Operators/General Workers	3,000	5,000	7,000	9,000

4.6 Purposes of the Public Issue

The purposes of the Public Issue are as follows:-

(i) To provide the Company access to the capital market to raise funds for future expansion, diversification, modernisation and continued growth of the AEM Group;

(ii) To provide an opportunity for identified investors, eligible Directors and employees of AEM and its subsidiaries in Malaysia, and the Malaysian public to participate in the equity and the continuing growth of the Group; and

(iii) To obtain listing of and quotation for the entire issued and paid-up ordinary shares of AEM on the Second Board of KLSE.

4.7 Pricing of the Issue Shares

The issue price of RM0.80 per ordinary share was determined and agreed upon by the Company and CIMB as Adviser and Managing Underwriter based on various factors, including but not limited to the following:-

(i) The various industries the Group operates in, and the future plans, strategies and prospects of the Group as described in Sections 6 and 7 respectively of this Prospectus;

(ii) The Group's qualitative and quantitative factors as set out in Section 8 of this Prospectus;

(iii) The Group's consolidated profit forecast for the financial year ending 31 December 2002 as set out in Section 12 of this Prospectus;

(iv) The forecast tax-exempt dividend yield for the financial year ending 31 December 2002 as set out in Section 14 of this Prospectus; and

(v) The Group's proforma NTA per share as at 31 December 2001 as set out in Section 15 of this Prospectus.

However, investors should also note that the market price of AEM's shares upon Listing are subject to the vagaries of market forces and other uncertainties, which may affect the price of AEM's shares being traded. Investors should form their own views on the valuation of the Issue Shares before deciding to invest in the Issue Shares.

4.8 Utilisation of Proceeds

The gross proceeds arising from the Rights Issue, details of which are set out in Section 8.3.2 of this Prospectus is RM3,028,074 whilst the gross proceeds arising from the Public Issue is RM9,600,000. The total gross proceeds of RM12,628,074 will be utilised in the following manner:-

	Note	RM 000
Purchase of machinery	1	3,457
Repayment of bank borrowings (short term and long term)	2	5,030
Working capital	3	2,491
		10,978
Estimated listing expenses	4	1,650
		12,628

The proforma impact of the utilisation of proceeds on the consolidated balance sheets of AEM as at 31 December 2001 is reflected in Section 15 of this Prospectus.

Notes:-

(1) *Details of machinery to be purchased within sixteen (16) months from the date of Listing are as follows:-*

Description	***Unit***	***Estimated cost RM 000***
CNC Drilling Machine 6 Spindles[i]	*2*	*1,400*
CNC Drilling Machine 4 Spindles[i]	*1*	*400*
Full Auto Double Side Tester[i]	*1*	*400*
Semi Auto Tester[i]	*2*	*200*
Punching Machine 160 TON with Hydraulic Knock Out System[ii]	*1*	*280*
Punching Machine 110 TON with Hydraulic Knock Out System[ii]	*1*	*220*
Straight Light Expose[ii]	*1*	*57*
CNC Drilling Machine 2 Spindles[ii]	*1*	*300*
CNC Routing Machine 2 Spindles[ii]	*1*	*200*
		3,457

Notes:-

(i) *For AEC's factory in Malaysia.*

(ii) *For AET's factory in Thailand.*

Any difference between the actual cost and the estimated cost for the respective machine set out above will be funded from or used as working capital, as the case may be.

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(2) *Approximately RM5.030 million from the total gross proceeds will be utilised within three (3) months from the date of Listing for the repayment of the Group's bank borrowings. The details of the borrowings to be fully repaid are as follows:-*

Type	*Financier*	*Purpose*	*Date Drawndown*	*Interest per annum %*	*Estimated amount outstanding as at 31.05.2002 RM 000*
Term Loan	*Krung Thai Bank Public Co. Ltd.*	*Machinery financing*	*July 2001*	*8.75*	*2,938**
Hire-purchase	*ACSB*	*Machinery financing*	*February 2002*	*6.00*	*496*
Hire-purchase	*ACSB*	*Machinery financing*	*February 2002*	*6.00*	*102*
Sale and Hireback	*ACSB*	*Machinery financing*	*February 2002*	*6.00*	*1,494*
					5,030

Notes:-

ACSB - Aseam Credit Sdn Bhd (now known as Mayban Finance Berhad).

* *Converted to RM based on an exchange rate of THB100: RM8.602 as at 31 December 2001.*

Any difference between the actual balance outstanding that is repaid and RM5.03 million will be funded from or used as working capital, as the case may be.

(3) *The Group has charted steady growth in recent years and also projected growth in future years. As a consequence, the size of its administrative, operating and marketing expenses have risen or are projected to rise in recent and future years. Hence, the Group will utilise approximately RM2.491 million of the total gross proceeds for its working capital requirements to finance the day-to-day operations of the Group and to facilitate any future expansion.*

(4) *The estimated expenses and fees, including brokerage, underwriting commission, placement fees and management fee relating to the Issue Shares, incidental to the Listing amounting to approximately RM1.65 million will be borne by the Company and will be utilised within three (3) months from the date of Listing.*

Out of RM1.65 million estimated listing expenses, approximately RM900,000 is provided for fees for professional services rendered by advisers and experts.

4.9 Brokerage, Underwriting Commission and Management Fee

Brokerage relating to the Issue Shares will be borne by the Company at the rate of one percent (1.0%) of the issue price of RM0.80 per share in respect of successful applications bearing the stamp of either CIMB, a member company of the KLSE, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or MIH.

The Managing Underwriter for the Public Issue is CIMB, whilst the Underwriters are CIMB and OSK Securities Berhad.

A conditional underwriting agreement was entered into between the Company, CIMB and OSK Securities Berhad on 16 May 2002 ("Underwriting Agreement") to underwrite 5,000,000 Issue Shares which are available for application by the Malaysian Public and eligible Directors and employees of the AEM and its subsidiaries in Malaysia. The Managing Underwriter fee and underwriting commission fee are payable by the Company at the rate of zero point five percent (0.5%) and two percent (2.0%) respectively of the issue price of RM0.80 for each Issue Share being underwritten.

4.10 Salient Terms of the Underwriting Agreement

Some of the salient terms of the Underwriting Agreement are summarised as follows:-

(i) The obligation of the Underwriters to underwrite the 5,000,000 new ordinary shares of RM0.50 each in the Company ("Ordinary Shares") to be underwritten by the Underwriters pursuant to the Public Issue ("Underwritten Shares") in accordance with the proportion set out in the Underwriting Agreement ("Agreement") are conditional on the performance by the Company of its obligations under the Agreement and on:-

(a) The Managing Underwriter being provided with the confirmation and the Underwriters being confirmed and satisfied at the last date for acceptance, application for and payment of the purchase moneys under the Prospectus ("Closing Date") that:-

(aa) there has been no material change or any development likely to result in a material adverse change in the financial position, business operations or conditions (financial or otherwise) of the Group taken as a whole from that provided in the Prospectus; or

(bb) there has not occurred any event or the discovery of any facts or circumstances which would render any representation, warranty or undertaking in clause 11 of the Agreement (Representations, Warranties and Undertakings) materially untrue or inaccurate or result in a material breach of the Agreement by the Company;

(b) The issue of the Prospectus not later than 3 months from the date of the Agreement or such later date as the Underwriters and the Company may from time to time agree;

(c) The registration of the Prospectus with SC and its lodgement with Companies Commission of Malaysia before the date of issue of the Prospectus in Malaysia being a date not later than three (3) months after the date of the Agreement or such later date as the Company and the Underwriters may from time to time agree ("Issue Date");

(d) All the approvals of SC, FIC and MITI referred to in clause 2.2 of the Agreement (Approvals) remaining in full force and effect and that all conditions precedent to the approvals have been complied with;

(e) The Company obtaining KLSE's approval-in-principle to the listing of and quotation for all the Ordinary Shares on the Second Board of KLSE;

(f) The execution of all agreements in relation to the private placement in a form acceptable to the Placement Agent;

(g) The Managing Underwriter receiving a copy certified by a director or secretary of the Company to be a true and accurate copy and in full force and effect of a resolution of the Directors:-

(aa) approving the Prospectus, the Agreement and the transactions contemplated by it;

(bb) authorising a person to sign and deliver the Agreement on behalf of the Company;

(h) The Agreement being signed by all parties and stamped;

(i) The issue of the Issue Shares and the obligation of the Underwriters to underwrite the Underwritten Shares not being prohibited or impeded by any status, order, rule, directive or regulation promulgated by any legislative, executive or regulatory body or authority of Malaysia; and

(j) The Company meeting the public spread requirement under the KLSE Listing Requirements.

(ii) The Managing Underwriter after consultation with the Underwriters may waive all or any of the conditions mentioned above except for any required by a mandatory rule of law or a mandatory requirement of governmental, public or regulatory authorities in connection with the Agreement.

(iii) (a) If any of the conditions in clauses (b) (issue of the Prospectus), (c) (registration and lodgement of the Prospectus), (f) (private placement agreement), (g) (certified true copy of resolution), (h) (signed and stamped) mentioned in (i) above (to the extent not waived) are not satisfied by the Issue Date; or

(b) If any of the conditions other than those referred to in clause (a) above (Pre Issue Date) to the extent not waived are not satisfied by the Closing Date;

the Managing Underwriter after consultation with the Underwriters shall be entitled to terminate the Agreement and in such event the provisions mentioned in clause 14 of the Agreement (Termination) shall apply.

(iv) (a) Notwithstanding anything contained in the Agreement, the Managing Underwriter after consultation with the Underwriters may by notice in writing to the Company given at any time before the Closing Date, terminate and withdraw their underwriting commitment if:-

(aa) in the reasonable opinion of the Managing Underwriter after consultation with the Underwriters, there shall have occurred, happened or come into effect any of the following circumstances:-

(i) any material breach by the Company of any of the representations, warranties or undertakings contained in clause 11 of the Agreement (Representations, Warranties and Undertakings) (which, if capable of remedy, is not remedied within 3 Market Days after notice of such breach shall have been given to the Company by the Underwriters or by the Closing Date, whichever is the earlier);

(ii) the average KLSE composite index for 5 consecutive Market Days falls more than 20% of the previous average KLSE composite index for 5 consecutive Market Days on or before the Closing Date;

(iii) any events or series of events beyond the reasonable control of the Underwriters including (without limitation) acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, sabotage, acts of God or accidents which has or is likely to have the effect of making any material part of the Agreement incapable of performance with its terms or which prevents the processing of applications and/or payments pursuant to the Public Issue or pursuant to the underwriting of the Underwritten Shares;

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on KLSE due to exceptional financial circumstances or otherwise;

(v) in the event that the Closing Date falls after 1 month from the Issue Date; or

(bb) in the reasonable opinion of the Managing Underwriter after consultation with the Underwriters, there shall have occurred, happened or come into effect any of the following circumstances:-

(i) any change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offers or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the abovementioned events or occurrences;

(ii) any change in any law, regulation, directive, policy or ruling in any jurisdiction;

(iii) any government requisition or occurrence of any nature;

which would have or can reasonably be expected to have a material adverse effect on the financial position, business and/or operations of the Company and/or its subsidiaries or the success of the Public Issue.

(b) Upon such notice being given, the Underwriters shall be released and discharged of its obligations without prejudice to its rights under the Agreement, and where the Underwriters has terminated or withdrawn its Underwriting Commitments pursuant to (iv)(a) above, the Agreement shall be of no further force or effect and no party shall be under any liability to any other parties in respect of the Agreement, except that the Company shall remain liable in respect of any of their obligations and liabilities under Clause 10 of the Agreement (Fees and Commission), Clause 11 of the Agreement (Representations, Warranties and Undertakings) and Clause 12 (Costs and Expenses) for the payment of the costs and expenses already incurred up to the date on which such notice was given and under Clause 8.3.2 of the Agreement (Prospectus and Listing) for the payment of any taxes, duties or levies.

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5. RISK FACTORS

Applicants for the Issue Shares should carefully consider the following (which may not be exhaustive) in addition to other information contained elsewhere in this Prospectus before applying for the Issue Shares.

5.1 No Prior Market for AEM's Shares

Prior to the Listing, there was no public market for AEM's shares. There can be no assurance that an active market for AEM's shares will develop upon the Listing or, if developed, that such market will be sustained. There is also no assurance that the issue price will correspond to the price at which AEM's shares will trade upon or subsequent to the Listing. The issue price of RM0.80 per Issue Share was determined after taking into consideration a number of factors, including but not limited to those set out in Section 4.7 of this Prospectus. The price at which AEM's shares will trade on the Second Board of KLSE upon or subsequent to the Listing will be dependent upon market forces beyond the control of the Company.

5.2 Delay in or Abortion of the Listing

The occurrence of any one or more of the following events may cause a delay in or abortion of the Listing:-

(a) the identified investors fail to subscribe to the portion of Issue Shares to be placed to them;

(b) the Underwriters exercising their rights pursuant to the Underwriting Agreement discharging themselves from their obligations thereunder; or

(c) the Company is unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up capital of the Company must be held by a minimum number of 750 public shareholders holding not less than 1,000 shares each, of which at least 500 shareholders are members of the public who are not employees of the Company, upon completion of the Public Issue, and at the point of Listing.

Although the Directors of AEM will endeavour to ensure compliance by AEM of the various listing requirements, including, inter-alia, the public spread requirement imposed by the SC and KLSE, for the successful Listing, no assurance can be given that the abovementioned factors will not cause a delay in or abortion of the Listing.

5.3 Control by Substantial Shareholders

Following the Public Issue, Peninsular, Stanza and Dato' Mohamed Azman bin Yahya will collectively own approximately 50.72% of the Company's issued and paid-up share capital and hence will jointly be the controlling shareholders of the Company. These shareholders will be able to jointly control the outcome of certain matters requiring the vote of the Company's shareholders, unless they are required to abstain from voting by law and/or by the relevant authorities.

5.4 Supply and Cost of Raw Materials

The long term viability of the AEM Group depends significantly on the long term sustainable supply and cost of CCL, industrial chemicals and printing ink, being the major raw materials used for the production of the Group's products. At present, the raw materials are readily available from overseas for CCL and printing ink, and in the local market for industrial chemicals.

The Directors of AEM do not foresee any threat in the supply of its raw materials in the foreseeable future. At present there is no shortage of supply of its CCL and printing inks requirements in the global market. In addition, Malaysia is self-sufficient in the supply of industrial chemicals used in the manufacturing process of PCB. Competition amongst suppliers ensures competitive pricing for the raw materials.

For the financial year ended 31 December 2001, approximately 55% of total purchases of CCL was purchased from Doosan Electro Materials (S) Pte. Ltd. ("Doosan"), a company incorporated in Singapore, which in turn sourced the CCL mainly from Korea, whilst the balance was sourced from several other suppliers. Although Doosan is AEM's preferred supplier of CCL due to competitive pricing, prompt delivery, reliability and relative logistical advantage, the Directors believe that the operations of the Group will not be adversely affected by a reduction and/or cessation of supply from Doosan as the market for CCL is very competitive and there are many suppliers of CCL available.

For the financial year ended 31 December 2001, approximately 30% of total industrial chemical purchases and 66% of total printing ink purchases was sourced from Kiharu Chemical (M) Sdn Bhd ("KCSB") and Taiyo Ink International (S) Pte. Ltd. ("Taiyo") respectively. Although KCSB and Taiyo are the preferred suppliers of industrial chemicals and printing ink respectively due to the established business relationships, prompt delivery and reliability, the Directors believe that the operations of the Group will not be adversely affected by a reduction and/or cessation of supply from KCSB and/or Taiyo as the market for industrial chemicals and printing ink are very competitive and there are many suppliers of these raw materials available.

Hence, the Directors believe that the risk of over dependence on the above mentioned suppliers is minimal. Further, the Group is always on the look out for alternative suppliers to broaden its suppliers base and to ensure cost efficiency. However, no assurance can be given that there will be no shortage in the supply of those mentioned raw materials or that the Group will continue to have available all its necessary raw materials at reasonable prices or that any shortage in supply and/or increases in the cost of these raw materials would not have a material adverse effect on the profitability of the Group.

5.5 Competition

The AEM Group is committed to manufacturing and developing products of high quality and would endeavour to maintain and expand its existing market share or position in the future. However, the AEM Group faces competition from various quarters, including sourcing of its raw materials, new technologies and marketing of its products. During a downturn in the electronics industry, Original Equipment Manufacturers may become more price sensitive. The introduction of lower priced competition or significant price reductions by the AEM Group's competitors could result in price reductions that would adversely affect the AEM Group's business, financial condition and results of operations. The introduction of new technologies which would render the AEM Group's manufacturing process technology less competitive or obsolete could have a similar adverse effect on the AEM Group. In addition, AEM and other local PCB manufacturers also face competition from other lower-cost producers countries such as China and Thailand. AEM also faces competition from potential new entrants to the PCB manufacturing industry. The competition from potential new entrants are however, mitigated by the relatively high barriers of entry into the PCB manufacturing industry. This is mainly predicated by the relatively high capital cost required for setting-up the facility for PCB manufacturing and the long lead-time and effort required to convince and prove to potential customers of their abilities to produce quality products before they can break into the market as new entrants.

Despite the competitions, the Directors of AEM believe that the Group will be able to maintain its existing competitive edge and market share in the future due to its proven track record, good business relationships with its suppliers and customers, its high quality and precision products coupled with its technical expertise. Furthermore, the Group's increasing automation in its production processes will also increase its competitiveness.

5.6 Implications of the ASEAN Free Trade Area ("AFTA")

Under the AFTA agreement initiated by the ASEAN countries, a comprehensive programme of regional tariff reduction has been laid out. The Common Effective Preferential Tariff ("EPT") has been proposed for goods traded within the ASEAN region. According to the Royal Customs and Excise Department, basic or partially completed PCB is not subjected to any import duties. Thus, for such PCB, the implementation of AFTA would not have any major implications. However, the imports of completed PCB for specific end-products are subjected to import duties based on the type of end-products. For such completed PCB, the implementation of the AFTA would reduce their import duties and hence, is expected to increase the competition within the local completed PCB manufacturing sector.

As the AEM Group currently manufactures basic PCB which is not subjected to any import duties, the implementation of AFTA will not have any direct impact on the business of the Group. Nevertheless, the implementation of AFTA will create indirect competition to the AEM Group as other PCB manufacturers in the ASEAN countries may seek to export their completed PCB products to the domestic market in Malaysia and this may affect the demand for the Group's PCB. Further, the Group will have to compete with other regional PCB manufacturers should it venture into the production of completed PCB in the future.

Although the implementation of AFTA will indirectly increase competition to the AEM Group, the Directors of AEM believe that it will also at the same time create an opportunity for the AEM Group to export its products to other ASEAN countries.

5.7 Business Risks

The Group is not insulated from general business risk as well as risks inherent in the manufacturing industry and those specific to the PCB industry. For example, the Group may be affected by a general downturn in the global, regional and national economy, specifically, the Malaysian economy, entry of new players, constraints in labour supply, changes in law and tax legislation affecting the industry, increase in production costs, changes in business and credit conditions, fluctuations in foreign exchange rates, introduction of new technologies and threat of substitute products.

Although the Group seeks to limit these risks through, inter-alia, maintaining good business relationships with its customers and suppliers, increasing automation to reduce dependency on labour, efficient cost control, increasing product range, and maintaining a large and diversified customer base involved in various segments such as computer peripherals, consumer electronics, and telecommunications and office equipment, no assurance can be given that a change in any of these factors will not have a material adverse effect on the Group's business.

5.8 Foreign Operation Risks

At present, AEM has a subsidiary which is operating outside the country, namely AET. By expanding its operation into Thailand, AEM's future growth and level of profitability will be subjected to risks arising from the economic, political, legal, administrative and social conditions of Thailand. Any unfavourable changes in the abovementioned foreign operation risk and any fluctuations of the THB against the RM or other major currencies could, potentially, have an adverse effect on the Group's operations and financial performance.

The past financial performance of AET is set out in Section 10.2.6 of this Prospectus whilst for the financial year ending 31 December 2002, AET is forecast to record a profit after taxation of RM329,000.

5.9 Foreign Exchange Risks

Certain transactions of the Group such as purchases of raw materials sourced from Japan, Korea, Taiwan, China, Singapore and the USA are transacted in foreign currencies. Accordingly, any significant fluctuation in foreign currencies in relation to the RM and THB might have an effect on the Group's financial results. On 1 September 1998, the RM was pegged at RM3.80 to USD1.00 by the Malaysian government. Whilst this measure may negate the risk of adverse currency fluctuations of the RM to the USD, it is uncertain as to how long the peg will be maintained. Hence, no assurance can be given that the removal of the peg will not have a material adverse effect on the performance of the AEM Group.

However, the Group is still susceptible to the fluctuations of the currencies of its suppliers and customers in relation to the USD and THB. Accordingly, the Group utilises its Forward Rate Facility with Malayan Banking Berhad with a total facility limit of RM10.0 million to hedge the Group's RM exposure to minimise the volatility of any such fluctuations.

5.10 Dependency on Single Product

At present, the Group's core business is the manufacturing of single-sided PCB. In view that single-sided PCB, being the most basic form of PCB, is highly elastic in demand, there can be no assurance that the Group will be able to sustain the demand for its single-sided PCB. To reduce the dependency on single-sided PCB, the Group will venture into the production of Silver Through Hole ("STH") double-sided PCB in the third quarter of 2002. Further, the Group also plans to venture into the production of flexible PCB. The Group's future plans are set out in Section 7.1 of this Prospectus.

5.11 Risks Associated with New Products

As mentioned in Section 7.1 of this Prospectus, AEM Group will commence production of STH double-sided PCB in the third quarter of 2002. Further, the Group also plans to venture into the production of flexible PCB. STH double-sided PCB and flexible PCB are relatively new products for the Group. In this respect, the Group's diversification into the aforementioned new products is subject to certain risks such as demand for the new products, source of raw material, constraints of trained and experienced production staff, threat of substitute products and increase in production costs.

Notwithstanding the lack of track record of the AEM Group in the production of STH double-sided PCB and flexible PCB, the Directors of AEM believe that the Group have the necessary machinery, experience and production staff for the manufacturing of the new products with the experience gained from its current operations and can easily source the raw materials required for the production of STH double-sided PCB and flexible PCB in view of its established relationships with its existing suppliers. In fact, the Directors believe that the new products are synergistic with its existing product, the single-sided PCB, and hence will create the economies of scale that will benefit the Group.

5.12 Restrictive Covenants under Borrowing Facility Agreements

The subsidiaries of AEM have entered into various credit facility agreements with banks or financiers to finance their operations and business activities. These agreements contain, inter-alia, covenants which may limit the AEM Group's operating and financial flexibility. Any act by the AEM Group falling within the ambit or scope of such covenants will require the consent of the relevant banks or financiers. Breach of such covenants may give rise to a right by the bank or financier to terminate the relevant credit facility and/or enforce any securities granted, in relation to that credit facility or may cause a cross-default on other credit facilities. The Board of Directors of AEM are aware of such covenants and shall take all precautions necessary to prevent any breach of these agreements.

5.13 Dependence on Key Personnel

The Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing Executive Directors and senior management. The loss of any of the Group's Executive Directors or key members of its senior management may affect the Group's performance and/or the Group's ability to maintain its competitive edge. The Group's future success will also depend upon its ability to attract and retain experienced personnel. It is the Group's practice to retain the services of these Directors and senior management whenever possible and to also attract and retain experienced personnel through, inter-alia, maintaining a conducive working environment and comprehensive human resource management. It is also the Group's practice to train its management personnel so as to groom the lower and middle management staff to gradually assume the responsibilities of senior management and as part of its employees' career development programme.

5.14 Dependence on a Small Number of Customers

The Group's top five (5) customers accounted for approximately 48.48% of its total revenue for the financial year ended 31 December 2001, whilst its single largest customer, Acer Technologies Sdn Bhd *(now known as Benq Technologies Sdn Bhd)*, accounted for 15.78% of total revenue. In each industry sector, the Group derives a substantial portion of its revenues from a small number of customers. Hence, no assurance can be given that the loss of any one or more of these customers in an industry sector would not adversely impact on the Group's operating results in that particular sector. The Group will continue to be dependent on a small number of customers in each industry sector for the foreseeable future.

To reduce the dependency on a small numbers of customers, the Group is always on the look out for new customers and markets to diversify its customers' base for each industry.

5.15 Technological Change and Process Development

The market for the Group's products and services is characterised by changing technology and continuing process development. The future success of the Group's business will depend largely upon its ability to maintain and enhance its technological capabilities, develop and market manufacturing services which meet changing customers' needs and successfully anticipate or respond to technological changes in manufacturing processes in a cost-effective and timely basis. Although the Directors of AEM believe that the Group's operations utilise the technologies and equipment currently required by the Group's customers and is continuously exploring other areas of technological improvement, there can be no assurance that the Group's process development efforts will be successful or that the emergence of new technologies, industry standards or customers' requirements will not render the Group's technology, equipment or processes obsolete or uncompetitive. In the event that the Group requires new technologies and equipment to remain competitive, the development, acquisition and implementation of those technologies and equipment may require the Group to make significant capital investments. However, there can be no assurance the Group will be able to raise the required capital on terms satisfactory to the Group to acquire the new technologies and equipment.

The Directors are of the view that although single-sided PCB is the most basic form of PCB, its is not destined for obsolescence since manufacturers are modifying their electronic circuitry to maximise the usage of single-sided PCB to improve cost effectiveness.

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5.16 Environmental Liability

The Group's operations are regulated under a number of federal, state, provincial, local and foreign environmental laws and regulations which govern, among other things, the discharge of hazardous materials into the air, soil, water and sewer systems as well as the handling, transport, storage and disposal of such materials. Compliance with these environmental laws are major considerations in the fabrication of PCB because metals, solvents and other hazardous materials are used in the manufacturing process. Various federal, state, provincial, local and foreign laws and regulations impose liability on current or previous real property owners, operations or any person having charge, management or control over a hazardous or toxic substance for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the property. In addition, because the Group is a generator of hazardous wastes, it, along with any other person who arranges for the disposal of such wastes, may be subject to potential financial exposure for costs associated with the investigation and remediation of sites at which it has arranged for the disposal of hazardous wastes, if such sites become contaminated. Such liability may be imposed without regard to legality of the original actions and without regard to whether the Group knew of, or was responsible for, the presence of such hazardous or toxic substances, and such liability may be joint and several with other parties. If the liability is joint and several, the Group could be responsible for payment of the full amount of the liability, whether or not any other responsible party is also liable. In addition, it is possible that in the future new or more stringent laws and regulations could be imposed, which may have a material effect on Group's operations. To date, the Group had installed a waste water treatment plant at its Sungai Petani plant and is actively implementing treatment, recycling and disposal procedures in line with standards prescribed by the relevant authorities at both its Sungai Petani and Thailand plants. However, no assurance can be given that any liability arising from non-compliance with any of the applicable environmental laws will not have any adverse effect on the operations of the Group.

5.17 Use of Trade Mark

At present, AEC uses a trade mark owned by Amallion Enterprise Corp. ("AE"), a company incorporated in Taiwan and in which some of the Directors of AEM have interest. AEM had on 17 March 2002 entered into a Licence Agreement with AE in relation to the use of the trade mark for a tenure of five (5) years and renewable for another two (2) terms of five (5) year each at the option of AEM on the same terms and conditions of the aforementioned Licence Agreement save for the licence fee which shall be at the sum of 110% annual fee payable under the previous terms. The Underwriters Laboratories Inc. ("UL"), a non-profit product safety testing and certification organisation in the USA, has given its authorisation to AEC to use the trade mark on the various products of AEC sold under the UL's recognised marking. Hence, in the event AEM is unable to use the trade mark in the future upon expiry of the agreement, there can be no assurance that the operations of the Group will not be adversely affected by any delay in the registration of a new trade mark with UL or the recognition and/or acceptance of the new trade mark by the Group's customers.

AEM does not intend to apply directly to UL for the use of its own marking at this point in time in view that AEM can use the UL's marking for the next fifteen (15) years pursuant to the abovementioned Licence Agreement. The Directors of AEM will consider applying for the marking in the future, before the expiry of the abovementioned Licence Agreement. Based on the estimation of the Directors, at present it costs AEM approximately RM280,000 to apply for its own markings and the lead time to get it approved is approximately 13 months.

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5.18 Profit Forecast

This Prospectus contains certain forecasts that are based on reasonable assumptions that are nevertheless subject to uncertainties and contingencies. Because of the subjective judgements and inherent uncertainties and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecast contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecast contained herein.

5.19 Political, Economic and Regulatory Considerations

Like all other business entities, changes in political, economic and regulatory conditions in Malaysia, Thailand (where AET operates) and elsewhere could materially and adversely affect the financial and business prospects of the Group and the markets of its end products. Amongst the political, economic and regulatory uncertainties are the changes in political leadership, expropriation, nationalisation, re-negotiation or nullification of existing sales orders and contracts, changes in interest rates and methods of taxation and currency exchange rules and contracts.

5.20 Future Prospects

Certain statements in this Prospectus are based on historical data which may not be reflective of future results, and others are forward-looking in nature which are subject to uncertainties and contingencies. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Prospectus should not be regarded as a representation or warranty by the Company or its advisers that the plans and objectives of the AEM Group will be achieved.

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6. INDUSTRY OVERVIEW

The AEM Group is principally involved in the manufacturing and trading of PCB targeted at four (4) major segments, namely computer peripherals, consumer electronics, telecommunication equipment, and office equipment. Hence, the Group's prospects are closely linked to the electrical and electronics products, and telecommunications industries, and also dependent on the general domestic economic conditions.

6.1 Overview of the Malaysian Economy

The Malaysian economy is expected to strengthen in 2002 following a strengthening of external demand. Past trends show that there is a brief lag between the recovery in the major economies and recovery in Malaysian exports. As such, the timing and magnitude of the recovery would have a significant impact on the Malaysia economy. Current indications suggest that external demand will not pick up as strongly as in the 1999-2000 period, where recovery was mainly led by the internet-boom and the Year 2000 (Y2K) factor. The current economic upturn is taking place amidst global excess capacity, particularly in the technology sector. External demand is, therefore, expected to strengthen gradually. Against this background, the recovery in the Malaysian economy would be modest, with real Gross Domestic Products ("GDP") expanding by 3.5% in 2002.

At this juncture, latest indicators show signs of stabilisation in the Malaysia economy. The index of leading economic indicators complied by the Department of Statistics, Malaysia, which provides early indications on the direction of economic growth, has already registered five consecutive months of positive growth since July 2001. This suggests that the Malaysian economy would turn around in the first quarter of 2002. Indications, however, are that growth would strengthen in the second half-year when external demand improves more significantly.

The growth projection for 2002 is based on stronger growth in private consumption, a modest recovery in private investment, sustained public sector expenditure and a moderate growth in exports. If the positive trend in the latest indicators for the USA economy is sustained, the bias to the growth projection would be on the upside. On the domestic front, aggressive policy measures to enhance the role of the services sector, particularly in the education, tourism and information, communication and technology sub-sectors, would benefit these sectors, which in turn could improve further the GDP growth.

(Source: Bank Negara Malaysia Annual Report 2001)

6.2 Electrical and Electronic Products Industry

The electrical and electronics industry is Malaysia's leading industrial sector and accounts for about two-thirds of total manufactured exports. Birthed in the country in the early sixties, the sector today offers investors a ready pool of experienced managers, engineers and technicians who are capable of undertaking overall responsibilities and operating and maintaining equipment used in the manufacture and testing of products.

Besides components and parts, the industry has developed significant capacity and skills in the manufacture of a wide range of electrical appliances and electronics goods. Today, Malaysia is a leading exporter of semiconductors and room air-conditioners, while the production of consumer and industrial electronics goods such as telecommunications equipment, computers and computer peripherals is expanding rapidly. Exports by the electrical and electronics sector totalled RM18.5 billion (USD4.9 billion) and RM212.3 billion (USD55.9 billion) respectively in 2000.

(Source: Malaysian Industrial Development Authority Publication - Malaysia's Electronics Industry, 18 February 2002)

6. INDUSTRY OVERVIEW *(Cont'd)*

The growth prospects for the electrical and electronics products industry is anticipated to be favourable. The industry is targeted to grow at an average annual rate of 8.8 per cent. The electrical and electronics industry products sub-sector in the country is shifting into higher value-added activities through skills upgrading, product design and research and development ("R&D"). In the semiconductor product group, several companies will be upgrading and producing integrated circuits that require high technology. Similarly, in the consumer electronics group, more advance products will be manufactured such as thin film transistors-liquid crystal display for television, personal computer monitors and handphones. To promote and support the development of the electrical and electronics products sub-sector, the Government will encourage companies to have more integrated operations involving R&D, design, procurement, distribution and marketing as well as treasury and headquarters' functions

(Source: Eighth Malaysia Plan 2001-2005)

The electronics industry was the most affected by the slowdown in global demand in 2001. During the year, most electronics manufacturers drew down inventories accumulated from a year of strong capacity expansion in 2000. As the downturn in the global Information Technology sector became more pronounced since the second quarter of 2001, the electronics manufacturers undertook measures to rationalise operations. These included wage cuts and shorter working hours to improve cost effectiveness as well as retraining of workers to move into higher-end operations. An encouraging development in the second half-year was the increase in demand from niche markets for products such as disk drives for the video game systems and personal video recorders. This supported the operations of disk drive makers based in Malaysia.

The production of electrical products was more resilient in the first half of 2001 and only began to moderate in the second half of the year, as external demand for audio-visual products and communication products declined. Exports to the major markets, especially the US, Japan, Singapore, Hong Kong SAR and Europe declined, due to lower demand for consumer durables, such as digital video disc (DVD) players, video compact discs (VCD) players and flat screen televisions. Nevertheless, exports to some countries in the region such as the People's Republic of China, Thailand, Indonesia and the Middle-East continued to be sustained.

The anticipated upturn in the USA economy and electronics demand is expected to translate into stronger demand for Malaysian manufactured exports and, hence, stronger growth in the production of manufactured goods.

Growth in the electronics industry is expected to be underpinned by several positive factors. First, there was a significant drawdown of inventories by companies in 2001 and, thus, new orders are expected to result in an immediate increase in production, especially for electronics. The personal computer (PC) market is expected to show a stronger recovery relative to the telecommunications sector. Preliminary findings of Bank Negara Malaysia's study on the export composition of Malaysia's electronics industry showed that exports of computers and peripherals account for about 40% of Malaysia's total electronics exports. Therefore, the impending improvement in the global PC market should benefit the industry in Malaysia. In addition, some manufacturers of electrical products have also begun to focus on new products to meet the changing consumer preferences. Second, there is an increasing trend towards outsourcing of activities in the manufacturing sector. As a result, some large manufacturers in the region are expected to transfer some operations to Malaysia following corporate consolidation of plants in the region. Malaysia is expected to benefit from these developments. Finally, demand from niche markets for products such as video games, personal digital assistants and emerging products such as photonics or optoelectronics is expected to continue to contribute to growth.

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With the electronics and electrical products industries leading output growth in the export-oriented sector, the production of export-oriented industries as a whole is projected to recover in 2002 with a growth of 4.9% (2001: -10.2%). Output in the domestic-oriented sector is expected to be sustained at a strong rate of 6% in 2002 (2001: 7.4%), supported by the Government's pro-growth policies.

(Source: Bank Negara Malaysia Annual Report 2001)

6.3 Telecommunications Industry

Malaysia started to lay the foundation for the knowledge-based economy in the mid-1990s, among others, with the launching of the National Information Technology ("IT") Agenda and the Multimedia Super Corridor ("MSC"). The MSC strives to create an ideal IT and multimedia environment as well as a global test-bed to enable Malaysia to be in the mainstream of activities necessary to attract knowledge workers, technopreneurs and high-technology industries. The basic physical infrastructure, including the telecommunications infrastructure with 2.5 gigabits per second asynchronous transfer mode-based backbone scalable to 10 gigabits per second in the MSC, were completed in mid-1999.

(Source : Third Outline Perspective Plan, 2001 to 2010)

Intermediate services, comprising transport, storage and communication; and finance, insurance, real estate and business services recorded stronger growth of 6.5% in 2001. The strong expansion in the transport, storage and communication sub-sector was primarily due to the rapid growth in the mobile phone and Internet services segment of the telecommunications industry and the increase in the local ports' transhipment activities. The market size for fixed telephones increased to 4.7 million as at end 2001 (2000 : 4.6 million) while that for cellular telephones was 7.5 million (2000 : 5.1 million). The prepaid service of the cellular telephone services also expanded in 2001 as it appealed to the younger generation and casual users. Demand for other value-added services with additional applications and features, such as the Short Messaging Services (SMS), also increased in 2001.

(Source : Bank Negara Malaysia Annual Report 2001)

Efforts will be directed to ensure equitable distribution and provision of telecommunications infrastructure and services to underserved areas and groups to bring them into the mainstream of the knowledge-based economy. For this purpose, an effective universal service obligation programme will be put in place. The Government will complement private sector contribution to ensure network roll-out to underserved areas and groups. In addition, coordinated efforts will be taken to accelerate the setting up of the Internet and multimedia kiosks in strategic locations.

Telecommunications infrastructure will be expanded throughout the country to achieve total connectivity. The focus will be to ensure widespread diffusion of information and communications technology and access to rural areas and disadvantaged groups. Computers and Internet access will be made more affordable.

(Source : Third Outline Perspective Plan, 2001 to 2010)

Further assessment of the electronics industry focusing on the manufacture of PCB is set out in Section 20 of this Prospectus.

The brief overview on the PCB manufacturing industry is disclosed in the Independent Market Research Report set out in Section 20 of this Prospectus. No further details on the PCB manufacturing industry are available as there is no latest official publication available to the Company on the subject matter.

7. FUTURE PLANS, STRATEGIES AND PROSPECTS

7.1 Future Plans and Strategies of the AEM Group

The future strategic direction of the Group is to increase its range of PCB to cover Silver Through Hole ("STH") double-sided PCB and flexible PCB. This relates to diversification of its current core activities of manufacturing of single-sided PCB. The commercial production of STH double-sided PCB is expected to commence in third quarter of 2002 whilst the production of flexible PCB is expected to commence only after the success of the STH double-sided PCB, which is expected to be known in third quarter of 2003. The Group plans to market its STH double-sided PCB and in the future, the flexible PCB, to its existing customers first in view of the established relationship and they are more familiar with the Group's products quality and hence, will be easier to penetrate. At the same time, the Group will secure new customers to enlarge its customers base for its STH double-sided PCB. The STH double-sided PCB is expected to contribute approximately RM3.78 million to the Group's revenue for the financial year ending 31 December 2002. A breakdown of the contribution to the Group's profit is not available because common costs to be incurred for the production of single-sided PCB and STH double-sided PCB are not segregated.

The growth of the PCB market is becoming evident as more similar businesses are seeking innovation through technology to achieve competitive business advantage. As such, the Group will continually be on the look out for business opportunities with potential customers, particularly MNC, to benefit from the transfer of technological know-how and expertise.

The Group's key objective is to have its single-sided PCB's and STH double-sided PCB's major production processes fully automated by mid 2003. The Group is also looking into increasing its production capacity with fully automated production equipment and modern facilities which, in the opinion of the Directors, are the best methods to raise the standard of productivity, product quality as well as the level of confidence and satisfaction among its existing and new customers.

Over the years, success is also contributed by the Group's established sound business relationship with its customers, suppliers and bankers. Strategic investment in machinery and equipment have been carried out to bring the Group's key objective into realisation. This is also demonstrated by the utilisation of proceeds from the Rights Issue and Public Issue for the purchase of more machinery for the production of PCB for its plant in Sungai Petani, Kedah Darul Aman and Thailand. In tandem with the expected increase in the production capacity of the Group's Thailand operations to 60,000 square metres per month pursuant to the abovementioned acquisition of new machinery (which will result in a new production line), the Group plans to increase its Thailand's production to achieve sixty percent (60%) capacity with its two (2) production lines and to operate three (3) eight (8)-hour shifts on a six day week basis upon successful commissioning of the second production line, expected in second half of 2003.

The Group has strategised to expand its customer base by:-

- Playing the role of a total solution provider to cater for the additional needs of existing/potential customers ie not only as a supplier of PCB but also as a supplier of PCB which is partly or fully stuffed with electronic components in accordance with customers' specification;
- Increasing the number of production lines to expand its production capacity;
- Engaging in research and development processes to increase its product range by venturing into the manufacture of STH double-sided PCB and flexible PCB;
- Capturing cost efficiency and ensuring competitive pricing by expanding its manufacturing plant in Thailand; and
- Adhering to timely delivery schedules.
- To expand its export market to the USA and Europe by second half of 2003.

7. FUTURE PLANS, STRATEGIES AND PROSPECTS *(Cont'd)*

7.2 Future Prospects of the AEM Group

The Directors believe that the Group will be able to sustain its present growth as one of the major suppliers providing high quality single-sided PCB in the domestic market. The Directors also believe that the Group's new products namely, STH double-sided PCB and flexible PCB are synergistic with its existing products, single-sided PCB, and hence will create the economies of scale that will benefit the Group. The Group has the business expertise, technical skills, and high quality product standards established by reliable principals to maintain its existing as well as to secure new customers. Together with its established management practices and continual quality improvement regime, the Group is in a sound strategic position to fully satisfy the demand of its customers.

Therefore, based on its track record, the strength of the Group and the Group's new product, STH double-sided PCB and the expected future up-trend of the electrical and electronic products sector, the Directors of AEM believe that the Group is well placed to increase its market share or if not, at least retain its current share of the industry. The Group remains focused in its future plans and is believed to be equipped and ready to meet the challenges ahead.

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