

13. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



COMINTEL CORPORATION BHD. (630068-T)

DIRECTORS' REPORT

The Shareholders
Comintel Corporation Bhd

Registered Office :
801, Block A,
Kelana Business Centre
No. 97, Jalan SS7/2
Kelana Jaya
47301 Petaling Jaya
Selangor Darul Ehsan.

Date : **20 JUL 2004**

Dear Sir/Madam,

On behalf of the Directors of Comintel Corporation Bhd ("Comcorp"), I report after due inquiry that during the period from 31 January 2004 (being the date to which the proforma consolidated financial statements of Comcorp and its subsidiaries ("Group"), which were prepared based on the last audited financial statements of the respective companies within the Group, have been made up) to **20 JUL 2004** (being a date not earlier than fourteen days before the issue of this Prospectus):

- (i) The business of the Group, in the opinion of the Board of Directors, has been satisfactorily maintained;
- (ii) In the opinion of the Board of Directors, no circumstances have arisen subsequent to the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;
- (iii) The current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) Save as disclosed in Sections 2.10.3, 11.2.2 and 11.2.3 of the Prospectus, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries;
- (v) There has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/ or principal sums in relation to any borrowings in which the Directors of Comcorp are aware of, since the date of the last audited accounts of the Group; and
- (vi) Save as disclosed in Section 2.6, 11.8 and 12 of this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profits of the Group since the date of the last audited accounts of the Group.

Yours faithfully,
for and on behalf of
the Board of Directors of Comcorp


Leng Keng Hok @ Lim Keng Hock
Managing Director

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14. **EXECUTIVE SUMMARY REPORT BY ACN**

(Prepared for inclusion in this Prospectus)



Date: 20 JUL 2004

This Executive Summary Report has been prepared for inclusion in the Prospectus to be dated **28 JUL 2004** pursuant to the proposed listing of **COMINTEL CORPORATION BHD ("COMCORP")** on the Second Board of Bursa Malaysia Securities Berhad.

This report has been prepared with the intention to provide an overview of the industry as well as the operations of the company within the industry. **ACNielsen** had conducted the research as an independent third party, basing its report on publicly available information and economic trends at the point in time when the report was prepared to indicate the future direction of the industry.

A handwritten signature in black ink, appearing to read 'LEE JOO LEE', written over a dotted line.

Lee Joo Lee

ACNielsen (Malaysia) Sdn Bhd

Executive Director

Customised Research

1 Executive Summary

1.1 Overview of the Group

Comcorp was incorporated in Malaysia under the Companies Act, 1965 on 2 October 2003 as a private limited company under the name of Comintel Corporation Sdn Bhd. Subsequently on 10 November 2003, it was converted into a public limited company. The principal activity of **Comcorp** is that of investment holding. The subsidiaries of **Comcorp** that will be included in the listing are as follows:

- Comintel Sdn Bhd (“Comintel”)
- BCM Electronics Corporation Sdn Bhd (“BCM”)
- Indusmatic Corporation Sdn Bhd (“ICSB”)
- Comlenia Sdn Bhd (“CSB”)
- Lightwave Technology Sdn Bhd (“LWT”)
- Comintel (HK) Limited (“CHK”)
- LNC Tech Co Ltd (“LNC”)

To understand how each subsidiary operates to support the overall objectives and leverages on the synergies of the Group, the background of each of the abovementioned companies will be highlighted, followed by a discussion of the relevant industries namely the Information and Communications (“ICT”), Equipment Manufacturing Services (“EMS”) and Public Safety and Defence industries to position the Group’s activities in the context of a larger picture.

Comintel was established on 20 October 1984 in Kuala Lumpur, Malaysia. It first started as a consultant and an agent servicing a number of principals from world leading firms and manufacturers. Hence, the business was initially very much focused towards servicing the needs of the telecommunication users. Having successfully become one of the leading local systems integration solution providers for specialised sectors of the domestic telecommunication systems industry, **Comintel** embarked on the provision of total Information Technology (“IT”) and System Integration services.

The company has since developed capabilities and expertise in systems integration work. Its strength and ability to differentiate itself in the competitive systems integration sector lies in its ability to combine radio frequency components (its core competency) with information technology systems.

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

Its involvement in several reasonably sizeable projects, in particular projects relating to Government concerns, is testimony to its position and proven track record as a preferred supplier in the systems integration sector.

BCM was incorporated in **Malaysia** on 20 August 1993 under the name of Bakti Comintel Manufacturing Sdn Bhd ("**BCMSB**"). **BCMSB** was established pursuant to a technology transfer agreement between Motorola and Comintel to jointly develop manufacturing capabilities in line with the Malaysian Government's efforts to promote technology transfer to local companies.

BCM first commenced operations in October 1993 providing assembly, manual to functional testing services for Motorola's Rapid and Compact Chargers on a consignment basis. In 1994, Motorola Technology Sdn Bhd (then known as Motorola Electronics Sdn Bhd) transferred a substantial portion of the back-end assembly of its accessories manufacturing activities to **BCM**. From early 1995, **BCM** began providing back-end services to a wider range of customers and for an expanded range of products. By mid-1995, **BCM** had migrated from manual assembly services to automated front-end assembly and it acquired its first Surface Mount Technology ("**SMT**") machine to support the production lines, increasing this to four **SMT** production lines by 1997. Since then, there has been an increasing move from production on a consignment basis to securing contracts on a turnkey basis whereby **BCM** is responsible for not only the production line but also for the sourcing of the relevant materials and components for such production. In line with its goal to move from consignment to turnkey manufacturing, **BCM** invested in managerial and technical personnel and implemented strict quality controls i.e. the Sigma methodology for quality assurance management. A Materials Requirement Planning ("**MRP**") system was also introduced to facilitate the shift into turnkey manufacturing.

In April 1997, **BCM** secured its first turnkey contract from Motorola for the manufacture of their mobile microphones, marking its evolution into an EMS provider. **MRP** capabilities were also introduced to manage supply chain initiatives. In the third quarter of 1997 when **BCM** was involved in its first concurrent engineering project with Motorola where its design and engineering team worked with Motorola, to provide early supplier involvement in the manufacturing design platform of a product. This has led to more concurrent engineering projects in respect of other products. By late 1997, the technical capabilities were developed to provide box build services for RF products to a more advanced level, with the ability to carry out test-systems engineering where systems for testing the customers' products were acquired and developed. Since then, about 90% of **BCM**'s manufacturing contracts have been on a turnkey basis and its flexible manufacturing capabilities enable it to manufacture a wide range of products. **BCM** is currently manufacturing about 600

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

different product items. To manage these product ranges and further enhance its supply chain management, **BCM** is in the process of procuring an Enterprise Resource Planning Software.

ICSB was a company established to provide Research and Development (“R&D”) services as well as to deal in all kinds of telecommunication and electronic equipment and provide related services. It is engaged in development work with a specific focus on systems design interfacing for technical proposals submitted by **Comintel**. In this regard, it supports **Comintel** by providing the integration of hardware and software as well as service solutions that enable **Comintel** to integrate various third party software programmes (often purchased off the shelf) and systems to create customised systems for specific customers.

CSB began in 1997 as a joint-venture company between Finmeccanica S.p.A., (“Finmeccanica”), a company incorporated in Italy, and **Comintel**. Finmeccanica is a leading Italian company and one of the world’s top producers in the arena of advanced technologies for defence applications. Subsequently Finmeccanica’s equity interest in **CSB** was transferred to Alenia Marconi Systems S.p.A. (“AMS”), a company jointly owned by Finmeccanica and BAE Systems plc. **CSB** was initially formed to undertake warranty maintenance contracts for Alenia Difesa, which is the naval system division of Finmeccanica. Its specific focus at that time was to perform maintenance for the systems on board the two high-tech Italian corvettes, which are amongst the most advanced ships in the Royal Malaysian Navy’s fleet¹. Since then, **CSB** has moved on to increase its coverage and operations in the field of integrated logistics support, systems maintenance, documentation control, electronics systems testing and repairing. Through the joint venture, **CSB** is able to acquire and leverage on both the know-how from AMS, and the local expertise and experience of the domestic defence communications market from **Comintel**.

LWT was set up due to **Comintel**’s forward-looking stance in relation to the development of new technology and applications for use in the communications sector in which it operates. **LWT** specialises in the field of Photonics research. Photonics is the science and technology relating to the transmission, generation and manipulation of photons i.e. light. **LWT**’s operations are specifically focused on the study of fibreoptics components applied in telecommunications and broadband transmission.

CHK deals principally in the trading of electronic, engineering and telecommunication equipment and the provision of related services. This company was formed with the intention of providing cost competitive sourcing of raw materials.

¹ New Straits Times, 5 September 1997

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

LNC is a joint venture company between Comintel and a Korean individual, which is intended to initially carry out R&D activities in relation to the design of product components, catered for the ICT industry. Eventually, LNC will carry out the manufacturing and marketing of these product components, which will be manufactured using in-mould decoration (“IMD”) processes. As at the date hereof, LNC has not commenced operations.

In brief, whilst separate, the core businesses of the **Comcorp Group** are also complementary and together, they provide a sense of synergy to the **Group’s** overall operations. Through **Comintel**, knowledge and skills on the **application** of products, equipment and also the relevant software used in communications with emphasis on the Public Safety and Defence sector is acquired. Its position as one of the leaders in Malaysia in the **application of RF technology** used in conjunction with various other ICT components also provides the **Group** with a competitive edge. Through implementation experience in the systems integration business, specialised knowledge is also gained in relation to the unique features of the local environment and local clients (especially in relation to the Government). **BCM**, through its involvement in EMS type production the **Group** is able to accumulate more knowledge and skills relating to the **manufacturing process and also the products** used in communications, with emphasis on the Public Safety and Defence sector. **BCM** is also able to tap on **Comintel’s** product application knowledge when troubleshooting manufacturing problems. It can leverage on this to move one step up the EMS ladder whereby not just product manufacturing process expertise is required but holistic knowledge of the actual product, enabling **BCM** to provide more value-added services to its customers.

CSB, on the other hand, provides the **Group** with expertise in the maintenance of defence systems, allowing it to enable the lifetime extension of these integrated systems. Again, initial experience and knowledge on the local environment and on specific clients gained during the systems integration process provide the **Group** with an added advantage in this arena. Via **ICSB**, knowledge on the **future application** of the products and systems integration services is obtained. **LWT** in particular focuses on R&D in an exciting and progressive area of telecommunications called photonics, which studies, amongst other things, how light can be used in data transmission and how the potential of fibreoptics can be maximised. In this manner, the **Group** ensures that it is at the forefront of any product development in the ICT technology and EMS life cycles. Specifically, **Comintel** will be able to leverage on this new technology in its systems integration work to promote faster transmission of data between subsystems whilst **BCM’s** manufacturing facilities and expertise can be harnessed during the mass production phase of the components developed relating to this new technology.

Further, coupled with the know-how in IMD technology procured by the Korean shareholder together with **BCM’s** expertise as an EMS provider, the set-up of LNC is intended to initially focus

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

on the carrying out of R&D activities relating to the design of product components, catering to the ICT industry, which will be manufactured using IMD production processes. As at the date hereof, LNC has not commenced operations. Initial product components intended to be produced comprise keypads and windows for mobile phones and two-way radios. The production of keypads and window components for communication equipment by LNC will enable the Comcorp Group to provide further value added components to some of the Group's various communication products which are currently manufactured and assembled by BCM for principals such as Motorola. LNC may also market the said products to the other players within the ICT industry.

1.2 Products and Services

Through **Comintel**, the **Group** is able to provide total IT communications systems integration services. **Comintel** is principally a total IT and telecommunication systems solutions company with vast experience in system engineering design and integration for both commercial and military applications. **ICSB** provides support to **Comintel** in this area of the **Group's** business by engaging in development work with a specific focus on systems design for technical proposals submitted by **Comintel**. In this regard, it enhances **Comintel's** service offerings by developing and continuously improving the integration of hardware, software and service solutions that enables **Comintel** to integrate various third party software programmes (often purchased off the shelf) and systems to create customised systems for specific customers.

Through **BCM**, the Group provides high-end turnkey contract manufacturing services, including Printed Circuit Board Assembly ("PCBA") and complete box build product assembly for communications and consumer-line industries focusing on specialised commercial and industrial products in the high mix/low to moderate volume market. This focus differentiates the Group from the relatively more crowded low mix/high volume PCBA market.

Through **CSB**, the **Group** provides integrated logistic support and 3rd level maintenance involving testing, troubleshooting and the repairing of all kinds of PCBs, modules and sub-assemblies, radar and communication systems, command and control systems, weapon systems and sonic. It also provides on-site maintenance and repair of Combat Systems. **CSB** utilises the latest state-of-the-art Automated Test Equipment ("ATE") for this purpose.

As a total IT and communications systems integration services provider, the **Comcorp Group** seeks to continuously improve on the quality of its services through several in-house initiatives. One such initiative is their recent efforts in achieving the ISO 9000:2000 certification. **Comintel** also practices

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

quality assurance procedures which are substantially based on Total Quality Management (“TQM”) concepts and generally starts with defining quality requirements for the solutions, which in turn, dictate quality requirements for the development and management processes. With respect to the **Group’s** role as an EMS provider, **BCM** employs the **Six Sigma** methodology of quality control to improve processes and drastically reduce product and process defects. Today, Six Sigma has developed into an internationally used and recognized methodology that is employed by prominent MNCs including Motorola, General Electric, Sony Corporation and Allied Signal Inc.

The Comcorp Group believes that innovation is one of the key factors to ensure that the Group maintains the competitive advantage over its competitors, and hence, much emphasis has been and will continue to be placed on R&D. Technical seminars and symposiums are frequently held to keep its employees updated on new technologies. Besides, as outlined under its growth strategies plan, the group forms strategic alliances with its existing principal suppliers in developing new interactive management systems. With respect to services for the ICT business, which involves the provision of integration services relating to specific projects, **ICSB** generally carries out the necessary research on the latest available technology in the field and using its technical knowledge, experience and available database, determines the optimal solutions design and mix of equipment to cater to the requirements of the customers of **Comintel**. To meet the increasingly exigent needs of its customers, **BCM’s** process development engineering team is responsible for process development and refinement activities to improve its manufacturing processes. Through its process development efforts, **BCM** aims to continuously improve its manufacturing processes so as to achieve better quality and production time as well as to reduce costs. In addition, **BCM’s** current design and engineering team constantly reviews the design of the products and works closely with many of its customers to optimise the manufacturability of their products; often by way of early supplier involvement. **LWT** specialises in the field of photonics research. Photonics is the science and technology relating to the transmission, generation and manipulation of photons i.e. light. This branch of science encompasses a wide area, covering the study of optical data storage, fibreoptics communications, the use of such technology in medical applications (e.g. medical sensors, biophotonics etc.), display functions (such as Liquid Crystal Displays (“LCD”) screens) amongst various other applications. **LWT’s** operations in this area are specifically focused on the study of fibreoptics components applied in telecommunications. There has been increased interest in this technology as it provides for the faster transmission of data and for long distance communication services such as video-on-demand and video conferencing, the use of fibreoptics is the preferred solution. Currently, R&D work is ongoing within **LWT** with respect to components such as couplers, power splitters wavelength division multiplexers, dense wavelength division multiplexers and laser amplifiers; all of which help to enhance and maximise bandwidth in fibreoptics, enabling more data to be transferred at greater

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

speeds and with less loss in quality. They also facilitate more effective maintenance of such data transmission systems.

LNC is intended to initially focus on R&D activities relating to the design of product components, catered to the ICT industry, which will be manufactured using IMD production processes. As at the date hereof, LNC has not commenced operations. Initial product components intended to be developed comprise keypads and windows for mobile phones and two-way radios. The Korean shareholder will procure the necessary expertise on IMD technology, whilst BCM as an EMS provider will provide its know-how and expertise relating to the setting up of manufacturing processes which will be adopted in the IMD production process. It is expected that LNC will also work with its target customers in the design of the product components. LNC has made applications to the Korea Patent Office to register two (2) patents in the Republic of Korea, namely (i) the New Invention Patent for the hologram and mirror design film; and (b) Practical Usage Patent for utilising the aforementioned film, on 6 May 2004 and 7 May 2004 respectively. The film will be used to produce the aforementioned product components using the IMD production process. The registration of the said patents are currently pending.

In providing total communications systems integration and defence maintenance programme services, **Comintel and CSB** do not produce their own components and thus, the components applied are sourced from reputable principals. Many of these principals are well known in the arena of public safety and defence communications systems; these include Motorola Inc., AMS, Grintek Electronic Systems, Technical Communication Corporation, Comptek Federal Systems Inc., Thales Communications, Sunair Microelectronics and L3 Communications Corporation. Components supplied by the above principals include radio communication system products, radio encryption products, electronic warfare products, satellite telephony systems, wireless communication systems products, radio network monitoring systems which deal with communication systems enhancement products and various computer, network and security products. In addition to supplying **Comintel and CSB** with the necessary components for their systems integration and defence systems maintenance work, these principals also work closely with **Comintel and CSB** in a technology and knowledge transfer capacity as well as to design customised solutions that address the end customers' needs in an optimal manner. **Comintel and CSB** are also able to benefit from these strategic alliances in that they are always assured of the availability and choice of the most advanced technology and more importantly, the most suitable technology needed to meet the requirements of their customers. With respect to **BCM** and its provision of EMS services, the SMT machines utilised by the company for this purpose are able to handle the smallest available chip component currently

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in production which is 0.5mm x 0.25mm in size, an indication of the advanced nature of these machines.

1.3 Major Customers and Suppliers

In the area of **total systems integration**, **Comintel Group's** key customers are from the Malaysian market. The primary target markets for the **Comintel Group's** are governments and government related bodies and facilities, education institutions, healthcare providers and corporate sector. In the longer term the **Comintel Group** plans to capitalise on the current growth trend to further expand the market share of its' products and services to the Asia Pacific region. In this regard, the **Comintel Group** aims to make its Malaysian operations the hub for its Asia Pacific expansion. Generally, the **Comintel Group's** end users in this business segment range from corporate businesses and government agencies to education and healthcare institutions. On average, 90% of **Comintel Group's** work in this area is with the government. In the telecommunications sector, various milestones have been achieved. These include state-of-the-art nationwide integrated secured communication solutions for government agencies; civilian and military Air Traffic Control ("ATC"), HF, VHF and UHF communication systems; sophisticated microwave communication systems for off-shore platforms; nationwide secured automatic message handling system and networking; telemetry and control systems with customised graphical displays. Although the top four customers of the Group collectively contributed to approximately 90% of the **Group's** total revenue, over dependency on these customers is somewhat mitigated by the long term relationship with them as well as its proven track record in dealing with them. Comintel Group's familiarity with its local customers such as the relevant agencies of the Government of Malaysia and its in-depth knowledge of the local environment, provides it with an added advantage as compared to its foreign competitors. Similarly for BCM, its close working relationship with many of its customers is evidenced by, amongst others, the ability of BCM to participate in the initial design stage of certain products of some of its major customers as well as Power-One, a key customer of BCM, becoming a shareholder of Comcorp.

The Comintel Group's suppliers are mostly manufacturers who supply hardware, equipment, machinery, spare parts, tools, software, and in terms of its manufacturing business, the requisite raw materials. Almost all of these suppliers are international corporations, with the majority being from the USA. Whilst the major hardware, equipment and machinery are imported, certain modifications are carried out locally to suit domestic conditions. **Comintel and CSB's** suppliers are primarily foreign, as the highly advanced technology products required for the respective systems integration

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

and defence maintenance projects are not manufactured in the country. Strategic alliances with these suppliers have enabled both **Comintel and CSB** to establish and leverage upon special bonds and unique relationships with these parties. All other resources required are readily available in the country. In relation to human capital, **Comintel and CSB** recruit personnel based on their abilities and on an as need basis for replacement or for expansion purposes from the local employment market. Both **Comintel and CSB** are not dependent on any individual supplier in relation to their businesses. **BCM** uses a wide range of suppliers and tends to obtain materials and components either on a turnkey or consignment basis. **BCM** is not dependent on any individual supplier and it normally uses a number of different suppliers for key components such as PCBs, ICs and capacitors.

1.4 People

As at 30 June 2004, the **Comcorp Group** has 1,533 employees, having many years of experience in the field of communication, electronic equipment and system design, computerisation, system integration and software application development. All technical personnel have received specialised training, both locally and abroad. **The Comcorp Group** believes strongly in its people and teamwork has always been the mainstay of its work culture whilst a policy of continuous upgrading of skills and knowledge ensures that **the Comcorp Group** will always be at the forefront of technology. The future of **the Comcorp Group** will depend to a significant extent upon the abilities and continued efforts of their existing Directors and senior management. **The Comcorp Group** future success will also depend upon its ability to attract and retain skilled personnel. Every effort is presently made to groom younger members of the management team to play key roles in the **Group's** business operations. The employees are not unionized and the management and staff enjoy a harmonious working relationship that is reflected in the fact that there have been no industrial disputes since inception.

The Comcorp Group considers their employees to be the assets vital to its success and are committed to the employees' development through training and welfare to ensure that they can effectively contribute to the growth and success of the company. The company provides training and upgrading programs for the employees with a view to providing them with career planning. The purpose of such programs is to enhance the skills of the employees and to improve their technical competency. The employees undergo job-related training through the on-the-job and in-house training programs as well as through external courses. The company believes that a technically competent workforce will allow it to be more competitive as well as reduce breakdown time of its equipment due to operational errors. To ensure that the **Group** will continue to provide quality

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services and products to its customers, it strives to provide comprehensive training through external and in-house training programmes to its staff force.

1.5 Awards and Accreditation

The quality of the Group's products and services have been recognised by its customers and its commitment to excellence is evident in the many awards/commendations it has received from their customers and also other parties. In addition, BCM was awarded an Enterprise 50 Award in 1998, ranking 14th out of the top 50 emerging Malaysian companies by Andersen Consulting Malaysia in association with the Small and Medium Industrial Development Corporation, a division of the Ministry of International Trade and Industry ("MITI"). This was based on criteria such as development engineering capability, professionalism, dynamics of leadership and micro success factors. It has also received various letters and certificates of appreciation from its principals and customers, namely Motorola Penang Sdn Bhd, Motorola Inc, Sony Mechatronic Products (M) Sdn Bhd, NRLabs (M) Sdn Bhd, Polaroid (UK) Ltd, Smart Modular Technologies Sdn Bhd, Covadis SA (in Geneva) amongst others. These are in relation to the good support provided by the company in terms of cycle time/delivery and product quality. BCM was also awarded the MS ISO 9001:2000 Quality Management Requirement (for PCBA Manufacturing) Systems certification for quality assurance in production, installation and servicing by the Standards and Industrial Research Institute of Malaysia ("SIRIM") for complying and implementing the system with respect to its PCBA processes. It was also accredited to the MS ISO14001: 1997 environmental standard with respect to the operations of its plant.

1.6 Growth Strategies

The Group implements a pro-active marketing strategy approach, focusing on its principal customers such as the Government of Malaysia, the principals in its EMS business, education and healthcare providers, and also has plans to develop a dealers network in major states in Malaysia. In order to remain competitive, the **Group** provides quality products and services, which are technologically applicable for their purpose at an affordable cost, with good after-sales services and maintenance. For the **EMS** sector in particular, marketing agents in the USA and Europe have also been engaged to complement the efforts to identify and source for new customers. As part of the business strategy, marketing efforts are focused on corporations in the high growth niche industries where customers have the potential for rapid expansion. **The Group's** growth strategy is to

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capitalise on the growing demand for technologically advanced systems and infrastructure generated by the ICT and the EMS Provider industries.

In relation to **Comintel**, the near term focus of the company in the next 1 to 2 years would be to carry on developing its expertise in systems integration work with a continuing focus on Public Safety and Defence communication systems. In the longer term, to expand its total communication systems integration operations and provide an impetus for the future growth of the **Group**, **Comintel** plans to leverage on its experience and tap into its increasing systems knowledge and product database to help identify other niche areas or target markets in which the Group can expand into in offering its services. **Comintel** has participated in the C4I system, a system which tracks the movement of vehicles through the satellite. This system has made its debut during the Organisation of Islamic Conferences ("OIC") conference. Mass adoption of this system will be positive for **Comintel**. It also intends to provide more extensive back-up services to its existing clients, especially in areas such as end-user training and to provide upgrading and expansion services to its existing clients in respect of the systems that have been designed and set up on a modular basis.

In terms of its role as an EMS provider via **BCM**, the **Group** hopes to maintain its stronghold on the high mix/low to moderate volume box build product range with a focus on RF products whilst exploring opportunities to move into the low mix/high volume arena. The global recovery in the IT sector since 2003 has benefited **BCM** as its products are export oriented, predominantly to North America. In the immediate term, **BCM** also hopes to leverage on **Comintel's** product knowledge to enable it to enhance its current expertise in manufacturing, so that it may provide more value to its principals. One area in which the company hopes to provide such value is in the area of deviation design relating to its principals' existing products, for which the company believes there is a ready market and demand. In the longer term, possibly within a timeframe of five to ten years, **BCM** hopes to work closely with its principals to move into Own Design Manufacturing ("ODM"). ODM is a result of a situation where the principal may not have a particular product in its existing product range and agrees to engage an EMS provider such as **BCM** to design and manufacture such a product under its (the principal's) label/brandname. **BCM** is currently in negotiation with Motorola to provide product design development services for its radio communication products, which includes microphone design.

CSB's current operations relate to the provision of defence maintenance programme services, with a specific focus on naval and combat communication systems. Its main work relates to the repair of such systems, ensuring that they are working at an optimum level and are always in a state of readiness. One of its flagship projects was related to the maintenance of the communications systems in the two corvette warships owned by the Malaysian Navy. Looking into the near term

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future, it hopes to expand its range of services and expertise relating to the maintenance of the communication systems in corvettes to encompass communication systems in frigate warships. **CSB** currently has contracts on hand worth over RM40 million. The decision of the Defence Ministry to award local companies with good track record contracts for a longer period bodes well for **CSB**. This will allow companies like **CSB** to invest in research and development to enhance their products and services.² In the longer term, the company hopes, with its growing in-depth understanding of systems integration work, to move into work relating to the upgrading of such combat systems.

As mentioned earlier, **LWT** specialises in R&D relating to photonics; photonics being the science and technology relating to the transmission, generation and manipulation of photons i.e. light. Its focus in this area is principally on the use of fibreoptic components applied in telecommunication high-speed broadband transmission. Currently, R&D work is still ongoing with respect to the use of components such as couplers, power splitters WDMs, DWDMs and laser amplifiers – all of which are components used in systems and communications infrastructure and will be of interest to companies such as telecommunication service providers and equipment manufacturers which build equipment to carry large amounts of bandwidth. The **Group** hopes to build up its understanding and knowledge of such components at this point when demand for bandwidth is at a lull so as to be ready to capitalise on it when such technology is in greater demand and moves into mass adoption.

As mentioned earlier, **LNC** is intended to initially focus on R&D activities relating to the design of product components, catered to the ICT industry, which will be manufactured using IMD production processes. As at the date hereof, **LNC** has not commenced operations. Initial product components intended to be developed comprise keypads and windows for mobile phones and two-way radios. The successful design of the aforementioned product components is expected to provide the Comcorp Group with a leverage in providing value-added components to the communication products currently manufactured and assembled by its manufacturing arm, namely **BCM**, for its existing clients. In addition, **LNC** may also market the said product components to other players within the telecommunication industry. The said product components are expected to have the benefits of providing the end products with more durable and attractive exteriors in a more cost-effective manner. The above is expected to enable the Comcorp Group to capitalise on the growth of the ICT industry, which is expected to ultimately result in the increased application of keypads and windows for communication equipment. Further, the knowledge and experience expected to be derived by **LNC** from the R&D and manufacturing process hereunder may in future be extended towards the design and production of other product components. Barring any unforeseen circumstances, **LNC** is expected to commence its R&D activities on the product components in the

² The Star, 16 April 2004

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later part of the second half of year 2004. Production activities will only commence later, subject to, amongst others, the outcome of the R&D activities.

COMINTEL is seeking to raise funding via this listing exercise to enable the **group** to execute the above mentioned expansion strategies. The **Group** aims to continue introducing innovative and quality products/services to their members, in line with their vision to be a leader in the ICT and EMS Provider industries.

1.7 Economic Outlook

Following a series of adverse events in the first half of 2003, the industrial production has subsequently picked up sharply, accompanied by a strong rebound in global trade. In the second half of 2003, global GDP growth averaged nearly 6% at an annualised rate, the highest since late 1999. The latest World Output projections from IMF are as follows:

Table 1 World Economic Outlook – Real GDP Annual Percent Change

(%)	1997	1998	1999	2000	2001	2002	2003	2004	2005
World	4.2	2.8	3.7	4.7	2.4	3.0	3.9	4.6	4.4

Source: IMF

To date, the upturn is most rapid in emerging Asia, particularly in China, and the United States. Domestic demand picked up substantially in emerging Asia, with exports supported by recovery in the Information Technology (“IT”) sector as well as depreciating exchange rates. With forward-looking indicators generally turned up, with equity markets strengthening markedly, accompanied by some pickup in business and consumer confidence, particularly in the U.S., with global GDP growth expected at 4.6% in 2004, moderating to 4.4 % in 2005.

There have been growing signs of a pickup in activity, including investment, particularly in the U.S., Japan and some emerging market countries, notably in Asia. With inflationary pressures very subdued, macroeconomic policies have been eased further across the globe. Interest rates have been reduced in Europe and the U.S., as well as in a number of other industrial and emerging market countries; and fiscal policy has been further relaxed in the U.S. and a number of Asian countries. The outlook for emerging markets continues to be driven to different extents by developments in industrial countries, external financing conditions, geopolitical factors and country-specific developments. In emerging markets in Asia, with the effects of SARS now waning, growth is

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expected to pick up in the second half of 2003 and remain strong in 2004, aided by timely additional policy easing and continued robust growth in China.

Among the industrial countries, recovery will continue to be led by the U.S. where despite a weak labour market and considerable excess capacity- current data have shown greatest signs of improvement, forward-looking indicators are strongest, and there is the most policy stimulus in the pipeline.

In the longer term, aggressive monetary and fiscal policy responses by major advanced economies and developing countries should bring world growth back on track. The Malaysian economy expanded by 5.2% in 2003 (2002: 4.1%)³. This recovery was mainly driven by strong domestic demand and supported by a stronger export performance following the general overall recovery in the global economy.

1.8 Industry Overview

Briefly, **Comcorp** operates in the **ICT** industry, in the area of systems integration with a focus on Public Safety and Defence communication. Through **BCM**, it is also involved in the **EMS** industry, which is a sub-sector or supporting industry of the **Electronics and Electrical** ("E&E") manufacturing industry. Due to the **Group's** dependence on the overall outlook of the ICT and E&E / EMS as well as the public safety industries, it is essential that an industry overview include assessments of these segments of the economy.

Technology has fundamentally altered the way people live their lives in today's modern society. The IT industry that initially comprised of mainly computer hardware and software has now grown to envelope a range of other communication tools and infrastructure. Thus, this industry is now referred to mainly as the Information and Communications Technology Industry ("ICT"). The backbone that has spurred the growth of the ICT industry is the Information Highway ("IH"). IH is an integrated, high-capacity and inter-active communications and information infrastructure. The foundation for this infrastructure is in communications, broadcasting and computer networks. The implications of the IH development are profound, as it is the infrastructure for new economic and social relationships based around the development and use of knowledge.

The growth, integration and sophistication of IT and communications are changing our society and economy. Businesses now use networks and e-commerce/e-business applications more extensively to conduct and re-engineer production processes, streamline procurement processes, reach new

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customers and manage internal operations. The e-revolution in our economy is spurring additional investments in communications, facilities, hardware, software, services and human capital. Ultimately, it will change the structure and performance of the global economy as much as the introduction of the computer a generation ago. The ICT industry consists of three primary sectors, namely supporting infrastructure, e-business processes (how business is conducted) and e-commerce transactions (buying and selling).

It is important to note in discussions of the ICT industry that whilst **Comcorp's** business in the systems integration sector focuses mainly on the public sector in the niche areas of Public Safety and Defence and not in the commercial sector as frequently referred to in discussions of the ICT sector, its product and service offerings are essentially generically similar as those offered in the commercial sector. With presence in all three main segments of the ICT industry, **Comcorp** as well as its position as a major player in the niche market of Public Safety and Defence communication, **Comcorp** is poised to benefit from the potential growth of this economic sector. Its role as a systems integrator also allows it to leverage on its knowledge and expertise in the three segments mentioned.

The Government of Malaysia's target is to develop Malaysia into an information and knowledge-based society by the year 2020 as part of their Vision 2020 programme. As such, the Government has put in place aggressive growth strategies for the ICT industry in Malaysia, with IT and multimedia being identified as strategic enabling tools assisting the achievement of these efforts. The thrust will be to develop and expand the requisite infrastructure that will contribute to the creation of ICT-based industries, as well as to instill an ICT-culture amongst citizens.

ICT growth has been carefully shaped and guided by strategic five-year developmental master plans which provide the backdrop for Vision 2020, a national agenda that sets out specific goals and objectives for long-term development. The strategic agenda covers five main areas: e-economy, e-public service, e-learning, e-community and e-sovereignty to meet the needs of the information based economy. Malaysia is one of the ASEAN countries that is experiencing positive growth in terms of both its economy and the ICT industry.⁴ The Malaysian Communications and Multimedia Commission's industry statistics puts the total number of Internet subscribers to date for 2004 (based on 2004 Quarter 1 figures) at 3.15 million⁵, with 9.4 million internet users⁶ to date for 2004 also (based on 2004 Quarter 1 figures). Additionally, the growth rate of Internet subscribers in 2003 as

³ Bank Negara Report 2003.

⁴ Skali - 23 Sept '99

⁵ www.mcmc.gov.my – Malaysian Communications and Multimedia Commission website

⁶ www.mcmc.gov.my – Malaysian Communications and Multimedia Commission website

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compared with 2002 was 10.8%.⁷ The growth of the ICT industry can be measured in terms of PC and Internet penetration rates. The number of PCs installed increased from 610,000 in 1995 to 4.2 million in 2003, which is a 590% increase⁸.

The Networked Readiness Index (“NRI”), which is defined as a nation’s or community’s degree of preparation to participate in and benefit from ICT developments, ranks Malaysia 26th amongst 102 countries⁹. The NRI captures key factors relating to the environment, the readiness and the usage of the three stakeholders in the Networked Readiness Framework (individuals, businesses, and governments). This Index can be used to understand the performance of a nation or a region with regards to ICT readiness and usage and is useful as a relative indicator of a nation’s ICT excellence. It is expected that the spending on ICT software and services would rise to 63.9% as a percentage of total IT Expenditure worldwide by 2005, based on an annual growth rate of 12.1%¹⁰. The demand for ICT products and services has generated a global market that reached nearly US\$1 trillion in 2001 and is projected to surpass the US\$1.4 trillion mark by 2005¹¹. The Asia/Pacific IT Services market is growing at twice the rate of the global IT Services market, despite the global economic downturn and the regional geo-political developments¹²

Statistics show that the ICT industry in Malaysia specifically has grown and is on an upward trend. Spending on software and services is already poised to make up a larger chunk of total IT expenditure in Malaysia over the next five years. IDC forecasts that the ICT market in Malaysia will reach US\$4.2 billion with a compound annual growth rate (“CAGR”) of 18% from 2001 to 2006. IDC further notes that systems integration remains the key driver of IT services¹³ despite a soft economic environment in Asia/Pacific. According to its recent study “Asia/Pacific Systems Integration Market Forecast and Analysis, 2002-2007”, the Systems Integration (“SI”) market will increase from US\$4.4 billion to US\$8.6 billion at a compound annual growth rate (CAGR) of 14% from 2002-2007. The highest growth will be centered in countries like the People’s Republic of China (“PRC”) Malaysia and Korea. IDC believes that while organizations are now more cautious about their IT spending, they are more ready to spend on systems integration services to improve efficiency and increase productivity than to spend on new IT technology.

Malaysia’s IT industry billings (which does not include IT equipment and components manufactured in the country which are mainly for export market) has seen positive double-digit growth since the

⁷ www.mcmc.gov.my – Malaysian Communications and Multimedia Commission website

⁸ Ibid.

⁹ The Networked Readiness Index 2003-2004: Overview and Analysis Framework, World Economic Forum

¹⁰ IDC, The Star, Friday, October 4, 2002.

¹¹ Ibid.

¹² IDC Singapore, 27 May 2003

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year 2000. The top 3 sectors in terms of IT expenditure in 2002 were banking and finance, manufacturing and the Malaysian Government. Latest IDC research¹⁴ ("Asia/Pacific IT Services Analysis & Forecast, 2002 - 2007") has shown that the 14% CAGR (compounded annual growth rate) from 2002 to 2007 is being driven primarily by spending in the banking, communications & media, and government sectors. This presents significant opportunities to existing and new players, both to generate more revenues, as well as to position themselves as key players in the market place. The IT Services spending by the banking, communications & media, and government industries is primarily in system integration services and outsourcing services.

The World Economic Forum (2002-2003)'s IT Readiness Report, which is a useful indication of a country's ICT excellence, ranked Malaysia 32 out of the 82 countries, surveyed in terms of network readiness. The same report also mentioned that Malaysia's Vision 2020 is one of the most aggressive and comprehensive ICT plans in the world. Malaysia was also ranked 29 out of 102 countries in the Global Growth Competitiveness Index 2003¹⁵.

With various incentives in place, Malaysia is now the second largest ICT spender in the ASEAN region, with an expenditure of RM 8.1 billion in 2001, after Singapore. ICT spending has grown at a compounded annual growth rate of 4.8% from 1995 to 2001. For the remaining 8MP period of 2004-2005, the government had set aside RM2.5 billion in terms of development expenditure for ICT-related programmes¹⁶, where the focus will be on the computerisation of schools and government agencies.

All of the above has an important significance for Comcorp which plans to continue to focus on the government sector as its main market, and make further inroads into the provision of healthcare and education management systems as part of its future expansion plans.

The EMS industry is one of the less glamorous businesses in the technology sector, but EMS providers have become critical to the success of technology original equipment manufacturers (OEMs). EMS companies act as expert manufacturing partners to OEMs (such as Cisco, Motorola and Nortel) and add value through management of customers' supply chains. The industry had modest beginnings providing overflow-manufacturing capacity to OEMs and operated on razor-thin margins. The evolution toward its current state as a value-added provider began in the 1980s, as strong demand for electronics equipment and growing technological complexity prompted OEMs to turn to EMS providers to help manage the manufacturing process. The concept of EMS providers as a source of end-to-end solutions itself developed in the early 1990s. During the 1990-91 recession,

¹³ IDC Hong Kong, Singapore, Taiwan, 19 June 2003

¹⁴ IDC Singapore, 27 May 2003

¹⁵ World Economic Forum.

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

OEMs sought to slash operating costs and turned to outside manufacturing as a logical answer. The industry's momentum increased as OEMs became comfortable outsourcing manufacturing, which allowed them to re-focus resources from in-house manufacturing to their core competencies of R&D and product marketing. While the bulk of outsourcing still consists of printed circuit board ("PCB") and print wiring board ("PWB") assembly, other value-added services include global supply chain management, design-for-manufacturing, quick-turn prototyping, system enclosure manufacturing, sub- and full system assembly, and logistics management. Though outsourced manufacturing sounds like an obvious answer for OEMs in today's dynamic world, it is a weighty decision to cede control of the manufacturing process to an outside partner. Armed with an understanding of the challenges OEMs face, it is easier to understand why the EMS industry is growing so rapidly. First, electronics equipment design cycles and life cycles are increasingly shorter and competition can be fierce. Established OEMs face pressure from smaller and nimble competitors, and need to focus the R&D process on quick time-to-market. Partnering with an EMS provider gives these companies access to state-of-the-art manufacturing equipment, an expert partner to plan the manufacturing process during the R&D phase and produce prototypes, and the ability to scale rapidly into mass production. EMS providers are often closely involved in customers' R&D processes and the larger EMS companies employ hundreds of in-house engineers. During the production phase, the EMS partner handles inventory procurement, and is often able to obtain better pricing and better access to components than OEMs due to their volume purchases for multiple customers.

EMS providers often minimise inventory risk by requiring a "take or pay" arrangement with customers – they pay" arrangement with customers – they can cancel the order, but they have to pay for the raw materials. EMS providers are expert manufacturing forecasters and can scale headcount to meet a particular OEM program need and rotate new programs into their facilities as older ones wind down. Another challenge for OEMs is the increasingly global environment, which requires them to maintain physical locations near customers and respond quickly to region- or country-specific equipment demands. EMS providers help with this process by maintaining manufacturing presence worldwide and aiding with global distribution. Financial considerations are another challenge for OEMs. By outsourcing manufacturing, OEMs are able to reduce working capital needs and capital expenditures, thereby strengthening the balance sheet. Also, given the efficiencies of using an expert manufacturing partner (and not expensing as much depreciation on physical assets), OEMs often have a lower cost of goods for outsourced products, giving them greater pricing flexibility in the marketplace.

¹⁶ 8MP Review

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Electronic Trend Publication's ("ETP") report, *The Worldwide Contract Electronics Manufacturing Services Market*¹⁷, forecasts that the global EMS industry will grow from \$140 billion in 2003 to \$244 billion in 2008.. TFI projects that the industry will grow from about US\$57.4 billion in 1999 to US\$203 billion by 2004. The penetration rate of the EMS industry was estimated about 11.2% as at 1999, and it is forecasted that this will increase to about 25.9% by 2004. Malaysian Industrial Development Authority (MIDA) Chairman, Tan Sri Zainal Abidin Sulong recently said that¹⁸ domestic investment in the electronics industry has also increased from 15.2% (RM1.03 billion) in 1999 to 26.3% (RM1.3 billion) in 2003. He added that many Multinational Corporations ("MNCs") were increasingly outsourcing their manufacturing activities to Electronics Manufacturing Services ("EMS") companies. The global EMS Market in 2003 was about RM342 billion and expected to increase to RM547.2 billion by 2007. The EMS industry in the Asia Pacific region is forecast to grow at 20% per annum and the presence of many EMS companies here will surely see the growth in the electronics industry. This will in turn increase opportunities for the local supporting industries. Asian-based EMS Providers have been instrumental in providing contract-manufacturing services to many of their US-based MNC customers. Over the years, the role of the Asian EMS provider has evolved from merely providing overflow capacity for MNCs to being their production partners. Asian EMS providers can now provide value-added services such as component procurement, concurrent engineering, product design, production of sub-assemblies, product assembly, testing and distribution. In Malaysia, the growth potential for EMS providers can be approximated by growth in the Electronics and Electrical ("E&E") manufacturing sector. The **electronics industry** recorded another year of strong growth following the broad-based expansion in global demand across all geographical regions and products¹⁹. Expansion in the first-half year was moderate and picked up strongly in the second-half year. Growth emanated mainly from the expansion in the wireless and personal computer (PC) markets as well as consumer electronics products. While growth in wireless products was driven by the rising demand for wireless applications and cell phones, the demand for PCs was led by the PC replacement cycle, which took place in the latter half of the year as companies invested to replace their equipment acquired during the Y2K period. Overall, the performance of the industry was also affected by lower offtake from most of the major importers of Malaysia's electrical products, particularly from the US, Japan, Hong Kong China, the United Kingdom and Netherlands. Nevertheless, exports to P.R.China increased strongly. Value added in the manufacturing sector is projected to pick up further to 10.2% in 2004 (2003: 8.2%), supported by the pick up in the global electronics industry and improved domestic demand. The unfilled orders of electronic products and communication devices in the US have also risen steadily since early 2003. Growth in the electronics

¹⁷ Source: Manufacturing Market Insider

¹⁸ The Star – StarBiz, 16 June 2004

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

industry would be driven mainly by the wireless and PC markets, due to rising demand for wireless applications as well as the PC replacement cycle, as companies invest again following their huge spending prior to the Y2K period.

In line with this outlook, the worldwide contract electronics manufacturing services ("CEMS") market also continued to decline in 2002. However, the CEMS market is expected to grow slightly in 2003, and then more robustly in 2004. The tenth edition of ETP's report has forecast that the world electronics assembly, with a value of US\$591 billion in 2002, will grow to US\$740 billion in 2007. Fuelled by this huge market, they believed that the CEMS industry would resume its growth, moving from US\$93.5 billion in 2002 to US\$152.7 billion in 2007. To support this conclusion, ETP analysed the CEMS industry from several viewpoints. The Worldwide CEMS Market was reviewed in the context of the total market for electronics assembly and total industry was examined by the type of services offered. This includes PCB assembly and box assembly, areas that **BCM** is involved in. While this industry largely began in North America, other regions of the world will grow more rapidly over the next five years.

With respect to the **Defence Industry** the Government sector is in general the key market and spending in relation to this industry is largely driven by the Public Sector Budget. This industry encompasses spending related to the armed forces, the navy and the air force (i.e. the military).

The **Public Safety Industry** on the other hand encompasses both private and internal safety and security. The private security industry has moved forward rapidly from the mere use of a watchman, to a competitive one supplemented largely by advanced technological equipment. Where guardsmen are still engaged at strategic premises, security equipment has by and large become an integral part of the business environment where security aspects are necessary to ensure protection and safety of individuals and assets. Since the 9/11 incident, large multinational organisations and public access places have increased their security requirement, especially in detection of unsolicited goods and monitoring/surveillance systems. In the private security industry, there are over 300 companies involved in providing security products/services of one kind or another such as guardian services, private investigation, in-house security and commercial/industrial integrated monitoring systems. The security industry is worth more than RM1.52 billion (US\$0.4 billion). The security segments are growing at rates ranging from 5% for guarding and patrolling to 25% for security equipment and product supply.²⁰ Internal security mainly relates to the activities of the Police department, which has over 80,000 uniformed personnel in the country. As crime, and the threat of terrorist activity increases, the Police are increasing their effort to address the situation. They also have to deal with

¹⁹ Bank Negara Report 2003 (Issued End of First Quarter 2004)

²⁰ Royal Danish Embassy – Malaysia Safety & Security 2003

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

issues of riots and demonstration, such as the war on Iraq, as well as smuggling of goods, drugs and illegal immigrants' problem along the country's borders giving rise to greater need for monitoring and surveillance. The growing numbers in terms of crimes committed within the country will provide an impetus to the internal security agencies to invest further in public safety communication equipment in an effort to provide better monitoring and surveillance activities.

With regards to public security, the Government is the driver of growth. The Government has allocated RM12.16 billion for defence and internal security during the 2001-2005 period, of which at least 60% go towards spending on defence. Exporting countries to Malaysia are varied; the main criteria being that the equipment meets with the required specification and application -- notable sources are the UK, USA, Europe, Japan and Australia.

Spending by the Federal Government can be categorised into Operating Expenditure which relates to spending to maintain year on year operations and Development Expenditure which relates to spending for expansion and upgrading activities. Generally, operating and development expenditures for both defence and internal security are on an uptrend, albeit slight declines noted in the allocation for total security operating expenditure for 2002 and total security development expenditures for 2003 and 2004. **This overall uptrend is poised to benefit the COMCORP Group with its focus on communications systems for these industries.**

The growth of local strategic developments such as the KLIA airport, Cyberjaya, KLCC-Twin Towers and Putrajaya over the years has brought in state-of-the-art technology-based security management systems. This has opened up doors for new applications in new projects. The move towards an information and knowledge-based economy offers challenges to meet cyber fraud and electronic crime. The demand for a safe working and living environment also leads to greater installation of security equipment such as integrated CCTV systems, smart access control, motion detectors, identity clearance control and control that is internet interfaced. The application of CCTV systems has progressed to include production control monitoring in the manufacturing sector to achieve quality, efficiency and productivity. Security products are mainly imported. Local manufacturing is mainly confined to lower-middle end products such as remote monitoring systems, building automation and smart home systems, safes, vaults and burglar alarms. The proliferation of overall security services will continue to increase with private security supplementing law enforcement agencies in crime prevention and meeting the demands of insurance companies.

With presence in all three main segments of the ICT industry (as well as its overall role as a systems integrator allowing it to leverage on its knowledge and expertise in the three segments), its position as a major player in the niche market of Defence and Public Safety

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

communication and its role as an EMS provider, Comcorp is poised to benefit from the growth potential of the industries mentioned above.

1.9 Future Outlook

The entire ICT industry is still very much in the developmental stage, with new technologies being introduced almost every 3 – 6 months, globally. Within Malaysia, newer technologies take a longer time to catch on due to availability of equipment, infrastructure and human resources. This industry is highly competitive and has attracted some of the best talents/skills in the country to further develop the industry.

Apart from strong Government support²¹ in ensuring the proper development of the industry as a whole, the corporate sector has also contributed to its development. Many large multinationals²² have invested in setting up offices in the country, employing local Malaysians and thus increasing the ICT skill bank within the country.

There is still a largely untapped market in the country for many of the ICT related products and services. As such the development of the industry is also dependent on the speed in which Malaysians are able to embrace technology and utilise ICT in their daily activities. The demand for ICT products and services are not subject to any seasonal fluctuations, but however thrive on stable political conditions and a prosperous economy for accelerated growth. By the end of 2005, over 2 billion people²³ will be connected by networked systems; this will create a huge demand for the introduction of new technologies and innovative ICT products and services. The region around Malaysia is now reviving faster than anticipated and this will help Malaysia, particularly as intra-Asian trade increases. The external environment is structurally favourable for the ICT industry, as it cuts across geography and time barriers to enable businesses to “stay awake” for much longer.

ICT, in particular the telecommunication market in Malaysia has developed over the years at a rate much higher than the world's rate.²⁴ However, there still remains a large area where access to networking is impossible. However, wireless technology will to an extent allow users to access the Internet from remote locations and to establish a foundation for entering the information society. The government has placed emphasis on the growth of ICT as the competitiveness of any

²¹ See Section 6.6.

²² Intel Corporation, Microsoft (M) Sdn Bhd, Dell Computers Sdn Bhd, SAP (M) Sdn Bhd and others.

²³ World Economic Forum – Networked Readiness Report (2001-2002)

²⁴ Dr. Mohamed Arif Nun - telecommunication and data services

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corporation is driven by its information resources and the skills and competence of its managers and staff in using and exploiting these resources.

The 8MP will focus on the further strengthening of human resource capabilities in the ICT industry as well as building a critical mass of small-medium enterprises (“SMEs”) and Internet users to enable Malaysia to transform itself into a developed nation with a knowledge-based society. During this period, a total of RM5.2 billion will be allocated for ICT-related programmes and projects, with 35.4% used to rollout MSC flagship applications. In addition, the Deputy Finance Minister on 9 September 2002, launched a Knowledge-based Economy Masterplan. This plan outlines 7 strategic thrusts that would drive the transformation of the country’s economy from a largely production-based economy to a knowledge-based economy. The plan contains 136 recommendations for the development of human resources, institutional frameworks, info-structure and infrastructure, science and technology capacity, role of the public sector, a knowledge-based civil service, as well as efforts to bridge the knowledge and digital divides²⁵.

The Energy, Communications and Multimedia Ministry and the Association of the Computer and Multimedia Industry of Malaysia (PIKOM) have also announced a third package for the PC Gemilang programme, which seeks to make available affordable PCs to the Malaysian public²⁶. Among its primary objectives are to increase the number of PC and Internet users in the country, particularly in rural areas and lower-income groups.

In the manufacturing sector, initiatives will be introduced during the remaining period of the 8MP²⁷ to encourage and support the graduation of the E&E industry to higher technology and value added products and activities (such as those offered by EMS providers like Comcorp). In addition, selected manufacturing activities in the marine, defence, aerospace and biotechnology industries will be developed as new sources of growth. In particular, a defence industry blueprint will be prepared to identify strategies, capabilities and competencies to develop the industry to become more competitive and self-reliant in terms of technology for peaceful purposes.. During the review period, the expenditure for the security sector accounted for RM10.5 billion or 9.6 per cent of the total development expenditure during the review period. A major portion of the expenditure was utilised for procurement of equipment for the modernisation of the security sector to strengthen the capability of the armed forces and the police.

²⁵ The Star – BizWeek, 21 September 2002.

²⁶ The Star, Friday March 12, 2004

²⁷ Mid-Term Review of the 8MP 2001-2005

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During the remaining 8MP period²⁸, the security sector will be provided an allocation of RM5.7 billion, of which RM4.4 billion will be allocated to defence and RM1.3 billion to internal security. The modernisation of the security sector will continue to be given priority, particularly in strengthening and enhancing capabilities to safeguard national security. Procurement of defence equipment through counter trade and offset programmes will be emphasised in order to reduce the effects of direct capital outflow and to facilitate technology transfer respectively. Emphasis will also be given to various training programmes, for the armed forces, especially in the utilisation of sophisticated equipment to enable them to perform their duties effectively. Internal security requirements will also be better addressed by providing the police with new equipment and relevant training programmes. Existing police stations will be upgraded and new police stations will be constructed throughout the country to strengthen the capability of the police force.

It is envisioned that the defence industry has the potential to create value-added activities as well as enhance the development of the country. The industry involves the manufacturing of products for use in aerospace, maritime, defence, automotive and ICT. These activities offer vast opportunities in the areas of technological development, skills enhancement and exports. The spillover effects from these activities will accelerate the development of other supporting industries. In view of the great potential to move into more value added activities such as manufacturing, assembly, design, integration, simulation and R&D, efforts will be focused to develop technological competence for the whole spectrum of the value chain, which could be extended for use in other industries. To enhance the capabilities of local manufacturers, the Government will encourage them to enter into joint ventures with foreign companies or produce under licence of these companies, both for the domestic market as well as for exports. The Government will also formulate a defence industry blueprint that will provide guidelines for the development of the industry, including determining the key players, capabilities, competencies and strategies. The blueprint will be aimed at developing and enhancing the defence industry to achieve self-reliance in defence technology for peaceful purposes and prepare for global competition in selected niche areas.

The second phase of the Multimedia Super Corridor²⁹, to take the project nationwide and create more knowledge workers, was launched by the former Malaysian Prime Minister, Tun Dr Mahathir Mohamad on 5 September 2003. It will involve expanding the MSC to other cyber cities in the country, and later, various parts of the world. The move will see an increase in the number of Malaysians working in high-skilled jobs with better pay. By training the people and creating opportunities for them to work in higher paid jobs, the MSC will then contribute towards the

²⁸ Mid-Term Review of the 8MP 2001-2005

²⁹ The Star-6 September 2003

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progress of the country and make it a developed nation. The second phase – to last until 2010 – will also involve the participation of 250 world-class companies in the MSC, the setting of global standards in the MSC's Flagship Applications, and the development of a harmonized global framework of cyber laws. The Government is also considering extending the incentives currently enjoyed by MSC-status companies to other cyber cities in Malaysia. The rules governing the involvement of public university researchers in R&D initiatives with the private sector would have to be relaxed in order to encourage greater university-industry collaboration.

The Multimedia Development Corporation ("MDC"), as a one-stop shop for investment in the MSC has succeeded in attracting many local and foreign companies to invest in ICT³⁰. The MDC has successfully attracted and encouraged companies to provide shared services, especially for IT support services for their global operations, including information and data processing centers. These activities have succeeded in providing employment opportunities for highly qualified Malaysian professionals. To further stimulate the services sector, a one-stop agency is to be set up to handhold and guide investors in obtaining approvals from various authorities, with the view to expediting their project implementation. In view of the success of the MDC in developing the MSC, the Government will expand its role to become a one-stop agency ala MIDA for selected services sectors. The Government is confident that the MDC will be able to undertake its new role effectively.

With MNC's progressively outsourcing more and more of the manufacturing of their products, the role of EMS Providers is growing in importance and they are increasingly becoming a strategic long-term option for the MNCs. As such, it is believed that the EMS industry should continue to experience rapid growth. By outsourcing production to EMS providers, MNCs can focus on their core competencies, such as R&D and product innovation, and achieve greater flexibility in capacity and faster product time to market. This tends to lower production costs, optimize working capital utilization, and instantly increase production capacities for the MNCs who are then able to properly allocate resources for their key competencies. As such, it is believed that MNCs are increasingly considering EMS providers to be their strategic partners in sharpening their competitive edge and that leading the trend in outsourcing among MNCs presently are the communications and medical equipment/instrumentation sectors which should have a higher than average trend towards outsourcing over the next few years.

With respect to the **Public Safety and Defence industries**, there has recently been a spate of hijacking, piracy and gangsterism, including "tonto" activities as well as robberies and thefts (including snatch thefts). To overcome these problems, the Government will increase and strengthen security and enforcement. The police force will step up their security surveillance throughout the

14. EXECUTIVE SUMMARY REPORT BY ACN (CONT'D)

country. The Government will review several departments of the Royal Malaysian Police with the view to increasing their capacity and effectiveness through the provision of equipment and special training. Apart from this, the Government has also established the Malaysian Maritime Enforcement Force (APMM) in its efforts to increase surveillance in our waters, such as the Straits of Malacca.³¹

It is the responsibility of the Government to provide a safe environment for the public and businesses. To ensure the safety of enforcement officers in various agencies, they will be supplied with appropriate equipment while on duty. A sum of RM4.6 billion for operating expenditure is provided for internal security while RM6.5 billion is allocated to the Ministry of Defence for 2004. For development expenditure, allocations of about 600 million and RM2.1 billion have been provided, respectively to equip and modernise the defence and security systems of the nation. Generally, relating to these two categories of expenditure, there has been an overall uptrend. This poised to benefit **the Comcorp Group** with its focus on communications systems for these industries.

The abovementioned initiatives and developments will provide Comcorp with a conducive platform to launch their marketing plans and growth strategies, particularly those initiatives related to ICT solutions and systems integration related to public safety and defence communications as well as its endeavours in the EMS sector.

The Comcorp Group is expected to continue to retain its niche in the ICT Malaysian market. In view of its core competencies, it should have the ability to sustain growth as one of the market leaders for providing ICT related products, services, infrastructure and ICT systems integration focusing on the Public Safety and Defence communication sector in Malaysia. The Group has the expertise, technical skills, quality products and ample project experiences in both the public and private sectors to continuously satisfy the demand of its customers. Therefore, based on past track record, the strength of the Group and the future uptrend of the ICT industry, Comcorp is considered well placed to secure a sizeable portion of the market share in the country with respect to its niche market as well as in the Asia Pacific region. As Malaysia moves into the information age, almost all aspects of life will involve ICT.

Comcorp has also plans to capitalise on new opportunities in expanding their revenue base through new product development, strategic alliances with international players and other investments. The Group also recognizes that different markets in the region will mature / develop at a different pace and thus has chosen to move into foreign markets cautiously,

³⁰ The 2004 Budget Speech by YAB Prime Minister of Malaysia on 12 September 2003.

³¹ The 2004 Budget Speech by YAB Prime Minister of Malaysia on 12 September 2003.

14. EXECUTIVE SUMMARY REPORT BY ACN *(CONT'D)*

conducting research where relevant and adopting the smart-partnerships approach with local well-established players. The Group will aggressively penetrate deeper into the niche sector of Public Safety and Defence communication where the growth potential and the need for technological innovation will allow Comcorp to contribute significantly.

Overall, it will be the Group's strong commitment to innovation, developing their people and continuous productivity / efficiency improvements that will back them in facing the challenges ahead. With this winning formula in place, Comcorp is poised to enjoy the rewards of a bright and prosperous future, ready to meet the challenges of the 21st century and the nation's Vision 2020.